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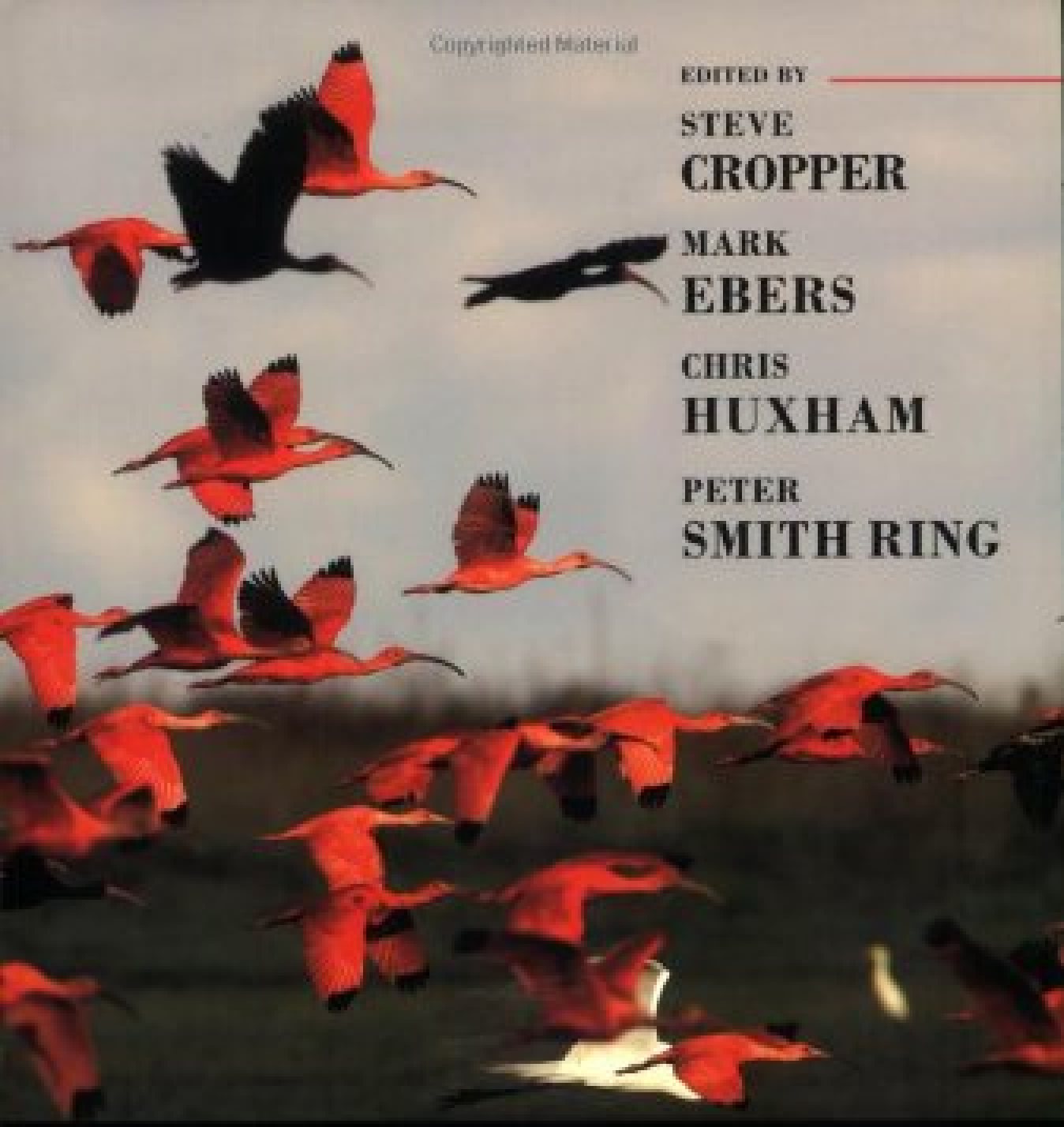

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The Oxford Handbook *of* INTER-ORGANIZATIONAL RELATIONS

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The Oxford Handbook of Inter-Organizational Relations

Steve Cropper, Chris Huxham, Mark Ebers, and Peter Smith Ring

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The original idea for a Handbook of Inter-organizational Relations came out of early meetings of the British Academy of Management's Special Interest Group in Inter-organizational Relations (SIGIOR), where members were trying to understand what did—or might have—linked their somewhat disparate perspectives on the topic together. We are indebted to those who were present then for providing the impetus for the Handbook. More recently, SIGIOR helped us to formulate our understanding of IOR as a field. We thank all who contributed. Beyond this, two people have made a big difference to our ability to complete the project. Val Turner provided endless help with matters administrative, ensuring that none of us ever had to sleep on the streets. Kristof Kruse worked on the detail of the final manuscript and so allowed us to concentrate on the primary editorial task.

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The Oxford Handbook of Inter-Organizational Relations

Steve Cropper, Chris Huxham, Mark Ebers, and Peter Smith Ring

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Manifestations of Inter-organizational Relations

Introduction

This section centres on dominant ways in which Inter-organizational relationships (IORs) are manifest in various contexts and thus takes an empirical perspective on the field. As we outlined in the Introduction to this Handbook, we refer to manifestations of relationships among organizations as Inter-organizational entities (IOEs). From the range of possible IOEs we have selected those that are widely discussed in current research and referred to in the practice of IOR. A systematic approach to delineating different kinds of IOEs needs to be based on a set of significant dimensions and pertinent attributes over which they differ. As we pointed out in the book's Introduction, the literature in IOR has not produced such a definite list that is widely accepted among IOR scholars. This is hardly surprising, as IOR researchers are rooted in different disciplines, apply a wide range of theories, follow different research interests, and will thus focus on different dimensions of their study objects. Under these circumstances, how did we choose to distinguish various kinds of IOEs? In a Handbook aimed at a wide audience of scholars that intends to cover a broad range of themes addressed in IOR research, we could hardly privilege the view and dimensions emphasized by a particular discipline, theory, or set of research interests. Rather, we needed to distinguish IOEs in a more neutral way. As a first stab at the issue, we therefore returned to the two core concepts that underlie all IOR research—organizations and the relationships between them—in order to distinguish different kinds of IOEs. Yet with regard to both concepts, again there are a wide variety of dimensions and attributes that can help to characterize them. In line with the overall aim of the Handbook to reflect a wide variety of

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research endeavours and to juxtapose the different ways into studies of IOR, we chose to distinguish IOEs on the basis of the following dimensions:

- the identity of the partners engaged in IOEs, including business firms, public sector agencies, voluntary sector agencies, and cross-sectional organizations in the community sector;
- the motivations that lead partners to engage in IOEs, such as resource acquisition in supply relations, service provision, policy implementation, or firm, industry, and regional development;
- the temporal horizon of IOEs, ranging from short-term projects to long-term Inter-organizational relations; and
- the number of actors involved in IOEs, ranging from dyadic to multilateral sets of organizations.

Of course, it would have been possible to distinguish different kinds of IOEs on the basis of other dimensions. For instance, we could have asked authors to provide industry-specific treatments of IOEs and thus would have put readers in a position to be able to compare the commonalities and differences of IOEs in, say, a young and dynamically evolving industry such as the biotechnology industry with IOEs in a more mature and stable industry such as construction. Or we could have emphasized regional and geographic commonalities and differences among IOEs by choosing to distinguish, for instance, regional, national, and international IOEs, or IOEs from different regions of the world. We privileged the dimensions listed above, however, mainly because in our view they provided a distinction of IOEs at a fairly high analytical level. Within these broad forms of IOEs chapter authors could then still discuss other differentiating dimensions and attributes.

Yet even within the limits we chose, we could not include all manifestations of IORs that might have been of interest to readers. One entry that many readers might have expected to find is public—private partnerships (PPPs). Yet there is no chapter dedicated to PPPs. Rather, particular aspects of PPPs are covered in three separate chapters of the Handbook: the chapters on collaborative service provision in the public sector by Sandfort and Milward; on voluntary and community sector partnerships by Mandell and Keast; and on Inter-organizational relationships in local and regional development partnerships by Geddes. In line with the Handbook's focus on longer-term Inter-organizational relationships we also chose not to include a chapter on mergers and acquisitions (M&A), as the participating organizations, *ex post*, become one entity and by definition are no longer capable of sustaining Inter-organizational relationships. Nor did we include a chapter

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dedicated to international development partnerships. However, aspects of such IOEs are highlighted in Chapter 8 by Geddes, on Inter-organizational relationships in local and regional development partnerships, and in Chapter 17 by Knoke and Chen, on political perspectives on Inter-organizational networks. Some other voids in our list of IOEs may still exist, yet we are nevertheless confident that Part II provides a balanced overview of the main manifestations of IORs and allows for some interesting juxtapositions. For instance, readers may wish to compare alliances involving business organizations with partnerships among public organizations, or longer-term IORs in industrial districts with short-term IORs such as Inter-organizational projects, and so forth.

We asked chapter authors to provide a briefing on, and evaluation of, empirical knowledge about the respective manifestation of IORs, the variety of their forms, and the key questions that have been researched. Given the variety of forms within each of the manifestations contained in this part and their development over time, chapter authors could not possibly cover all aspects and details. They have handled the trade-off between breadth and depth of coverage differently. Some provide generic overviews, while others put greater emphasis on a particular argument that stresses specific aspects of the IOEs discussed and of the pertinent scientific debate.

The chapter, by Lazerson and Lorenzoni, articulates an evolving, new view of Inter-organizational relations in industrial districts. They have observed that a number of lead firms have taken a very non-traditional path in coping with a competitive environment that is very different from that which has historically been characterized in studies of ‘industrial districts’. These leading firms stand out by escaping from what the authors describe as ‘the manufacturing cage’. Following a brief summary of some of the principal organizational characteristics of industrial districts, and relationships to traditional notions of flexible production, they consider the emergence of leading firms and the use of forward integration as a strategic response by these lead firms to new competitive threats. Empirical data from case studies is presented prior to a concluding set of remarks about the new role of leading firms in districts and the implications for Inter-organizational relationships. Thus, in contrast to conclusions by Johnsen, Lamming, and Harland, in the following chapter, Lazerson and Lorenzoni conclude that the networks that they observed are being managed and strategically so.

The chapter, by Johnsen, Lamming, and Harland nicely complements Lazerson and Lorenzoni's chapter. It explores Inter-organizational

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relationships in a broad context involving chains and networks of organizations. The authors assert that research on the different units of analysis explored in the chapter requires different lenses, methodologies, methods, and techniques. In particular they use an operations and supply lens to observe supply relationships, chains, and networks. Their focus is on the analysis of Inter-organizational relationships embedded in complex networks, offering a variety of different perspectives on business networks, arguing that the benefits of supply network analysis derive from a strong focus on understanding the—positive and negative—effects of interconnected and interdependent relationships. In the concluding section of the chapter they raise the issue of 'managing' in networks: to what extent can—or should—an organization 'manage a network' and what does it mean to manage within a network context?

Dacin, Reid, and Ring undertook the somewhat daunting task of attempting to synthesize the explosion in research dealing with so-called strategic alliances between business firms which are also manifested as joint ventures. Although, as they point out, businesses do this with less reliance on equity joint ventures than was the case 30 years ago, joint ventures are still a frequent governance mechanism relied upon by the governments of emerging economies.

Given the enormous literature on alliances and joint ventures, the authors chose to focus their review on issues related to the topic of partner selection —from an embeddedness perspective—and on related matters such as negotiating with potential partners. They do, however, assess the impact that other theoretical approaches to their topic have had on the research. They also provide a brief summary of the research related to the processes by which alliances and joint ventures emerge and evolve. They close with a discussion of a number of issues related to research onpartner selection that they believe are likely to help define future research efforts in this area.

In the next four chapters, the focus shifts from private sector IORs to those involving public and third sector actors. The chapter by Klijn provides an overview of research using the network concept in analyses of policy-making and implementation in the public sector. He observes that three research traditions have used the concept of 'network' as a tool for understanding a world of policy-making and implementation that they assert is full of networks. These traditional approaches are compared and the author demonstrates that they have begun to converge. Klijn then shifts his focus to what the literature reveals about managing policy networks and the complex

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decision-making processes that take place within them. He also takes up questions related to approaches to the research of networks of policymaking and implementation, concluding his discussion with some observations about the future of this research tradition.

Sandfort and Milward define collaborative service delivery in the public sector as displaying eight basic characteristics. These partnerships have been explored in contexts as diverse as social work, public health, community psychology, public administration, non-profit management, and education. Varied research questions and research approaches have been used, including the network approach described by Kiljn. The authors assert that all this has created problems in discussing these varied collaborations in coherent terms; problems compounded in studies that investigate public—private collaborative services in an international context because the institutional definitions of 'public' and 'private' are so nationally bound. Noting that there are no dominant theoretical traditions or analytical frameworks, they aim to make sense of this diversity and highlight the important insights, gaps, and implications for future scholarly inquiry included in this literature.

In the chapter by Mandell and Keast, the authors highlight the changing role of voluntary and community organizations (VCOs), with an emphasis on exploration of their roles in partnering with governments and others. They endeavour to unpack changing relationships between VCOs and key stakeholders, drawing on extant literature and case studies. The findings from the case studies and the extant body of literature permit them to identify differing perspectives of IORs that, in their view, can be applied to VCOs, providing their own approach to defining VCOs. They examine a variety of roles played by VCOs and the types of Inter-organizational arrangements relied on, at local, national, and international levels. They also explore relationships between VCOs, the private sector and not-for-profit organizations, highlighting changing relationships between VCOs and governments. They conclude their chapter with a discussion of some of the emergent issues and future challenges for VCOs and those who are engaged in research related to them. As many of the public sector service delivery collaborations described by Sandfort and Milward increasingly involve voluntary organizations, those interested in these kinds of public sector collaborations will benefit from the reviews provided by Mandell and Keast.

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The chapter by Geddes reviews relationships between institutionalized actors in local and regional development partnerships. The main focus is on partnerships in the UK, Europe, and the USA, but attention is given to other parts of the world. In his view, local and regional development partnerships include actors from the community and civil society as well as organizations in the public, for-profit, and not-for-profit sectors. He argues that, although these kinds of partnerships are an integral part of urban and regional development, they raise questions that he addresses about the effectiveness of partnerships from the point of view of policy-makers and practitioners. In so doing, he identifies difficulties academics encounter in theorizing about the concept of partnership or in assessing its outcomes.

IOEs differ in the length of time for which they exist. Some industrial districts have a century-long tradition, while some alliances and joint ventures run for decades or years. The chapter by Jones and Lichtenstein discusses a comparatively shorter-lived kind of IOE: Inter-organizational projects. The authors present an innovative analytical framework grounded in an institutional embeddedness perspective for understanding various types of Inter-organizational projects and how these in different ways facilitate coordinated activities among two or more organizations. In their discussion of the prototypes of film projects, emergency and crisis response projects, architectural and large-scale engineering construction projects, Jones and Lichtenstein place particular emphasis on outlining how different kinds of project pacing (temporal embeddedness) and the social embeddedness of these projects affect the coordination among project partners and their ability to handle uncertainty. Readers who would like to further expand their understanding of temporal aspects of IOR can turn to the chapter by Cropper and Palmer on dynamics, temporality, and change. Kenis and Oerlemans' Chapter 12 provides further insights into the nature of embeddedness.

The final chapter in the part, by Hui, Fonstad, and Beath, begins with an observation that despite a large amount of research related to Inter-organizational relationships, unanswered questions about the management of service-exchange relationships abound. Such gaps are especially evident in the area of technology service IORs. They identify four dimensions—across which technology services vary—that set technology services fundamentally apart from commodity-like production. They note that IORs formed to enable the exchanges of technology services are essentially different from other IORs. Extending their arguments to technology service IORs in general, they conclude that researchers can theorize and explain them with more precision by paying attention to how the nature of the technology services in question

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changes the meanings of theoretical constructs commonly used in studying other kinds of IORs.

As we indicated in the first chapter of this volume, it is our hope that those who have turned to this part for guidance on a specific manifestation will, after digesting the contents of that chapter, move to chapters in this part that are beyond their normal sphere of interest. For example, we believe that those who are focusedon alliances and joint ventures will find much insight in the chapter by Hui *et al.* Simlarly, the discussion of projects by Jones and Lichtenstein will be found fruitful by any scholar interested in collaborations taking place within and between public sector organizations or in partnerships with voluntary organizations.

The chapters in other sections of the book also have much relevance to the study of specific manifestations. Given the disciplinary 'bias' that tends to separate scholars engaged in studies of collaborations by public organizations from those exploring cooperation among business firms, we believe that the wide variety of theories treated in Part III will be of considerable value to those who may agree with our assessment about the 'silo-ed' nature of the traditional approaches to the study of IOR. And those who have found that they have focused on a specific topic in studying a manifestation are likely to find something 'new' in the discussion of those topics in Part IV. For example, Hibbert, Huxham, and Ring consciously explore issues related to managing IORs and IOEs across virtually all the sectors of the economy in which the kinds of manifestations addressed in this part are either embedded or span.

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The Oxford Handbook of Inter-Organizational Relations
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Transforming Industrial Districts

Mark H. Lazerson, Gianni Lorenzoni

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Abstract and Keywords

This article articulates an evolving, new view of inter-organizational relationships (IORs), in industrial districts derived from data on twenty-one leading Italian firms engaged principally in the production of goods where fashion and design occupy a central role: shoes, clothing, leather goods, and furniture. It first gives a brief summary of some of the principal organizational characteristics of industrial districts and their relationship to flexible production. It then considers the emergence of leading firms despite the homogeneity of industrial districts and their use of forward integration as a strategic response to new competitive threats. Furthermore, it also discusses the various theoretical explanations for vertical integration. Finally, it presents some empirical data from case studies prior to the concluding remarks about leading firms and their implications for IORs.

inter-organizational relations, Italian firms, industrial districts, empirical data, case studies

Introduction

Catapulted into the consciousness of organizational theorists only relatively recently, Italy's prosperous central and northern industrial districts, comprising richly marbled networks of cheek by jowl small firms engaged in similar manufacturing activities, have long challenged many of the dominant assumptions of institutional and industrial economics that mass manufacturing, economies of scale, and complex hierarchies define modern

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organizations (Piore and Sabel 1984; Lazerson 1988; Powell 1990; Perrow 1993; Lazerson 1995; Locke 1995). Lacking scale economies these firms often excelled in economies of speed, rapidly adapting both products andprocesses to satisfy consumers' increasingly volatile demand for more differentiated and personalized goods. Despite their very small size—a majority of firms had fewer than ten people, many being family members and relatives—extensive subcontracting of goods and services enabled them to make highly specialized and finished products (Brusco 1982; ISTAT 2001). Unlike other regional production systems described by geographers like Scott and Storper (1985) or business strategists like Porter (1990), industrial districts supposedly minimized opportunistic behaviour and conflict through integration with highly stable social networks fed by neighbourhood relationships, similar religious and political affinities, and community institutions (Brusco 1982; Piore and Sabel 1984: 226–9; Bagnasco and Trigilia 1985; Becattini 1989; Trigilia 1990; Dei Ottati 1994*a*, 1994*b*; Becattini and Bellandi 2006).

We earlier subjected some of the above claims about the historical origins and social—functionalist interpretations of industrial districts to extensive criticism (Lazerson and Lorenzoni 1999). But since our last look at district dynamics, several global political, economic, and technological developments have revealed the limitations of industrial districts even to some of their most sympathetic observers, both foreign and Italian (Berger 2006: 67–9; Fortis 2006). Foreign competitors have benefited from dismantled tariff barriers, slashed transportation costs, low wages, and Italy's substitution of the easily devalued lira for the strong euro. Consequently, the competitive strengths of these small networks—manufacturing goods that in large measure are easily copied and replicated by foreign low cost producers — have been seriously eroded, with many industrial districts suffering sharp reversals to their economic fortunes. Paradigmatic industrial districts such as Carpi and Prato between 1990 and 2004 have seen employment in their principal activities of knitwear and textiles tumble by 30 and 40 per cent respectively (Comune di Carpi 2004; Camera di Commercio di Prato 2006). Quadrio Curzio and Fortis (2006), who play the role of industrial district boosters, choose to blame China's sundry unfair trade practices, high energy prices, and the oppressive and parasitic Italian bureaucracy for the current woes, but even they have conceded that industrial district firms must grow larger, become more attractive to foreign investors, and develop research and development ties with universities. Similarly, Becattini and Bellandi (2006), two of the most forceful avatars of the classical industrial district, now concede that small firms and districts can actually benefit from

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interactions with large firms under certain conditions. But despite these unusual admissions and concessions about the frailties of the industrial district, the Inter-organizational relationships within the district continue to be ignored even though they very much affect the districts' future.

Lorenzoni and Ornati (1988) were the first to highlight the crucial role of leading firms in Italy in organizing small-firm constellations comprising numerous subcontractors. Leading firms not only relied on these subcontractors to produce finished goods based on their own technical and organizational designs, but included them in long-term planning regarding business strategy and capitalinvestments. Lazerson's (1988) research on Modena's mechanical engineering district also highlighted how some small firms applied sophisticated organizational stategies normally associated with larger, hierarchical companies such as equity and shareholder agreements that allowed a small firm to control a number of formally autonomous companies. Awareness of the role of leading firms in industrial districts has also led to more fine-grained research demonstrating that much of the innovation and firm growth in districts has stemmed from leading firms spinning-off new firms (Lipparini 1995: 92–106).

Over time, leading firms have applied key constructs of industrial districts — intensive subcontracting based on flexible organizational network ties with long-term specialized subcontractors—in more dynamic and inventive ways. The most radical example being Benetton's rise from a small knitwear factory to becoming the founder of a large industrial district by the 1970s whose production was closely integrated with sales of finished goods through a novel international franchising network, which minimized the capital outlays normally associated with forward integration (Belussi 1989). Since then the development of the single market in the European Union, the Global Agreement on Tariffs and Trade (GATT), the collapse of the Soviet bloc, and China's economic reforms have accelerated pressures on leading firms to expand beyond the narrow confines of the district in both size and outlook. More production has been outsourced to areas outside the district as well as abroad; manufacturing and sales sites have been opened in foreign countries; and distribution, retail, and franchising divisions have been established. Geox, the shoe company, Luxottica, the optical frame producer, and Zegna, the textile manufacturer, are among those that have taken a leaf from Benetton's book by integrating heterogeneous networks within a complex organization. These leading firms at the centre of complex production and distribution networks represent a bold challenge to Piore and Sabel's (1984) dominant paradigm of district networks comprising highly

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symmetrical and homogeneous firms in which no one firm holds substantially greater power, resources, or influence than any other.

In Table 2.1 we have constructed a schematic chart that compares the difference between the organizational structure of leading firm networks and industrial districts. Capaldo (2007) has counted this ‘relational capability’ of leading firms to integrate multiple and disparate networks as a significant competitive advantage.

In this chapter we articulate an evolving, new view of Inter-organizational relations in industrial districts derived from data on 21 leading Italian firms engaged principally in the production of goods where fashion and design occupy a central role: shoes, clothing, leather goods, and furniture. In our sample we focused specifically on a group of companies that metaphorically had their feet firmly planted in the industrial district while their heads towered far above it, intent on introducing the kinds of exogenous changes that we highlighted earlier (Lazerson and Lorenzoni 1999). Against the background of a mass of district firms locked into a manufacturing logic that had subjected them to the wrenching power of

Table 2.1 Leading firms versus district firms

	Industrial district network	**Leading firm networks**
Network mechanisms	Dyads of local and interpersonal trust	Professional service and organizational reliability
Principal activity	Manufacturing	Manufacturing and distribution
Competitive advantage	Speed	Design
Strategic focus	Minimizing costs	Uniqueness and exclusivity
Management	Family owners	Family owners and professional managers
Pattern of firm growth	Primarily organic	Primarily by acquisitions
Market mechanisms	Transactional	Relational
Suppliers	Local	Global
Industrial structure	Highly fragmented	Increasingly concentrated
Key customers	Wholesellers and resellers	Final consumer
Consumer reputation	None	Brands

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Spatial organization	Regional concentration	Dispersed plants and units

global commodity chains, these leading firms stood out for having escaped from the manufacturing cage.

Publicly available data presented in Table 2.2 that we have collected for a still ongoing research project reveal that these leading firms have invested extensively to advertise both their brands and mono-brand retail chains; have established manufacturing sites in various countries; and have integrated forward into distribution and sales. Some of our sample firms borrowed technology from abroad; most married manufacturing to marketing; others shifted some or all of their production outside of the district or to foreign countries; and several leveraged their outsourcing skills to expand the scope of their products sold in their stores. Rather than harming the industrial districts in which they were located, these leading firms contributed to advancing their technological and organizational development. In some cases these firms patented special machinery or processes and spun off firms engaged in entirely new activities. Like most Italian firms these were family-owned businesses, even if they frequently turned to outside professional managers to run them. In a few instances they also floated non-controlling blocks of shares on stock exchanges—an anomaly in a country with relatively thin capital markets, heavy dependence on bank lending, and where firm self-financing is widespread. Italy boasts far smaller manufacturing firms and fewer listed companies per capita than any other Western European country (Demirguc-Kunt and Levine 1995: 37; Rossi 2003; Corbetta 2005). Clearly not representative of their respective industries, these leading firms are recognizable as a new emerging network form of Inter-organizational relationships (hereinafter IORS) that affect the learning processes within the districts from where they have emerged (Lazerson and Lorenzoni 1999).

Table 2.2 The leading firm's expanding footprint

Company	**Primary product**	**Distinctive product**	**Turnover (2004)**	**No. of production sites**	**% of product outsourced**	**No. of employees**	**Brand**	**Global investment on communication sales**	**Investment advertising in Italy (01/01/05–31/12/05)**	**Diversified products compared to the original one**	**Pattern of growth**

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		€000	With the district	Without the district	Outside the country	Within the district	Abroad	No.	%	€000	Dis	Out	No. of lines	Italy	Europe	Rest of the world	Internal units	Domestic acquisitions	Acquisitions abroad
Alessi	Kitchenware	76,866	2	0	0		483	1		1,843		5		14	e 175 department store displays				
Calzedonia	Apparel	40,621,188			5		1,038	520	4	62,017		1	1,329		561	2	1		
Golden Lady	Apparel	54,020,000	5	2	9		over 5,000		8	37,026			4	350	100			1	2
Gallo	Shoes	14,256	1	0	0	3%	7%	95	0	1	10%		2	8					
Fedon	Eyeglass cases	57,326,369	6	0	2					2	1,540		2	1	e 180 department store displays		2		2
Luxottica	Eyewear	8,236,000	5	1	2		18,165		8	17,919		19		0	116	6,819		2	8
Calligaris	Furniture	138,490,000	2	1	1		370	280	1	4,459									
Natuzzi	Furniture	775,540,000	12		5		2,480	659	2	54,254				137	138		1		
Scavolini	Kitchenware	106,377,000					584		2	26,505								1	
Champion	Apparel	7,000							1	3,361				57	52	2		1	1
Tecnica	Sports shoes	364,000							7	2,536		5	1			8		3	2
Lotto	Sports shoes	138,879					95%	341	1	2,396		7	2	24	0	72			
Stonefly	Shoes	62,058	0	0	1	90%	132	300	1	83,721		1		12		50			
Geox	Shoes	348,100	0	0	2	80%	52,165		1	43,223		*	1	166	76	36			
Zeis Excelsa	Leisure wear	59,052	1	0	1		195	200	4		6			50			4		
Tod's	Shoes	420,800	4	1	0	10%	2,192		4	56,042		2	2	42	34	59	2		1
Vicini	Shoes	46,279	4	0	0	10%	285	10	2	51,150	4		2	3	14	12			
Rossetti	Shoes	48,500	1	0	0				2	15,235			2	15	7	6			
Zegna	Apparel	632,877	7	4	7		5,141		4	3,767	4	3	3	473				2	1

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Loro Piana	Apparel	2,620,000	4	0	4	1,800	1	5,142	2	78	
Albini	Bathroom fixtures	1,500,000	5	1	1	1,300	1				1

1-0megna; 2-Castelgoffredo; 3-Cadore; 4-Udine; 5-Murge; 6-Pesaro; 7-Carpi; 8-Montebelluna; 9-Montegranaro; 10—S. Mauro; 11-Vigevano; 12-Biella; 13-Varese; 14-Garda.

Our argument in this chapter unfolds first with a brief summary of some of the principal organizational characteristics of industrial districts and their relationship to flexible production. We then consider the emergence of leading firms despite the homogeneity of industrial districts and their use of forward integration as a strategic response to new competitive threats. There then follows a discussion of the various theoretical explanations for vertical integration, which is later compared to the Benetton model of light vertical integration. Some empirical data from case studies is presented prior to our concluding remarks about leading firms and their implications for Inter-organizational relationships.

Industrial Districts and Flexible Production

The classical economist Marshall (1923)—an intent observer of late 19th century English manufacturing in Leeds and Sheffield—was the first to suggest that firm spatial agglomerations drove economic growth and raised productivity irrespective of any differences in entrepreneurial strategies or capacities. Marshall (1923) noted that similar spatially situated firms benefited from much broader and deeper markets for labour, machinery, and specialized services as well as from richer, less costly, and more reliable information flows compared to scattered firms lying far from industrial districts. His theories inspired further research by economic geographers whose work is still relied upon today by neoclassical economists to demonstrate how industrial clusters promote labour pooling that both moderates wage demands and encourages workers to learn industry-specific skills (Weber 1929; Isard 1975; Krugman 1991).

More recent reseach based on large-scale survey data raises troubling questions about Marshall's conclusions that industrial districts inevitably improve business performance relative to similar firms located outside of spatial agglomerations (Sorenson and Audia 2000; Fonti 2002). Sorenson and Audia (2000) examined data from American shoe manufacturers over a 40-

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year period irrespective of their location. Unlike previous research that only examined performance within a regional cluster, these data gathered from both spatially clustered and spatially scattered firms revealed that closure or death rates for the former were persistently higher than for scattered firms controlling for firm age, size, and organization. Spatially agglomerated firms were not only less efficient than other similar firms but also faced more competition because of the higher firm densities. Moreover, firms located outside clusters were no more likely to be vertically integrated than those inside industrial clusters, apparently undermining the Marshallian claim that spatial proximity explains the high interfirm division of labour within industrialdistricts. In a similar vein, Fonti's (2002) review of data drawn from the entire Italian ceramic machine-tool industry reported that firms located outside of industrial clusters enjoyed similar network advantages to district firms while benefiting from lower input costs.

The above research did not address what if any contribution social homogeneity and firm redundancy made to the industrial district model. A shared socialization process grounded in a strong sense of regional identification among both entrepreneurs and employees—most of whom have been raised in the districts where they worked and lived—has allegedly smoothed out conflict and generated widespread community trust, permitting firm networks to be regularly dissolved, reconstructed, and rearranged as necessitated by market demand (Becattini 1989; Dei Ottati 1994*a*, 1994*b*; Becattini and Bellandi 2006). For Piore and Sabel (1984: 32, 215), this sociological uniformity was matched by an organizational uniformity in which contractors and contractees were so fungible and their structures so highly undifferentiated that firms could easily change places with one another.

> Firms that had underestimated a year's demand would subcontract the overflow to less well-situated competitors … But the next year the situation might be reversed, with winners in the previous round forced to sell off equipment to last year's losers. Under these circumstances, every employee could become a subcontractor, every subcontractor a manufacturer, every manufacturer an employee.

Such remarkable similarities underpinned what Piore and Sabel (1984) called flexible specialization, a unique competitive advantage that enabled small firms to respond to fickle consumer demand by rapidly designing and developing custom-made products for consumer markets. Its secret was to combine extensive subcontracting by small firms with skilled workers

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using multipurpose machinery, all practices antithetical to the dominant manufacturing system that Piore and Sabel (1984), borrowing from Gramsci (1971), labeled Fordism—a world of vertically integrated factories employing large cadres of semi-skilled workers on assembly-lines making standardized and humdrum goods that had long ago saturated consumer markets and therefore often remained on the shelves unsold. Repeated across the economy, Fordism was blamed for the deep recessions and economic stagnation of the 1970s.

Overlooked by Piore and Sabel (1984) were very different kinds of industrial district firms that also emphasized design and style but were far more organizationally complex. These firms have become far more salient over the last 20 years. No longer only orchestrators of a single constellation or a group of satellite firms, leading firms now coordinate heterogeneous and multiple networks across several countries, manufacturing, distributing, and marketing goods often through exclusive mono-brand franchises. Their once singular concentration on manufacturing now has been broadened to include intangible goods such as trademarks and patents to both distinguish their goods on international markets and defend them against cheap knock-offs. Their growing organizational complexity and size revealed a different Italian business paradigm from Fukuyama's (1995) industrial district of dwarf-sizedfirms stunted by excessive dependence on interpersonal trust unlike the German, British, and American corporations that benefited from strong states and pervasive institutional trust.

Leading Firms Emerge from Homogeneous Industrial Districts

The flowering of leading firms challenges organizational scholars because various theories of isomorphism promoted by both population ecologists and institutionalists appear to have excluded such a development (Hannan and Freeman 1977; Meyer and Rowen 1977; Dimaggio and Powell 1983). Isomorphic theory predicts that the business environment eventually compels fealty to the same set of organizational behaviours regardless of a firm's strategic choice. Market competition, legal mandates, institutional and peer pressures along with embedded relationships make it improbable that within the same organizational field successful firms displaying significantly different characteristics will either emerge or survive. Grabher's (1993) case study of the decline of the steel industry in Germany's Ruhr Valley argued that isomorphic pressures ‘locked in’ behaviours, which eventually lead to business failure. Powell (1990) in explaining the extreme homogeneity of Italian industrial districts noted how preferential tax and labour laws shaped

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both small firm size and their dependence on family labour and how the leading business associations and political parties shared similar ideologies and political values.

Although the debates about organizational isomorphism have sparked little interest among industrial district scholars, Best's (1990: 206) hypothesis of industrial district creating a Schumpeterian ‘collective entrepreneur’ clearly reduced to insignificance the role of both the entrepreneur and the firm: ‘A fully developed industrial district would behave like a collective entrepreneur: it would possess the capacity to redesign process and organization as well as product’. Best (1990: 206–7) was convinced that various community organizations expert in business development, technical knowledge, marketing information, and strategy could coax cooperation from firms and ensure that as many firms as possible possessed ‘an independent design capacity’, which would avoid the rise of hierarchical firms. But the literature on which Best relied failed to consider the many cases of entrepreneurial dynamism within districts that had been driven by one or just a handful of firms (Lazerson and Lorenzoni 1999).

While our aim is not to resolve the debate about organizational isomorphism and strategic choice theories, Oliver (1988) has suggested that many organizations are coupled only loosely to their environment and that the propensity for diversitywithin an organizational field is far greater than that hypothesized by isomorphic theorists. For example, Italian labour law and capital market rigidities conspire to induce industrial district firms to engage in extensive subcontracting so as to minimize investment in both variable and fixed capital. Yet within these environmental constraints firms have considerable freedom to choose subcontractors situated within the district or far outside of it. Firms may also appear isomorphic, but disparate structural positions within a specific network may cause them to react differently to the same environmental stimuli. Uzzi's (1997) New York garment firm research showed how the strength of a manufacturer's interfirm organizational relationships with its network subcontractors varied sharply and closely correlated with business success.

Certainly, the size of the firms in our small sample was larger than those in the average-sized industrial district firm. Larger firms have greater resources to access information about manufacturing elsewhere and how to establish retail channels than smaller firms, which are likely to suffer from greater bounded rationality (Simon 1947). Nevertheless, many large firms also have failed to metamorphize into leading firms (Onida 2004). Size may be

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a necessary condition to exercise strategic choice and expand beyond the district, but it is not sufficient.

Transferring Business Activities Outside of the District

Leading firms in our sample have demonstrated a keen ability to manipulate very different kinds of networks, extending from local subcontractors responsible for innovation and or specialized tasks to geographically distant low-cost producers to foreign franchise chains. If location remains a critical variable for both leading firms and traditional district firms, it does not mean that it has the same significance for both. While the local area furnishes most industrial district firms with their vast majority of network partners, for leading firms it is only the neural centre of a vaster structure much like the hub and spoke manufacturing system that Markusen (1996) anticipated some years ago when she accurately predicted that more bifurcated models would increasingly overshadow districts. Other examples of far more developed hub and spoke networks where an industry's creative spirits and image remain inextricably defined by a specific locale notwithstanding the relentless transfer of most of its business activities elsewhere are Swiss watch-making and Hollywood cinema (Storper 1989; Glasmeier 2000). It should be noted that in both these cases core activities have been displaced for many reasons beyond simple cost concerns.

For leading firms, heightened international competition along with a relative decline in the size of the Italian market have speeded the expansion of their geographical footprint since we last wrote (Lazerson and Lorenzoni 1999). Thismovement has even swept up many traditional district firms, which have shifted production abroad to varying degrees, usually to subcontractors in Eastern Europe and China albeit without noticeably modifying their focus on manufacturing generic goods (Chiarvesio *et al.* 2006; Coro and Volpe 2006). In certain instances attempts even have been made to recreate industrial districts in entirely new locations (Majocchi 2000). Although labour shortages and proximity to new markets explain some of the reasons for relocating production outside of Italy, most firms are mainly motivated by lower wages and costs rather than larger strategic concerns.

Few if any industrial district theorists foresaw that industrial district firms would transfer production abroad to lower labour costs. Piore and Sabel's (1984: 270–1) flexible production paradigm was deeply hostile to the search for cheap labour since it presupposed that competition based on wage-costs would reduce pressure on firms to sharpen their manufacturing

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prowess: ‘[W]hen communities did not limit wage competition, they lost their dynamism and fell into a spiral of decline by responding to competition with sweating’. For these reasons, the industrial district model has been strongly embraced by the International Labour Organization as a symbol of the high road of economic development (Pyke and Sengenberger 1990; Sengenberger and Pyke 1992). In a broader historical context, Sabel and Zeitlin (1985) have even blamed the rise of low-wage putting-out systems that undermined the guild system for the decline of several once flourishing community-based flexible production systems in early industrializing Europe, a position sharply criticized by Landes (1987). Becattini (1998: 101) also expressed the view that the free movement of both labour and goods represented a threat to industrial districts:

> Competitive pressures, whether in terms of price or quality, have induced many final firms to increasingly rely on suppliers from both outside Italy and the districts for low-cost semi-finished goods …This has necessarily weakened some of the ties of cooperation and solidarity typical of industrial districts.

Harrison (1994) was one of the first to recognize that in an age of intensified international competition the industrial districts' skills set could be fairly easily reproduced elsewhere. He described how large multinational firms, through selective acquisitions, had copied key features of small firm flexible production systems, which could eventually be applied in lower cost locales. Maskell (2001) seconded Harrison's argument by pointing out that the material and organizational resources necessary for diversified manufacturing skills, which industrial districts and other regional clusters have in abundance, are now also widely available in the new, globalized market at the same cost regardless of location. On the other hand, he insisted that firm spatial proximity in itself was a unique competitive advantage because it created valuable new knowledge and promoted learning among neighbouring firms.

How to Sell Flexibly Produced Goods?

Left unexplored amid the debates about the contribution of industrial districts to manufacturing success and competitiveness was the question of marketing flexibly produced goods to consumers. Piore and Sabel (1984: 56–63, 184) essentially believed flexibly produced goods would sell themselves because consumers hungered after custom-made and specialized products unlike the undifferentiated goods stamped out on assembly-lines in large

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Fordist factories that either they no longer wanted or would buy only at steeply discounted prices.

Chandler's (1977) theory on vertical integration incorporated an elaborate discussion on how high volume automated manufacturing processes necessitated new distribution and marketing structures to ensure sufficient consumer demand to absorb unprecedented increases in output. Similarly, Galbraith (1969) and others linked mass production with the rise of mass publicity campaigns and psychologically inspired advertising to stimulate new demand for the cornucopia of goods streaming out of Fordist factories (Ewen 1976). While Piore and Sabel's (1984) analysis of mass production and Fordism have been amply criticized elsewhere (Minsky 1985; Williams *et al.* 1987), we find it puzzling that in propounding a production system that in large measure depended on goods being pulled by consumers rather than being pushed by manufacturers, they failed to propose any distribution system for flexible producers to assure a market for their specialized and customized goods. This is especially surprising since Sabel and Zeitlin's (1985) review of flexible production in early industrial Europe highlighted the frequency with which merchants betrayed the confidences of their artisan suppliers by stealing their designs and producing them more cheaply elsewhere.

The Relationship between Manufacturers and Retailers

Nor has scholarly obsession with district manufacturing, industrial relations, and public policy cast much light on the linkages among producers, wholesalers, and retailers. Our own discussions with entrepreneurs often revealed that, isolated in small towns and provinces, the most prized information often came from distant buyers and wholesalers rather than from local colleagues and competitors. This, of course, confirms Granovetter's (1973) finding that weak ties usually offer richer information than strong ties.

Becattini (1998: 103) in a rare aside, however, suggested the existence of a clear relationship between industrial districts and Italy's highly parcellized distribution and retail structure: ‘Using facile slogans about “modernizing” the distributionand sales network, those favoring concentration in the retail sector have backed a campaign that—as Porter teaches—may make life very difficult for small-and medium-sized district firms’.

Although the situation is changing rapidly, the Italian retail sector traditionally has been very fragmented compared to that of other large

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European countries: in the United Kingdom and France large retail hypermarkets have a market share three times greater than that in Italy (Boylaud and Nicoletti 2001; Chierchia 2006; Federdistribuzione 2006). The plethora of neighbourhood shops, itinerant market sellers, and a few large department stores or retail chains have for a long time exercised minimal bargaining power over manufacturers. Despite some liberalization in recent years, Italian local and national laws still regulate certain aspects of price competition, sales, opening hours, and the merchandise a store can sell. All of these factors result in reduced price pressures on manufacturers. On the other hand, the existence of a myriad Italian retail stores provided manufacturing firms with strong incentives to produce many different models of similar goods in small batches, since merchants wanted to be supplied with a variety of styles to differentiate themselves from their local competitors on some measure other than price.

Becattini (1998), aware of the growing economic muscle of multinational chains, rightly feared that small-firm networks risked not only falling profits but a loss of market share because of their structural inability to satisfy the scale economies of mass retailers. In industrial districts where manufacturing firms have generally created neither identifiable brand names nor even consumer awareness of a district identity, mass retailers with economic muscle can easily shift production to cheaper locations. Gereffi and Memodovic (2003: 15) described American apparel markets controlled by a few huge retail chain stores:

> Between 1987 and 1991, the five largest soft goods chains in the United States increased their share of the national apparel market from 35 to 45 per cent. By 1995, the five largest retailers— Wal-Mart, Sears, Kmart, Dayton Hudson Corporation and JC Penney—accounted for 68 per cent of all apparel sales. The next top 24 retailers, all billion-dollar corporations, represented an additional 30 per cent of these sales. Thus, the 29 biggest retailers made up 98 per cent of all United States' apparel sales.

These large international buying chains have steadily diminished manufacturers' rents both by maintaining downward pressure on prices and payment terms and by expanding the latter's contractual duties to include ‘total packaging solutions’, which burdens them with quality control, packaging, and final shipping to retail outlets (Gereffi 1999). These developments have most affected low-cost Asian and Eastern European producers making low- and mid-priced goods with little design content.

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Even in the luxury goods sector giants such as the French companies PPR and LVMH have dramatically consolidated the sector over the last 15 years, acquiring once independent brands such as Gucci and forcing many high quality craft producers, who once possessed both their own independent design capabilitiesand direct sales channels to independent retailers, to manufacture exclusively for them. It should be noted that LVMH itself was once solely a manufacture of luxury goods before it expanded into retailing.

Kaplinsky (2000) has attributed this shift in power from producers to final sellers to falling entry barriers for manufacturing, which have driven down rents in large parts of the world. At the same time rents in many distribution and retail sectors have been increasing due to both growing concentration and a shortage of desirable locations for large retail outlets, especially in Europe. Moreover, while Chinese manufactured exports have deflated prices of finished goods worldwide, the Chinese have not yet established themselves as world retailers.

In light of these factors, leading firms recognized that the number of niches available for companies selling well-designed fashion goods at relatively high margins without direct access to the market or a known brand was steadily shrinking and that they needed to develop independent distribution and retailing channels to reach consumers. But few theorists of vertical integration would have suggested that forward integration was an appropriate strategy for the fashion goods industry.

Theories of Vertical Integration

Chandler's Theory

Chandler (1977, 1990) in his extensive historical review of vertical integration insisted that manufacturing companies initially integrated forward into distribution and retailing to better coordinate the enormous scale economies arising from the automation and integration of different production phases. Such integration eliminated upstream bottlenecks while allowing for significant increases in what he called throughput speeds. Control over distribution initially allowed manufacturers to better link production and sales to maximize throughput speeds that would ‘keep their production facilities fully employed’ (Chandler 1977: 488). Later on, the advantages derived from the administrative coordination of manufacturing, selling, and transporting ‘provided these enterprises with a powerful barrier to competition’ (Chandler 1977: 488).

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Chandler said labour-intensive, low-technology industries such as textiles, apparel, shoes, furniture, and leather—exactly the kind of industries represented in our sample—benefited little or not at all from administrative coordination of highly differentiated, non-standardized production comprising separate and discrete production stages. Vertical integration in these industries either never occurred oreventually failed (Chandler 1977: 364). Chandler (1990: 141) explicitly pointed to textile manufacturers, whose investment in marketing divisions, branding, and advertising came to naught because ‘they did not provide the market power that so quickly brought concentration in the more capital-intensive industries’. Chandler's (1990: 30) formula for vertical integration demanded ‘industries where a few large plants could meet existing demand’. Only in these cases would increased sales from control of marketing and distribution lead to even greater economies of scale.

Granovetter (1995: 101–2) has pointed out that much in Chandler's account has been challenged by economic studies indicating that ‘efficiency in an industry is similar over a wide range of firm sizes’. Among the leading fashion firms in this sample few appear to have pursued both vertical integration and brand development for the reasons given by Chandler. In these highly competitive industries with low entry barriers economies of scale are minimal, use of small subcontractors minimizes capital investment, and throughput speeds obtained by coordinating production and sales are almost nil. Only in regard to expanded opportunities for greater economies of scope to saturate a company's distribution system is there a parallel between leading firms and Chandler's vertically integrated firms. On the other hand, among leading firms these new products are almost always produced by external subcontractors rather than their own manufacturing organization.

Williamson's Transaction Cost Theory

Williamson's (1975, 1985) theory suggests that minimizing interfirm transactions is a possible reason to vertically integrate (see Hennart, this volume). According to him, two or more firms may become dependent upon one another for the sale or purchase of idiosyncratic goods or services not widely available on the market. In such an event one may be charged higher than market prices stemming from the absence of transparency, which would also require spending scarce resources on costly contracts and legal services as protection from such opportunistic behaviour. Williamson says that in such

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cases the efficient solution would normally be for firms to vertically integrate to obtain the necessary goods and services.

Whatever may be the strengths or weaknesses of Williamson's thesis, if concern about transaction costs had been paramount among our sample firms, they would have at a minimum chosen first to vertically integrate their manufacturing operations where the risks of opportunism are greatest. But such instances are few and far between, while there are many more instances of long-term reliance on subcontractor networks, which Williamson (1975) warns are rife with opportunism. On the other hand, the risks of high transaction costs in dealings with independent distributors and retailers are relatively low because contractual issues are fairly transparent and relationships are mainly price-based transactions. Inmanufacturing, problems about quality, delivery dates, and overall performance criteria can often trigger disputes. From the distributors' and retailers' perspective, unless their suppliers provide unusual, one-of-a-kind goods there would be little reason to either integrate backwards or build long-term relationships since they can be substituted relatively easily. If manufacturers integrate forward into retailing it would be to gain control over sales points rather than for efficiency reasons *per se*.

Other explanations for vertical integration include the neo-Marxist contention that it advances companies' monopolistic or oligopolistic interests and Fligstein's (1990) insight that in the United States it was an organizational substitute for the horizontal integration that American anti-trust regulation forbade (Du Boff and Herman 1980). Regarding the former claim, we have already established that the manufacturing side of the fashion industry with its low entry barriers and thousands of competitors is unlikely to exercise oligopolistic power in the foreseeable future. As to the latter argument, Italy unlike America has no anti-trust tradition neither have its laws and industrial policy particularly encouraged concentration through vertical integration (Torre 1965).

We would argue instead that the leading firms in our sample embraced forward integration not primarily for efficiency reasons, but because it strengthened what Penrose (1959: 137) called their ‘bases’, and the need to make them ‘relatively impregnable’. Here, the ‘bases’ that needed securing were the leading firms' design and innovative capabilities. As Penrose (1959: 137) wrote: ‘It is not the scale of production nor even, within limits, the size of the firm, that are the important considerations, but rather the nature of the basic position that it is able to establish for itself’. In manufacturing

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the leading firms have normally been able to secure tight networks with suppliers without resorting to vertical integration. But developing such forms of network linkages with retailers has generally been rare, with the possible exception of Japan. Vertical integration by leading firms can be understood as a means to increase the density of their relationships with distributors and retailers in the absence of the possibility of creating interfirm networks (Granovetter 1985).

Transformation of Network Relations within the Industrial District

Rabellotti's (2004) research on the Brenta industrial district of the Veneto, where approximately 50 per cent of the women's shoe subcontractors worked for luxury brand fashion companies, examined how forward integration into retailing affected relationships among subcontractors. Although the Brenta district has enjoyed a reputation for making some of Italy's best and most expensive shoes, no indigenousmanufacturer ever managed to develop a well-known brand. Weak and fragmented, they lacked the ability to establish a brand name or expend resources on advertising and marketing. Instead what happened is that the producers eventually surrendered their control over design, sales channels, and choice of suppliers of raw and semifinished materials to major luxury retailers, who often became the exclusive buyers of their goods. Yet, for many shoe subcontractors the opportunity to work exclusively for a single luxury fashion companies was not unwelcome; they were paid higher prices and no longer struggled to find buyers in a globalized marketplace where reliance on manufacturing skills alone often fails to sell products (Rabellotti 2004). Labelled functional downgrading by the authors, the loss of the shoemakers' independent design capacity was exactly the kind of development decried by Best (1990: 206), Becattini and Bellandi (2006), and others who have warned it is the death knell of district firms. But Amighini and Rabellotti (2003) cautioned that in Brenta the broader network into which production firms were integrated was controlled mostly by Italian-owned leading firms, so it actually reinforced industrial districts: ‘[M]oving from a narrow district perspective the conclusions may be very different. The Italian luxury goods industry is … undergoing … functional upgrading and concentration in rent-rich activities by exploiting … its core competencies in design, branding, (and) marketing’ (Amighini and Rabellotti 2003: 20).

An unexpected twist to the functional upgrading strategy of the Brenta shoe industry has been its greater reliance on imported semi-finished shoe parts from low-cost Eastern Europe countries, because ‘price competition

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is severe even in high quality markets' (Amighini and Rabellotti 2003: 21). Outsourcing low-value goods and services to areas with lower labour costs that often begins with tough arm's-length bargaining allows industrial districts to concentrate on higher value- added and more technologically sophisticated activities. Rabellotti (2004), however, pointed out that these changes in Brenta have had contradictory affects on IORs; on the one hand, relationships between the shoe manufacturers and their suppliers have been weakened, while on the other hand, shoe manufacturers have strengthened their relationships with their buyers.

The Benetton Model of Light Vertical Integration

Despite Italy's strong fashion skills and resources, ironically it was a small vertically integrated Galician clothing manufacturer—the highly profitable Spanish multinational Inditex—that used its Zara mono-branded retail outlets to offerwomen perpetual fashion change by introducing different stock weekly instead of seasonally. Inditex founder Amancio Ortega recognized early, unlike Piore and Sabel, that flexible-production strategies required close integration with flexible-retailing techniques to avoid both production and design becoming subservient to multinational retailers.

Benetton's light vertical integration model that linked manufacturing to retail franchising stores should have been a model for district firms engaged in flexible production. But unlike many industrial districts where small firms arose independently of any large, single manufacturer, Benetton essentially created its own small firm industrial district in the Treviso area of the Veneto region by nurturing many legally autonomous producers—a violation of the canonical industrial district model of small, homogeneous firms drawing custom from a diversified group of buyers (Crestanello 1999: 114).

Harrison (1994: 92), a neo-Marxist industrial economist sceptical of claims that small firms could eventually topple dominant large firms, pointed out that Benetton's large-scale organizational techniques had mastered the flexible production abilities of the small-firm network:

> [A]s a major oligopolist …Benetton has measurably undermined at least part of the fabric of the Veneto's small firm network. It is has done so by imposing an extreme form of hierarchical control on a production system that had previously been characterized by far more fluid interfirm arrangements.

Benetton used information control systems to tightly coordinate production flows of apparel goods from external clothing subcontractors with both its

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own internal automated inventory and warehouse systems and its franchise retail outlets (Belussi 1989). Their flexible-production methods mimicked those used by many small-firm suppliers and perhaps even improved upon them. For example, computerized links to franchise outlets gave Benetton instantaneous access to sales information that was then channelled to assemblers and dyers to set knitwear model and colour output. Although these procedures helped minimize the costly markdowns of unsold inventory that Piore and Sabel (1984) promised as the holy grail of flexible production, they were a consequence of Benetton's light vertical integration model. By relying on formally independent subcontractors, wholesalers, and franchisees, it invested its capital instead in highly automated information, warehouse, and logistic systems; in continuous product and process innovation that emphasized good design and fashion change; and perhaps most importantly in publicity to distinguish their Benetton brand from the output of thousands of their apparel competitors. Brightly lit and ubiquitous, Benetton retail franchise stores set in strategic urban locations reduced the threat of imitators and discounters while providing free advertising for its trademark brand. More than happy to exploit the lucrative ‘made in Italy’ image, Benetton nevertheless established production facilities throughout the world and promoted advertising themes that embraceduniversal values often at odds with the conservative Catholic Veneto culture of its home.

The Benetton Model Revisited

Today, industrial district manufacturers wallow in crisis but Benetton's imprint of light vertical integration is being emulated and improved. Emblematic of this new trend are Loro Piana and Ermenegildo Zegna, the two leading Biella textile firms in Piedmont, and Geox, the shoemaker, from Montebelluna in Veneto. Loro Piana, once a conservative wool manufacturer, sold only its own very high-quality cloth to apparel makers. But starting in the mid-1980s it integrated forward with the help of subcontractors to make its own finished products, which were then sold directly through its distribution channels. Later in the 1990s, it opened mono-brand retail outlets in a number of major world cities. Zegna followed a very similar path but started in 1968, using its fabrics to make jackets and coats. In the 1980s it opened its first retail outlets. Parallel to the changes in their retail and distribution operations, these companies have also strengthened their networks of subcontractors based on long-term cooperative IORs.

Over time, both Loro Piana and Zegna have used their direct presence in retail markets to vastly expand the scope of their products. For instance,

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Loro Piana, which once produced only woollen goods, now sells carpets as well as cotton, silk, and leather used in both furnishings and interior decorating. Acquisitions, alliances, and licensing agreements have helped Zegna launch a wide range of entirely new products ranging from shirts to shoes to scarves to perfumes and to eyeglasses, some of which are sold in their own stores while others are marketed by their commercial partners. All, however, are made by subcontractors rather than in their own manufacturing facilities. Both it and Loro Piana have also opened textile and apparel factories operations in China while further modernizing and investing in their Biella plants.

Another approach used to reduce the costs and risks of vertical integration while maintaining the flexibility of more decentralized production has been the purchase of partial equity interests in firms with whom leading firms regularly conduct business. Such equity alliances are most common with manufacturing suppliers, but they also occur in the area of distribution and sales (see Dacin *et al.*, this volume). This allows the leading firm a measure of control not ordinarily available even among firms with whom it enjoys dense IORs, while minimizing an enlargement of its own organization.

When leading firms with brand names outsource production they increasingly rely on fewer firms, delegating responsibility for organizing production to lower-tier subcontractors. Far more of the subcontracting work is now planned in advance, lowering costs and raising quality. Manufacturers, in long-termIORs with their subcontractors, work closely on investment plans for plant and equipment.

Leading firms have also invested heavily in inventory logistics by constructing their own warehouses in the industrial districts where they are based in order to respond to the complexities of managing a far-flung production sales organization capable of both receiving shipments from multiple subcontractors producing in numerous locations and supplying relatively small luxury stores in different countries. This distinguishes them from the big commodity-chain buyers like Wal-Mart, Target, and Sears that purchase apparel from Asia in very large quantities and then have their suppliers stock their stores directly from container ships (Gereffi 1999).

Examples of Firms Linking Manufacturing and Sales

Geox offers one of the more extreme examples of the new district production model in that it produces all of its shoes abroad, with the principal factory

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located in the Romanian city of Timosoara, which has become a major manufacturing site for many Italian districts because of its low wages, relative proximity to Italy, and language affinities with Italian (Crestanello and Tattara 2006). There, Geox employs approximately 5,000 workers, divided between direct employees and subcontractors. Geox retains its administrative, design, and technology offices back in the boot and shoe district of Montebelluna of the Veneto region, where there are more than 650 employees, including 90 highly skilled employees devoted solely to making both prototypes specific to different countries and the specialized tools with which to make them. Low-skilled and low value-added tasks outsourced abroad are counterbalanced by higher-skilled and greater valueadded activities in Montebelluna. Much as the multidivisional corporation decentralizes control over line activities in its subsidiary firms while centralizing financial control and planning in its main headquarters, leading district firms outsource production while centralizing design and strategic activities within the district.

Had Fedon remained just a local provider of unbranded eyeglass cases to its neighbouring eyewear manufacturers in the Cadore industrial district of the Friuli region, Chinese competition probably would have put it out of business. Yet, Fedon has managed to remain the largest producer of eyeglass cases in the world, and the only remaining one in the Western hemisphere thanks to its factories in Romania and China. Fedon—an $80 million business in 2005—was listed on the Parisian stock exchange in 1998 and opened two luxury retail outlets in Paris and Milan and a showroom in New York. When its largest customer Luxottica moved to China, Fedon followed suit, and it now expects most of its production there to be absorbed by the rapidly expanding local market. Fedon has continued to maintainsix different production sites in the Cadore-Belluno industrial district, where it produces a wide range of luxury items usually sold to stationery stores: branded eyeglass cases in metal and leather; wallets, briefcases, and bags; watch straps and belts; and various leather-based desk accessories. As is not uncommon among leading firms, Fedon has witnessed the emergence of two entirely new businesses within the district that arose unexpectedly from inventions patented for use in its core activities; the first is engaged in specialized automation equipment and the second makes decorative moulds.

Calligaris, a leading chair manufacturer located in the province of Udine in the Friuli region, shows how a leading firm's investment in marketing and brand names bolsters rather than erodes the autonomy of the district. Founded in 1923, Calligaris by the middle of the 1990s was selling a large

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part of its unbranded chair production to Ikea—the mass market retailer—at very low price mark-ups (Grandinetti and Passan 2004). Dissatisfied with this arrangement, Calligaris hired its own sales representatives in Italy and abroad to promote its own products directly to thousands of interior designers, decorators, and furniture stores. Newly hired marketing managers pruned sales to both marginal Italian retailers and foreign wholesalers while expanding its foreign sales network from 30 countries to about 90. Calligaris also invested in both publicity campaigns to advertise its brands and a customer call centre. Initial success led it to invest in its own logistics structure to speed goods distribution to customers. Later on, a growing customer base provided it with sufficient sales to expand the scope of its wares in order to gain sufficient scale to amortize its greater distribution and logistic costs. It added to its collection tables and chairs not just for kitchens but for offices and public institutions such as schools. By 2004 Calligaris's furniture orders from Ikea represented only an insignificant part of its business.

These three above-mentioned firms made very dissimilar goods and also were organizationally very different—Fedon subcontracted and sold directly to consumers, Geox manufactured in its own factories abroad, and Calligaris largely depended on subcontractors to manufacture its finished furniture. Excluding Geox, which immediately launched its manufacturing abroad, the other two had been traditional industrial district firms. Yet, each proved successful through various processes of trial and error at integrating new kinds of networks into their own organization that embraced both upstream and downstream activities. This accomplishment proved no mean feat because traditional manufacturing networks normally have been remarkably heterogeneous, comprising highly differentiated suppliers and subcontractors while distribution and sales networks have been more homogeneous even when there are mono-branded retail outlets that include both franchised and directly owned stores. Through their success in training new professional figures these firms have become maestros in transforming a cacophony of voices and instruments into smoothly functioning orchestras.

Discussion: Leading Firms Provide a Pattern for a Few

Janus-faced leading firms in a growing number of industrial districts look downstream to conquer new businesses while upstream they look to their preferred suppliers in industrial districts to improve their manufacturing capacities by both growing larger and assuming new network responsibilities.

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They look to knowledge-based firms for unique technologies and look to efficiency-based firms to slash costs (Lorenzoni and Lipparini 1999).

Manufacturing remains important but only in conjunction with a set of interlinked complementary assets that usually include distribution and retail outlets (Teece 1986). Reliance on brands and trademarks to protect innovative products usually provides leading firms with greater rents than firms manufacturing generic goods exposed to severe cost-based competition. Investments in forward integration to control distribution and sales minimize reliance on powerful wholesalers and large retail chains, which relentlessly look for cheaper sources of goods. Admittedly, these complementary assets and new arrangements offer no certain panaceas. Nor has their success in comparison with traditional Italian firms been matched against their peers in other developed industrialized countries, which have been more profitable (Studio Pambianco 2006). More generally, thousands of brand names have little or no market value and many firms' adventurous acquisitions and their ventures in new areas have met with failure. While Benetton's European franchising system has shone, its American operations have stumbled, with blame ascribed specifically to its overly decentralized sales structure (Michaels 2006*a*, 2006*b*). But despite all the uncertainties, the new organizational architecture has opened new vistas that extend beyond mean factory walls and looming middlemen and retailers.

Organizationally, tier arrangements with subcontractors have become more common. Selected suppliers with whom leading firms enjoy long-term relationships and strong expectations of reciprocity have been entrusted with an extensive range of strategic responsibilities, which extend from translating concepts into detailed designs and blueprints to organizing tasks among lower-tier contractors. Nishiguchi (1994) and Dyer (1996) have choreographed the similar steps taken by Japanese car manufacturers to organize suppliers in tiers and charge them with the duty of inspecting and coordinating their own output. On the other hand, such changes have imposed stiff costs on leading firms, which have invested large sums in warehouses and logistical systems to manage parts and supplies arriving from geographically dispersed manufacturers.

Pride of place in leading firms has been given to Inter-organizational practices that emphasize open innovation, great diversity, and multiregional Inter-organizational relationships. The result is a distinctly different kind of networkfrom those that have prevailed until now in traditional industrial district networks. Discrete transactional activities built around simple dyadic

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relationships have tended to be replaced with longer, more complex, and effective relationships. Dyer and Singh (1999: 662) in a different context detailed the qualitative differences between the two: leading firm network members are more likely to have committed to asset-specific investments rather than to non-asset-specific investments; to have engaged in more extensive and deeper information and knowledge exchanges rather than just trade information about production costs and prices; to liaise extensively with other branches—not just those in purchasing and receiving—that result in the creation of new resources and capabilities, which then lead to new services, goods, and technologies. The result of such intense transactions and co-learning experiences has been to construct interpersonal trust and possibly reduced opportunism (Gulati 1998; Arino *et al.* 2001). One can say that there has been a progressive shift from essentially cost-based transactions in district firms to Inter-organizational relationships in leading firms.

Leading firms have broken new ground for organizational theory, blurring and radically reworking the dense and tightly knit territorial boundaries of the traditional industrial district by incorporating distant networks that not only manufacture goods but also distribute and sell them. More local firms have shifted spatially to the hub and spoke structure envisioned by Markusen (1996), where the cerebral functions of administration, research, and development are concentrated locally while manufacturing is increasingly displaced to distant spatial agglomerations. Often these geographical displacements have resulted in increased hierarchy as independent local suppliers are replaced by distant subsidiaries that require new professional figures devoted to the intra-firm coordination of raw materials, manufacturing, and logistics. Even where this has not occurred, the exigencies of having to continuously supply large quantities of branded merchandise to numerous sales points located across different countries have forced leading firms to try to further integrate their own operations with those of their first-tier suppliers. But such steps are often difficult and costly to achieve such is the great effort and time involved in creating interlinked information systems among independent businesses.

While district firms once pioneered vertical disintegration to reduce the costs, delays, and inflexibilities of large factories, today leading firms embrace a form of light vertical integration that melds the economies of speed and open boundaries of networks with the greater control mechanisms of forward integration. But rather than vindicating the Chandlerian claim that vertical integration is necessary to achieve economy of scale efficiencies, light

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vertical integration that markets branded goods in mono-branded stores counteracts the low-cost copycat competitors who have undermined many traditional district firms.

Another important break with past practice is the leading firms' use of expansive acquisitions rather than relying on the slower practice of organic growth to expandplant and equipment capacity while deepening existing network relationships. Lorenzoni and Baden-Fuller (1995) showed how these practices enabled leading firms to quickly occupy and consolidate important market positions by coordinating and integrating external resources with their own networks. Such strategic choices are often compelled by both competitive pressures and the need to rapidly gain market share or control over scarce resources, especially problematic in retailing where desirable space has already been staked out by earlier first-movers. Driven by the logic of their new acquistions, leading firms must become institutional entrepreneurs, cajoling and coaxing their existing network partners into abandoning old routines while embracing new and more difficult tasks. Yet, climbing this learning curve is very steep, and many run-of-the-mill firms lacking the requisite technological and organizational abilities cannot even make the attempt.

What innovative source has allowed a small group of firms to break with the dominant organizational logic within industrial districts that stifles change and thwarts diversification (Bettis and Prahalad 1986)? One frequent refrain has been that small firms seed innovation that slowly diffuses to other small firms through spillover effects (Aldrich and Feldman 1996). Such explanations fit well with the idea of incremental innovation, which Henderson and Clark (1990) referred to as ‘architectural’ and that others have labelled ‘bricolage’, for it combines and reuses existing concepts and ideas but applies them in both new and different fields and ways (Baker *et al.* 2003). Such eclecticism based on individual creative spontaneity has been quite common within industrial districts, but we believe it is now being replaced by more planned and structured working groups. Even in the design of consumer goods, traditionally driven by bricolage and imitation, branding and control of sales and distribution channels are now crucial elements of any innovation strategy. Leading firms such as Diesel, Piquadro, and Geox have greatly increased both the quality and size of their labour force dedicated to design and innovation.

In this new world of multiple networks stretched across large distances, our understanding of the contribution of industrial districts, local networks, and

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traditional community bonds to economic development needs to be revisited since Piore and Sabel (1984) first wrote. The expectations of Best (1990), Becattini and Bellandi (2006), Brusco (1992), and others that interfirm cooperative relationships among roughly egalitarian firms and backed by publicly subsidized innovation centres could invariably produce solutions to each succeeding wave of competitive challenges from low-cost producers seem permanently dashed by more powerful economic realities. Network loyalties among subcontractors may contribute to economic success but are just one element among many. Even if Putnam (1993) is right that the success of Italy's industrial districts has been highly path dependent— a consequence of prior historical developments shaped by the Renaissance and republican values—formidable new competitors may arise in areas that lack these same historical markers.

No longer an impregnable fortresses resistant to the withering competition of low-cost and often technically competent adversaries, the industrial district as a geographic location possesses ever fewer offensive capacities to resist the hollowing out of the local economy because both their technologies can be bought by the highest bidder and their skills reproduced elsewhere. Boastful claims that the district and its firms possessed unique adaptive capacities and tacit knowledge embedded in its dense web of personal contacts and community institutions sound increasingly hollow as the entrepreneurial dynamism and vigour of emerging firms in newly industrializing countries such as China cast serious doubt on the long-term sustainability of such a spatially distinct model without the types of changes that we have outlined.

What remains most persistent amid the international spatial and geographic reorganization of economic relationships has been the remarkable stability of the leading firms' enterpreneurial cadre, which continues to be drawn almost entirely from the local industrial district, lending support to Amin and Thrift's (1994) contention that in a globalized world certain features remain stubbornly local. The districts' persistent failure to be a magnet for either human capital or foreign or outside Italian investors must be contrasted with that of California's Silicon Valley, where all sorts of outsiders—both foreign and American—have consistently exercised a dominant role (Saxenian 1994, 2006; Cohen and Fields 1999). Only in Mirandola's medical supply district in the province of Modena where large pharmaceutical companies in the 1990s purchased the firms of local entrepreneurs can one find a significant exception (Baroncelli 1998; Lipparini and Lomi 1999). Whether international

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capital's circumspection about investing in Italy is explained by its thicket of laws and attitudes often hostile to dynamic capitalism or results from the industrial districts' homogeneity and the limited profitability of its small firms certainly merits further research.

Looking towards the future, we can say with considerable conviction that leading firms will continue to grow in importance while the number of manufacturing firms in the same sector continues to shrink in the industrial district because most are unable to satisfy the new network criteria. Employment in traditional sectors will also decline, while there will be an increase in demand for those with new skills as leading firms promote new capabilities that previously were either non-existent or in short supply. Upstream supplier relationships now require the attention of full-time managers since they can no longer be left haphazardly to chance. Downstream requirements of light vertical integration have created new firms and professionals specialized in services connected to logistics, distribution, and retailing. There will still be industrial districts, but they may no longer be recognizable to those who wrote about them in the previous century.

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The Oxford Handbook of Inter-Organizational Relations
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Inter-organizational Relationships, Chains, and Networks: A Supply Perspective

Thomas E. Johnsen, Richard C. Lamming, Christine M. Harland

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Abstract and Keywords

This article discusses inter-organizational relationships (IORs) in the wider context of chains and networks of organizations. It distinguishes between IORs, chains, and networks and subsets of those, perceived through different disciplinary lenses. Different lenses lead researchers to operate at different units of analysis within relationships, chains, and networks. For example, a sociological focus gives rise to researchers observing social connections. An economic focus leads to observations of economic exchanges between organizations conceptualized as economic entities. A strategic management focus leads the researcher to observe strategic configurations and positions. These different units of analysis represent different types of relationship, chain, and network and require different methodologies, methods, and techniques to research them. In particular, this article uses an operations and supply lens to observe supply relationships, chains, and networks.

inter-organizational relationships, networks, organizations, social connections, economic entities

Introduction

In this chapter we discuss Inter-organizational relationships in the wider context of chains and networks of organizations. We distinguish between Inter-organizational relationships, chains, and networks and subsets of those, perceived through different disciplinary lenses. Different lenses lead

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researchers to operate at different units of analysis within relationships, chains, and networks. For example, a sociological focus gives rise to researchers observing social connections. An economic focusleads to observations of economic exchanges between organizations conceptualized as economic entities. A strategic management focus leads the researcher to observe strategic configurations and positions. These different units of analysis represent different types of relationship, chain, and network and require different methodologies, methods, and techniques to research them. In particular we use an operations and supply lens to observe supply relationships, chains, and networks.

In the first section we focus predominantly on customer—supplier relationships and trace the history of customer—supplier relationship research. We outline some of the most influential early *buyer—seller* models (as was the dominant label until the 1980s). We explain how these models evolved from being more transaction focused to consider the longer term interactions in relationships, particularly within the work of the Industrial Marketing and Purchasing (IMP) Group. We introduce the concept of supply relationships, as our preferred concept to describe relationships between customers and suppliers in a business-to-business context. In particular we explore the trend towards collaborative supply relationships, or ‘partnerships’, discussing the negative sides of collaboration such as the risks of overdependency and the exploitation of power that lies in the wake of dependency. We complete this section by debating the so-called relationship portfolios models often applied by companies in order to differentiate between supply relationships that present different managerial challenges and thus require different management strategies.

In the next section we discuss the meaning and contribution of the concept of Inter-organizational chains. Tracing the origins of the concept of supply chain management through research into value chains and distribution channels, we evaluate the underlying differences in research perspectives and objectives, and identify the differences in—explicit or implicit—definitions. We discuss the benefits of supply chain analysis and management, including the significance of achieving ‘total’ supply chain visibility. We propose some of our conceptions of how companies often achieve supply chain influence in practice, especially through the application of cascade and intervention strategies. However, we also argue that these strategies are associated with a number of pitfalls that are inevitably a consequence of a supply chain perspective (or at least its implementation in practice), including what we call the ‘vantage point syndrome’. Thus we

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conclude this section by highlighting some of the limitations of the supply chain concept and thereby the reasons for network-level analysis.

We then focus on the analysis of Inter-organizational relationships as embedded in complex networks. As network research has been an area of tremendous growth during the last couple of decades, we provide an overview of different perspectives on business networks, different definitions, and different types of network. We introduce the concept of supply networks, which has formed our contribution to the field over the last decade or so. We argue that the benefits of supply network analysis derive from a strong focus on understanding the—positive andnegative—effects of interconnected and interdependent relationships. This leads us to the conclusion of the chapter where we raise the important issue of ‘managing’ in networks, addressing the critical question: to what extent can—or should—an organization ‘manage a network’ and what does it mean to manage within a network context?

Table 3.1 provides examples of research at the different systems levels. A glance at the table reveals that research on Inter-organizational relationships dates back to the 1960s and 1970s, at which point research on Inter-organizational chains, and, especially, networks, was in its infancy. Research on chains took off in the 1980s, with Porter's (1985) value chain initially being the most influential. Other closely related chain concepts emerged around the same time, including ‘the commercial chain’ (Hayes and Wheelwright 1984), marketing channels (Achrol and Stern 1988), and the supply chain (Oliver and Webber 1982). Although research on Inter-organizational networks can be traced to the 1970s it was not until the 1980s that models of Inter-organizational networks became established and the 1990s marked the beginning of a strong surge in research on a wide range of network-related issues, such as network strategies, network roles, and network taxonomies. The proliferation of such topics reflects a desire amongst many management scholars to explore how companies can best manage within networks (a normative ambition) and to think strategically about the effects of network-level analysis. These themes form the core of this chapter. We begin by tracing the research into Inter-organizational relationships with a specific focus on those that exist between customers and suppliers.

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Early Research into Customer—Supplier Relationships

Early models of how companies do business with each other had their roots in, most notably, consumer marketing. Organizational buying behaviour theories (e.g. Webster and Wind 1972; Sheth 1973) were based on a consumer marketing model (McCarthy 1960), in which sellers were seen as the active parties, approaching buying organizations to persuade them to buy their products or services. Buying organizations were simply seen as passive recipients. The main challenge for the seller was to identify and access the right people in the buying organization. Early purchasing models took their point of departure from the same basic tacit assumption of one active party seeking to access and mobilize the other passive party. However, in the early purchasing literature it was the opposite picture: active buyers dealing with passive sellers (e.g. England 1970; Lee and Dobler 1971).

Table 3.1 Development of relationships, chains, and networks in the literature

	Relationships	**Chains**	**Networks**	
1960s–70s	• Good customer service defines a good supplier (England, 1967) • Transaction cost economics (Williamson 1975) • Inter-organizational theory development (Van		• Industrial dynamics (Forrester 1961) • Material procurement as an element of the materials management concept —i.e. the internal supply chain (Leenders	• Business exchange networks (Cook and Emerson 1978)

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	de Ven 1975) • Types of relationships between hierarchy and market (Richardson 1972; Blois 1972; and Williamson 1975) • Characterization of buying situations determining buyer–seller relationships (Håkansson et al. 1977)	et al. 1962; Lee and Dobler 1965; Ammer 1968; Aljian 1973) • Application of MRP to plan and control the internal supply chain (Orlicky 1975)	
1980s	• Buyer-seller relationship development and institutionalization (Ford 1980) • Interaction model (Håkansson 1982)	• SCM term first used (Oliver and Webber 1982) • Impact of various aspects of channel environment	• Network as total pattern of relationships of organizations seeking common goals (Van de Ven and

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• Purchasing portfolio model—product category and purchasing strategy defining supplier relationship (Kraljic 1983) • Quality management in relationships (Deming 1986) • Strategic and organizational perspective on partnerships (Kanter 1983, 1989) • Control and coordination in different types of relationship (Child 1987) • Strategic	on focal firm action (Achrol et al. 1983) • The commercial chain (Hayes and Wheelwright 1984) • Use of inventory in the internal supply chain as a source of competitive advantage (Jones and Riley 1985) • Value chain and value chain system (Porter 1985) • Comparative advantage through planned geographical location of links in the value	Ferry 1980) • ARA model of industrial networks (Håkansson 1987) • Alternative channel structures for distribution are loosely structured networks of vertically aligned firms (Stock and Lambert 1987) • Networks as a third form: neither markets nor hierarchy (Thorelli 1986) • Strategic networks (Jarillo 1988)

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	collaboration (Contractor and Lorange 1988) • Adversarial relationships not conducive to good quality (Frazier et al. 1988) • Long-term relationships (Spekman 1988) • Cooperative buyer-supplier relationships support firms' strategic positioning (Landeros and Monczka 1989)	chain (Kogut 1985) • Logistics value chain (Bowersox et al. 1986) • Complementarity benefits of matching assets in the value chain (Teece 1986)	
1990s	• Partnership sourcing (Macbeth and Ferguson 1994)	• Demand management in supply chains (Towill 1991)	• Network positions and strategic action (Johanson

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• Four buyer-supplier relationship models (Lamming 1993)
• Relationship assessment (Lamming et al. 1996)
• Business dancing: relationships in business strategy (Wilkinson and Young 1994)
• Relational competence (Cox 1996)
• Concept of supply (Harland et al. 1999)
• Types of relationships and trust within them

• Pipeline management (Farmer and Ploos van Amstel 1991)
• Logistics and SCM (Christopher 1998)
• Implementing Japanese keiretsu approach to supply chain activities (Burt and Doyle 1994)
• Right supply chain for right product (Fisher 1997)
Process integration in supply chains (Lambert et al. 1998)

and Mattsson 1992)
• Network sourcing (Hines 1994; Nishiguchi 1994)
• Levels of SCM: firm, relationship, chain, and networks (Harland 1996)
• Lean supply (Womack et al. 1990; Lamming 1993)
• Managing supply networks as part of manufacturing strategy (Slack 1991)

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	(Sako 1992) • Lean supply (Womack et al. 1990; Lamming 1993) • Corporate social capital in relationships (Leenders and Gabbay 1999; Araujo and Easton 1999). • Relationship strategy (Cousins 1999)		
2000 plus	• Value transparency (Lamming et al. 2001) • Social capital in supply relationships (Harland and Knight 2001a;	• Impact of ‘e-’ on supply chain (Croom 2001) • Lean and function moving to agile and customized	• Taxonomy of supply networks (Harland et al. 2001) • Network roles (Harland and

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	Erridge and Greer 2002) • Managing cooperative supply chain change (Macbeth 2002) • Managing long-term relationships (Cousins 2002)	supply chains (Christopher and Towill 2001) • Competence and learning in supply chains (Spekman et al. 2002)	Knight 2001b) • Supply network strategies (Gadde and Håkansson 2001) • Knowledge-sharing network and high performance (Dyer and Nobeoka 2000) • Network competence and innovation success (Ritter and Gemünden 2003) • Risk in supply networks (Harland et al. 2003) • Network pictures (Ford and Redwood 2005)

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In the 1970s two bodies of theory emerged that laid some of the cornerstones of later models of buyer—seller relationships: Inter-organizational theory (e.g. Van de Ven 1976) and new institutional economics (e.g. Williamson 1975). Inter-organizational theory was concerned with the relationship between individual organizations and the environment and relationships between groups of organizations. The new institutionalists sought to explain the economic rationale of alternative forms of organization, i.e. their relative efficiency. Having grown out of dissatisfaction with the way in which traditional microeconomic theory viewed Inter-organizational relations, the main focus in institutionalist studies tended to be on transactions between companies, which given conditions of uncertain outcomes, infrequently recurring transactions, and high asset specificity (unique or transaction-specific investments), were supposed to be performed most efficiently within vertically integrated hierarchies (Williamson 1975, 1985).

In the 1980s the interaction model was developed by a group of researchers known as the Industrial (originally International) Marketing and Purchasing (IMP) research group. The IMP group began their explorations into buyer—seller relationships in the late 1970s, conducting in the first stage a large international empirical survey and in-depth case studies of buyer—seller relationships (Håkansson 1982; Turnbull and Cunningham 1981). The study fundamentally changed the way in which buyer—seller relations were understood. Rather than studying discrete one-off exchanges or transactions like the majority of previous studies, they focused on long-term relationship evolution and processes of institutionalization and adaptation (Ford 1980). Furthermore, they recognized the important role of social interactions that occurred in parallel with business interactions, and as implied by the name of the model, *interaction* rather than action and re-action was at the heart of their model. The central model resulting from the early IMP study will be examined in more depth in the following section.

The IMP Interaction Model

The interaction approach is based on continuous ‘exchange relationships’ occurring between a limited number of identifiable actors (Håkansson and Snehota 1990). The interaction approach provides a picture of Inter-organizational relationships and exchange processes within them.

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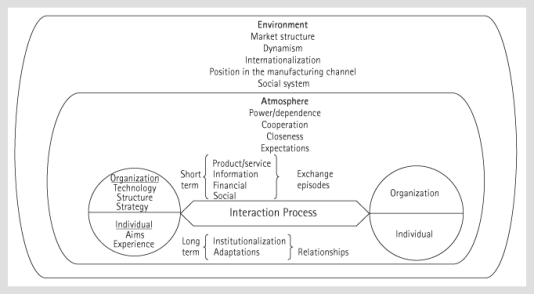

Fig. 3.1 An illustration of the interaction model

Source: Håkansson (1982).

The model distinguishes between short-term episodic exchange, such as the placing of an order, and long-term exchange within relationships that institutionalize and adapt (Håkansson 1982). Episodes can involve product or service, information, financial, and/or social exchange. Exchange takes place between two participants or actors. The model differentiates two levels of actors: organization and individual. Clearly, this is a major simplification when considering the number of intra-organizational authorities and stakeholders that characterize complexorganizations such as the English National Health Service. But the separation helps to understand how individuals and sometimes internal departments and functions may have their own aims and experiences, which may affect their behaviour and performance, and in turn pull the relationship in different directions. The importance of social bonds is thus emphasized as an important factor in this process of interaction amongst individuals.

The interaction model includes ‘the atmosphere’, which encapsulates the interaction process and is described in terms of the power-dependence relationship between the parties, the level of conflict and/or cooperation, overall closeness or distance, and mutual expectations (Håkansson 1982: 20). Furthermore, the economic dimension of the interaction is captured through the closeness of the relationship. For example, a close relationship has the potential to reduce transaction costs.

Finally, the interaction environment consists of market structure, dynamism, internationalization, position in the manufacturing channel (what we shall later describe as value or supply chain), and the social system. One of the important messages in this regard is that the environment is seen as ‘enacted’: individual actors are part of the environment and can influence, and in turn can be influenced by, the environment (Weick 1979). More

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recently, Ford and Håkansson (2002) have described this as an ‘interacted’ environment, highlighting the fact that the environment is not ‘something out there’ independent of suppliers, but something which affects and is affected by business actors.

Supply Relationships

At the beginning of this chapter we explained that early literature tends to refer to ‘buyer—seller’ relationships, and that more recently the label ‘customer—supplier’ relationships has gained popularity. This change in terminology appears to indicate a decreasing emphasis on the consumer marketing and consumer buying behaviour foundation of early research into buyer—seller relationships, which relied largely on transactional views of the process of buying and selling. In our view, however, the change in terminology indicates more than anything a shift in emphasis from relationships between individual persons responsible for buying and selling within organizations, to a focus on entire organizations as customers and suppliers.

Our preferred term to describe relationships between customers and suppliers in a business-to-business context (what would have been called in the old days ‘industrial’) is ‘supply relationships’. Using the term ‘supply relationships’, we achieve two aims: first, we avoid any confusion with consumer relationships and consumer marketing; second, we highlight the strategic significance of the process of ‘supply’ within customer—supplier relationships, which reflects an increasing recognition of purchasing and supply management (PSM—or simply purchasing and supply) within private and, more recently, public sector organizations.

The term ‘suppliers’ traditionally invokes suppliers of physical material or components. However, it is pertinent to think of ‘suppliers’ as not only those actors that provide tangible components or items, but also those that ‘supply’ services, knowledge, or competencies, such as logistics providers or even design consultancies. Indeed, even companies that used to be regarded as manufacturers now focus on providing full service solutions—what some observers have termed ‘servitization’ (Vandermerwe and Rada 1988). The emphasis in ‘supply’ appears to be rapidly shifting towards differentiation on the basis of complementary services that suppliers can provide throughout the product life-cycle, such as customer service and support.

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Changes in the way we understand the role of suppliers are contributing to drastic changes in relationships between customers and suppliers. Indeed, radical changes in purchasing and supply management practices during the last couple of decades have altered the way that organizations manage supply relationships. Originally inspired by Japanese practices, Western organizations have transformed their supply relationships, moving on from the old assumption that transactional short-term supply relationships are desirable given minimal dependency and consequently limited risk. Instead, the focus is now on managing 'key' supply relationships; emerging practices such as 'supplier relationship management' (SRM) and 'key supplier management' (KSM), as adopted for instance within the UK Ministry of Defence, clearly mirror this trend.

Thus, the trend towards closer long-term supply relationships shifts the focus away from transactions and one-off exchanges towards understanding thecontinuous pattern of transactions and exchanges, which over time leads to the formation of a relationship between customer and supplier, tied together not only economically but also technically and socially. Hence the focus moves away from thinking in terms of short-term episodic relationships towards long-term relationships that over time may result in a behaviour pattern that is taken for granted and hence institutionalized (Ford 1980). As part of the long-term development process, adaptations between the customer and supplier are prerequisites for the development and continued existence of a relationship, reflecting mutual commitment and willingness to invest in the relationship. Such adaptations may involve investments in technical, administrative, or logistical resources that may be highly specific to the counterpart and of little use in other relationships. Indeed, research has established that although adaptations are important features of relationships, these are not necessarily entirely positive investments, as they may reduce the freedom of actors in developing new relationships due to the sunk, or non-retrievable costs (Wilson 1995), within existing relationships, and the opportunity cost of adapting for one actor may be foregoing another good partnering opportunity (Han *et al.* 1993; Brennan and Turnbull 1999; Ford and Håkansson 2002).

The trend towards developing long-term supply relationships involving high levels of mutual adaptation and relationship investment seems to have reached its pinnacle in the concept of supply partnerships which became popularized in the early 1990s (Carlisle and Parker 1989; Macbeth and Ferguson 1994). Japanese supply relationships undoubtedly had a strong influence on the partnership trend, although the term 'partnership'

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has frequently been criticized for its misleading notion of cosy and non-competitive relationships (Lamming 1993). The major risk for suppliers of developing and engaging in partnerships is that the customer exploits its superior position of power through creating a position of high supplier dependency, although the opposite situation can be just as precarious for customers. Inspired by highly collaborative yet competitive Japanese automotive supply relationships, the practice of obtaining control over suppliers by ensuring high levels of supplier commitment and dependency has found its way to many Western companies. Indeed, it has been the cornerstone of success stories such as Benetton and Marks & Spencer (M&S), which rely on supply partnerships featuring long-term dedicated supplier relationships, highly adapted to the retailers' practices and highly dependent on the retailers as their sole customer.

However, the example of M&S and its long-term domestic suppliers illustrates the double-edged nature of highly dependent supply relationships: M&S had long enjoyed close long-term domestic supplier relationships with many of its domestic suppliers. A highly demanding customer, M&S often demanded that separate production lines be dedicated to M&S to integrate operations between the companies, thereby ensuring full supplier commitment (Harrison 2004). There were frequent interactions between M&S and suppliers at all levels, thus forming supply relationships that were so integrated that they might usefully be describedas 'quasi-firms' (Blois 1972; Lamming 1993). However, as M&S faced increasing international competition they decided in 1999 to reduce the supply base and shift parts of it overseas. For many of its domestic suppliers this was a serious blow as they had no experience of developing alternative customer relationships. So, one may also question (at least with hindsight) the decision for any company to enforce such high levels of supplier adaptation and dependence, as too much isolation from other customer relationships may hinder innovation. Indeed, some companies now specify that unless very specific 'framework agreements' are in place, suppliers must not be overdependent on their company as more and more companies recognize that such situations can lead to uncompetitive relationships. Even though at first glance supplier dependency appears to constitute a risk for suppliers rather than customers, it may in the long term have a negative impact on the innovative potential of both parties, and companies therefore need to approach such strategies with care. In fact, we would argue that if 'partnerships' are to play any part in today's highly competitive industries they need to incorporate mechanisms to encourage collaboration as well as competition. Such mechanisms should include structured performance evaluation schemes, which do not merely

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focus on the cost, quality, and delivery performance of the supplier, but which extend beyond such quantitative measures to include qualitative and joint supply relationship performance evaluation (see Lamming *et al.* 1996; Johnsen *et al.* 2008).

Although there is evidently a shift towards long-term collaborative supply relationships many companies realize that a partnership strategy can be fraught with danger and that deciding on the right mode of collaboration is not simply a matter of choosing along a simple short-term—long-term relationship dichotomy. We have emphasized in this chapter that supply relationships need to be understood in terms of multiple variables, so any attempt to describe relationships along simple dichotomies would be oversimplistic. Since the early 1980s many companies have therefore implemented relationship portfolio strategies which help them to avoid falling into the trap of 'overpartnering' with the wrong counterparts. Such portfolios describe multiple relationships along, typically, two dimensions, enabling differentiated relationship management strategies in terms of balancing relationship investment relative to relationship intensity or criticality. In purchasing and supply research the seminal portfolio model was developed by Kraljic (1983), who proposed that supply management decisions be taken according to, first, the level of supply market complexity and, second, the importance of the purchase. Recent adaptations of the model have translated these two dimensions into 'difficulty of managing the purchase situation' and 'strategic importance of the purchase' (Olsen and Ellram 1997) and more recently supply risk and value (e.g. Gelderman and van Weele 2005). Other portfolio models have focused on the nature of the relationship instead of the nature of the purchase, item, or supply 'market', for instance highlighting buyer—supplier dependence (and thus power) as a key dimension (e.g. Cousins 2002; Caniels and Gelderman 2005). Dubois and Pedersen (2002) criticizedportfolio models for being oversimplistic and for being unable to capture the role of complex interconnected relationships as one can highlight through network analysis. Whilst this is a valid criticism given the large number of variables required to fully understand supply relationships, our view is that portfolio analysis forms an essential element of supply relationship strategy and despite their limitations, companies apply relationship portfolio models very widely.

In this section we have discussed the nature of dyadic supply relationships and recent trends towards partnerships. However, when discussing dyadic relationships it becomes clear that it is difficult to focus purely on a dyad in isolation from interconnected customer and supplier relationships. It is,

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therefore, necessary to consider dyadic relationships as parts of a wider system of relationships. In the next two sections we therefore consider, first, the meaning and significance of chains of relationships (here after supply chains), and second, networks of relationships.

Inter-organizational Chains and Supply Chain Management

Definitions and Perspectives

The expression *supply chains*—and, consequently, supply chain *management* (SCM)—appears to have been invented in the early 1980s, principally as a simplistic method of describing the much more complex concept of a business network. It further appears to have been started as a means of selling management consultancy and early commentators do not offer much of a theoretical base. Oliver and Webber (1982) describes the supply concept as an extension of Forrester's *industrial dynamics* (later, *system dynamics*) (Forrester 1961), with concepts such as the well-known amplification of signal distortion (or, *bull-whip effect*) and inventory control to the fore. Supply chain management, it would seem, was born a logistics concept; it was not until much later that the notion of Inter-organizational relationships began to emerge as a principal part of the new discussion. Defined as ‘the management of upstream and downstream relationships with suppliers and customers to deliver superior customer value at less cost to the supply chain as a whole’ (Christopher 1998), SCM is based on the principle that supply relationships are but a part of a long chain of suppliers to end-customers; total supply chain visibility supposedly reveals potential for cost reduction and value creation across several supplier ‘tiers’.

Despite its weak provenance, ‘supply chain’ has been welcomed into business parlance worldwide. Perhaps this is driven by the intrigue embodied in the term ‘chain’, with which human language has a long infatuation as a favourite metaphor(e.g. food chain, chain of command, chain reaction, etc.; an association that appears to exist in several languages). SCM does appear to have met success as an aid to selling management consultancy services and recently has attracted theoretical discussion, albeit lacking consensus on its etymology.

A review of publications on ‘supply chain management’ (SCM), ‘supply networks’, and ‘supply relationships’ reveals that the field of purchasing and supply management (PSM) is core to the debate, that operations management (OM), logistics, and industrial marketing may contribute, and

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that industrial economics, strategic management, technological innovation, and general management are of relevance. These topics are seen to converge within the themes of SCM, Inter-organizational relationships, and inter-organization networks.

Reviewing thirty-five years of the American *Journal of Supply Chain Management*, the observations of Carter and Ellram (2003) typify much other work (e.g. Skjoett-Larsen 1999; Kauffman 2002; Larson and Halldorsson 2002). They found definitions, terminologies, and subject boundaries had mutated over the period, confusing definitions and subject boundaries. The terms, ‘supply management’, ‘supply chain management’, ‘purchasing and supply’, ‘logistics’, and simply ‘supply’ are used to refer to largely similar domains, problems, and processes. Authors appear to agree that increased organizational redefinition and associated outsourcing have focused research attention on Inter-organizational chains and networks (Möller and Halinen 1999) increasing the need for integration of activities across organization boundaries (Håkansson and Persson 2004).

The chapters of New and Westbrook's (2005) edited book *Understanding Supply Chains* reveal a more developed perspective, including a deeper look at relationships and networks. Meanwhile, the consultancy sector that grew from the expression is immensely strong and still expanding, perhaps buoyed up by the developments in global trade.

In addition to the logistics origins described above, the development of both the attractiveness and success of the supply chain concept may have been enhanced by the greater popularity of Porter's ‘value chain’ concept (Porter 1985).[1] This was perhaps echoed in the emergence from business networks of the idea of ‘value constellations’ (Normann and Ramirez 1994; Kippenberger 1997).

Running through the supply chain management concept, its literature, practice, and consultancy offerings, is the theme of managerial control, enabled by a supposed ability to develop visibility or transparency along the entire process of supply, from source to destination (for example, in the food industry, this is known as ‘farm to fork’; elsewhere, the expression ‘glass pipeline’ is common parlance). The principal theories that may be employed to understand practices encourage this theme. Transaction cost economics (TCE; see Hennart, this volume), for example, suggests the need to ‘manage’ such factors as opportunism, the ‘impactedness’ of information between the firms, and the search for understanding asset specificities. Moving only a short distance from the classic view that relationships between

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firmsmay be seen simply as failures in the market mechanism, TCE leaves the relationship theorist with little room to invent. Perhaps as a result of this lack of alternative conceptual bases, supply chain management appears to have developed in a classic style—top—down control, imposed but poorly considered demands accompanied by inevitable obfuscatory behaviour by the ‘managed’, and an inefficiency in the Inter-organizational value-adding process caused by the need for suppliers of goods and services to apply a ‘risk premium’ in their prices to fund their sales activities.

Our research into this phenomenon has developed ways of understanding the practical implications of these underpinnings, especially focusing on the mind-set of purchasers in organizations looking ‘upstream’ to their suppliers of goods and services. An early realization was the presence of a set of assumptions upon which many management practices appear to be based. Central to these assumptions, and providing a neat summary for them, is the expression made popular by the twentieth-century retailer, Gordon Selfridge: ‘the customer is always right’. Invented as a sales trick to weaken the bargaining position of customers (who were, typically, buying fashionable clothes), this aphorism has such force that purchasing managers and strategists appear to have been suckered into believing they are infallible. The result of this massive confidence trick is an array of supply chain management practices that place the supplier ‘in the wrong’ in any dispute or case of poor performance (logically, since the customer is always right!).

The organizational ramification of this assumption is a stance, proclaimed by the behaviours that flow from it, of superior vision or understanding of the dynamics of the supply chain on the part of the customer. From this position, the customer feels it appropriate to ‘call the shots’, arrogating from the supplier decisions on operations, marketing, and even strategy. We have given this position the name ‘the vantage-point syndrome’.[2] The relationships in the supply chain are thus subjugated to the superordinate goal that is the customer's strategic thrust. It is important to note that the ‘customer’ referred to here may not be the end-user; indeed, in the case of consumer goods, the power of the end-user to call the shots may be very low. In the case of a high-street supermarket, for example, it is the powerful retail buyer who makes otherwise powerful manufacturers (such as multinationals producing homecare products) dance to its tune. In an automotive supply chain, it is the assembler of the vehicle that plays this role. Rarely can it be said that the consumer controls the supply chain.

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Another practice in supply chain management, serving further to illustrate the degradation to which Inter-organizational relationships are subjected, is the concept of strategic interference by customers in the affairs of suppliers, in the interests of efficiency or other improvements (e.g. price reductions) on the basis that the customer is ‘always right’ and thus entitled to arrogate responsibilities from its vantage point. During the last quarter of the twentieth century, the practice of performance measurement and management in supply chains developed into a practice known as ‘supplier management’ (and, within it, ‘supplier development’). Taking its cuefrom the well-established practice of successful firms in one part of the world taking their ‘best practices’ to others (for example, the migration of mass production from the USA to Europe in the early part of the twentieth century), supplier management began simply as measurement of performance (with all blame for shortcomings placed upon the supplier, since the customer was always right) but soon grew to include strategic interference.

There are two traditional ways in which supplier management is attempted and in our research we have identified them as ‘cascade’ and ‘intervention’ (Lamming 1996). In cascade supplier management, the customer develops artefacts that indicate its requirements of suppliers, in terms of protocols, preferences, and policies, and provides them to suppliers with instructions for them to comply. Furthermore, since the supply chain management principle includes the notion that it is the chain, rather than simply the relationship, that may be managed, the supplier is expected to pass on the customer's requirements to its suppliers, and so on. The flaw in this arrogance is apparently ignored or not understood. In our view it is impossible for the supplier to accept ‘management’ from its customer, since it must manage itself to ensure that it can convince its investors that it controls its own destiny (exogenous shocks notwithstanding). Given high levels of supplier dependency as discussed earlier, the response to the customer must confirm that the supplier accepts its subservient role, while ensuring that the effects of such interference are mitigated by tactical behaviour. Cascade strategies are implemented via a set of activities that include performance assessment, prize-givings (for ‘best’ suppliers), and glossy policy statements (often developed by management consultants) that make it clear to suppliers the ways in which they must shape up.

While cascade refers to a practice of simply notifying the suppliers of the manner of the interference that is intended, some customers, seeking to manage their supply chains, follow a more invasive approach and

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require suppliers to accept not just advice but detailed instruction. This is implemented by the customer intervening in the supplier's operations to tell it how to conduct its business: hence the title ‘intervention strategy’ (see also Johnsen and Ford 2005). While it is welcomed by the supplier in many cases as a genuine opportunity to learn from a better equipped organization, the principle behind the intervention strategy is still one of top-down control rather than collaboration. The notion that the supplier could again extend the realm of influence of the customer by intervening in its own suppliers' operations in this way is barely credible but in practice does appear. (Note that the supplier's suppliers will probably include much larger organizations, such as raw material suppliers.)

The notions of cascade and intervention strategies are illustrated in Figure 3.2, using the concept of a ‘supply base’ to represent the top-down control thinking behind the two approaches.

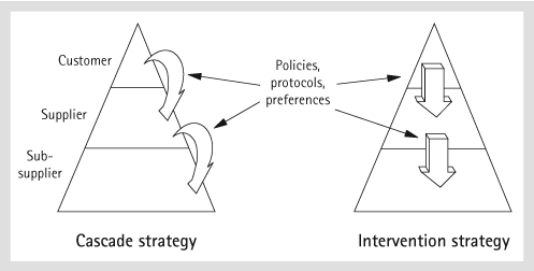

Fig. 3.2 Supplier development: cascade and intervention

Thus it can be seen that the supply chain management concept, while apparently embracing the potential of developed Inter-organizational relationships, in factappears to waste the opportunities contained therein as a result of classic control fixation and a set of bizarre but well-established management practices that stem from it. At the relationship level, and perhaps in the network (where there is less assumption of the ability to ‘manage’), real potential has been developed in many sectors. Supply chain management, meanwhile, remains an anomaly outside its logistics origins, and is perhaps a passing phase, at least in its current manifestation. The simplistic nature of supply chain management is therefore what leads us to the concept of Inter-organizational networks as a more complex way to understand the Inter-organizational reality in which relationships are embedded.

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Relationships in Networks: Different Types and Perspectives on Inter-organizational Networks

The large body of research on Inter-organizational relationships clearly advanced our level of understanding of what happens within relationships at the dyadic level. Supply chain management improved understanding of how dyadic relationships are but parts of a chain of relationships and therefore dependent on not only direct but also indirect—or subtier—relationships. As discussed in the previous section, however, there are a number of inherent assumptions of supply chain management that render supply chain analysis inadequate.

It was not until relationships became understood as parts of complex networks of relationships that a more complete understanding of relationships emerged.From a network perspective relationships are viewed as parts of a larger whole—a network of interdependent relationships (Håkansson and Snehota 1995). These relationships are ‘connected’ since what happens in one relationship affects positively or negatively the interaction in others (Cook and Emerson 1978; Blankenburg and Johanson 1990). This implies that what happens in a relationship between two companies depends upon a number of other direct or indirect relationships within which the two parties are involved.

The problem with the network perspective is that the concept of ‘network’ itself has become overused and often tends to be ill defined. The following section thus seeks to define in more specific terms the precise meaning of ‘network’ (see also, Lazerson and Lorenzoni, this volume; Klijn, this volume).

Defining Networks

One of the early definitions of networks was provided by Mitchell (1969) who referred to a network as a specific type of relation linking a defined set of persons, objects, or events. The set of persons, objects, or events of which the network is comprised can be called ‘actors’ or ‘nodes’. Cook and Emerson (1978) defined *exchange networks* as: ‘a set of two or more connected exchange relations’ (725). They later specified that in a business context networks are sets of connected exchange relationships between actors controlling business activities (1984). *Connected* refers to the extent to which ‘exchange in one relation is contingent upon exchange (or non-exchange) in the other relation’ (Cook and Emerson 1978: 725). Thus, Mitchell (1969) and Cook and Emerson (1978, 1984) used ‘sets’ to indicate

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that networks consist of a number of actors or nodes, albeit no minimum (or maximum) number was specified.

Easton (1992) drew upon Mintzberg's five alternative metaphors for understanding strategy (1992) to suggest four metaphors for *industrial networks*:—networks as relationships, structures, processes, and positions. Consequently, Easton defined a network as ‘a model or metaphor which describes a number, usually a large number, of entities which are connected’. The use of the word ‘metaphor’ in Easton's definition echoes our view of analytical lenses and hints at one problem with networks, namely that ‘network’ often means different things to different people, and thus perhaps constitutes a fifth metaphor or a ‘meta-metaphor’: network as perspective. Certainly, the way networks are defined and perceived will not only affect the way we think networks function, but also the way we focus our interests and delimit our problems (ibid.).

Derived from an institutional economics conception of organizational forms (free markets, vertical integration, or bilateral governance) (Williamson 1975), Thorelli (1986) contended that networks are neither markets nor hierarchies but an intermediate form. Nevertheless, researchers often conceive of a continuum ofnetworks. At one end is the ‘networks as markets’ approach, where the concept is generally used to provide a better understanding of how companies and markets are interwoven through complex relationships. At the other end is the ‘networks as organizations’ approach.

A well-established model of networks has been provided by the Industrial Marketing and Purchasing (IMP) Group. Representing a ‘networks as markets’ approach (Easton and Håkansson 1996), the core IMP network model suggests that the core elements of any network are actors, activities, and resources (ARA) (Håkansson and Snehota 1995). Actors are defined by the activities they perform and the resources they control; they are connected to other actors via resources and activities. Each actor's unique combination of resources and activities constitutes its identity. A relationship is developed as two companies build up activity links, resource ties, and actor bonds. The IMP group use the ARA model widely to make sense of business markets, focusing on the implications of resource ties, activity links, and actor bonds. Through interlinkages amongst the three network components, IMP researchers have analysed the wide implications of change in one relationship on other relationships elsewhere in the network. Given the ‘networks as markets’ focus, the IMP group generally position their

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managerial implications on managing *in* networks rather than managing *of* networks.

Nevertheless, in recent years the concept of ‘network’ has often been used rather loosely. As Nohria pointed out, the frequent ‘indiscriminate proliferation of the network concept threatens to relegate it to the status of an evocative concept, applied so loosely, that it ceases to mean anything’ (1992: 3). Part of the problem is that as a concept ‘network’ has been used by and has attracted scholars from many different fields and disciplines, each observing different types of network, determined by the disciplinary lens through which they observe the overall inter-organization network.

Types of Network

To date, little research has been conducted which provides a truly comprehensive classification of different types of network (see Harland *et al.* 2001). Some classifications relate to specific issues or research questions examining themes relating to networks; for example, Campbell and Wilson (1996) investigated value creation in networks, Ring and Van de Ven (1992) focused on governance structure, and Snow and Miles (1992) on aspects of relationships. A list of these and other classifications is provided in Table 3.2, summarizing the main theme of each classification and the variables used.

Easton (1992) identified three broad definitional groups: one set of definitions describes a network as the total pattern of relationships within a group of organizations acting in order to achieve common goals (Van de Ven and Ferry 1980).

Table 3.2 Classifications of networks

Theme of classification of networks	**Classifying variables**
Type of governance: risk and reliance on trust (Ring and Van de Ven 1992)	Markets
	Hierarchy
	Recurrent contract
	Relational contract
Formal or informal cooperation (Rosenfeld 1996)	Hard networks
	Soft networks

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Network orientation (Hinterhuber and Levin 1994)	Internal networks
	Vertical networks
	Horizontal networks
	Diagonal networks
Importance of structural autonomy and emphasis on joint creation (Campbell and Wilson 1996)	Social networks
	Value-creating networks
	Market-based transactions
	Vertical integration
Degree of ownership and degree of outsourcing (Snow and Miles 1992)	Internal networks
	Stable networks
	Dynamic networks
Degree of ownership integration and coordination integration (Robertson and Langlois 1995)	Marshallian districts
	Japanese *kaisha* networks
	Venture capital networks
	'Third Italian' districts
	Chandlerian firms
	Holding companies
Network actors and task orientation (Hallen 1992)	Business networks
	Infrastructure networks
Type of relationships and environmental fluctuations (Cravens *et al*. 1996)	Flexible networks
	Virtual networks
	Hollow networks
	Value-added networks
Types of supply network (Harland *et al*. 2001)	Network activities reflecting product type

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	Routine and customized or unique products
	High and low complexity products

Source: Derived from Lamming *et al*. (2000).

The second set of definitions focuses on the bonds or social relationships that link loosely connected organizations (Aldrich 1979; Lundgren 1995). The third set of definitions focuses on the exchange dimension in two or more connected relationships, where exchange in one relationship is contingent upon exchange in another (Anderson *et al.* 1994). The components of exchange within the relationship can include the product or service, information, and financial and social elements.These three groups of definitions each reflect different levels of analysis. Hence, the assumption of Van de Ven and Ferry's definition (1980) seems to be that a network consists of a group of organizations that are all driving towards the same goal. This is therefore, in many ways, akin to the concepts of ‘group’ or ‘coalition’ (Pisano *et al.* 1988). The concepts of *strategic networks* (Jarillo 1988), *networks of innovators* (DeBresson and Amesse 1991; Freeman 1991) or *innovation networks* (Oliver and Blakeborough 1998), and *learning networks* (Bessant and Tsekouras 2000) all fall within this definition. The second definition (Aldrich 1979; Lundgren 1995) specifically addresses the issue of network boundary by stating that the organizations involved are ‘loosely connected’, which implies that, by definition, it is problematic to conceive of a fixed boundary surrounding a network (Cova *et al.* 1998). Networks include both strong and weak ties (Granovetter 1973; Uzzi 1997). This has important implications for the use of the concept, including the type of analysis one can conduct. Finally, Anderson *et al.*' s definition (1994) focuses particularly on the ‘connectedness’ aspect, thus not addressing the issue of network boundary, but shifting the focus towards interconnectedness between what are effectively dyadic relationships. Thus, in their definition, a network is not something ‘out there’, but a particular perspective. An overall feature of the various definitions, however, is that networks entail interconnectedness and interdependency.

Supply Networks

Our contribution to network research revolves around *supply networks*. Developed in response to the conceptual limitations of supply chain management and to provide a wider and more strategic view of supply (e.g. Harland 1996; Johnsen *et al.* 2000), supply networks refer to the set of

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supply chains involved in the production and supply of a particular product or product family. Supply networks also incorporate links between, or across, individual supply chains. In comparison with supply chains, the term ‘supply network’ is used to focus on the implications of interconnections of individual relationships and chains and to provide a more holistic picture of the system and process of supply (Harland 1996). Although based more firmly on an IMP perspective, Gadde and Håkansson (2001) appear to be embracing the term supply networks in a similar vein.

Companies may think practically of supply networks as sets of individual connected supply chains. In other words, where supply chains are defined as tied to specific product/service offerings, supply networks relate to larger product families or even entire organizational supply networks. Analysis at this complex level allows companies to gain visibility over, and thus consolidate, common purchases across individual supply chains. Furthermore, supply network analysis may be used to reveal access to knowledge and technologies of indirect suppliers. Another complication revealed by this form of network analysis is that critical purchasing andsupply decisions, such as supplier selection, can be outside a company's own control as the specification of key suppliers may be cascaded from powerful end-customers. As described by Johnsen and Ford (2005) this becomes a matter of being at the receiving end of customer supply network intervention; such analysis reveals that being part of complex supply networks implies not only that a company can access and capitalize on network-wide resources, but also that companies are constrained in their actions by the strategies and actions of other network actors.

Discussions and Conclusions

Inter-organizational relationships are the building blocks of Inter-organizational chains and networks. As a system level, relationships were explored—conceptually and empirically—earlier than chains and networks. Relationships represent smaller and easier units of analysis for research as they only require access to a dyad. Empirical research in chains and networks in our experience is significantly more difficult in terms of gaining access to connected systems of organizations; there is therefore very limited empirically based knowledge at these systems levels. Many studies claiming to be on networks or chains are, in fact, in unconnected dyadic relationships taken as a proxy for a connected whole. Building on the work by Möller and Halinen (1999), Möller, Rajala, and Svahn (2002), and Harland (1996)Table 3.3 provides an overview of different levels of network research.

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The implication of Table 3.3 is that research on networks can legitimately be conducted at different levels and for different purposes. There are inevitable advantages and disadvantages of different levels of analysis.

Macro-analysis at level one is likely to result in a holistic and comprehensive understanding of the interconnectedness of network actors and actions, behaviour, and developments that may impact on the future actions of several network actors. However, the management perspective of any one focal firm is easily lost in the complexity. Conversely, analysis at 'micro'-network level may help to generate a more actor-specific managerial perspective, but at the expense of the more complete understanding of wider network changes. A micro-view of networks is indicative of a 'networks as organizations' perspective (e.g. Jarillo 1988; Dyer and Nobeoka 2000), compared with the 'networks as markets' view, which characterizes for example the IMP research.

Analysis at level two is often applied in supply chain management research. The operations, logistics, and supply management fields have dominated the supply chain literature, although the concept of Inter-organizational chains is also evident in the concept of value chains as used in strategic management. This

Table 3.3 Three levels of analysis in network research

Level of analysis	**Key themes**
Level 1: Inter-organizational networks	*Web of interconnected business relationships*
	Understanding network structures, processes and evolution
	Influencing and coping with actions of interconnected actors
	Mobilizing and coordinating key actors
	Managing network positions
	Groups or coalitions of firm with common purpose, defined according to particular purpose of analysis
Level 2: Inter-organizational chains	*Connected string of organizations*

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	Synchronization of activities and information within a chain
	Information transparency across supply chain
	Value creation within value chain system
Level 3: Inter-organizational relationships	*One-to-one business relationships (dyads)*
	Relationship assessment and management
	Developing trust, commitment, and mutuality: partnerships
	Understanding power-dependence balance
	Understanding past, present, and future direction of relationships

body of literature is often concerned with operational problems of how to achieve integration of business processes across the chain of relationships, but as discussed the concept of supply chain management is based on rather arrogant assumptions of the end-customer position and its power over direct and indirect suppliers.

Analysis at level three concerns dyadic relationships as the fundamental building block of chains and networks. Often analysed in relative isolation from other relationships, much recent research has contributed a comprehensive understanding of a range of relationships variables; these variables should help to avoid the somewhat naïve use of the partnership metaphor, which has found its way into common managerial parlance.

The IMP Group's contribution has been largely to provide a common language and conceptual models of relationships, extended to connected relationships, and hence networks. But networks have been studied by many different disciplines, using different disciplinary lenses, and therefore observing different types of network. Whilst we have discussed a number of classifications of networks in this chapter, research has yet to produce a comprehensive classification that is generally accepted.

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The question of *managing* in networks has sparked much debate, but is in our view a consequence of poor use of network definitions. The IMP researchers generally hold that it is not feasible to manage networks, yet the literature on network management appears to be as strong as ever. Indeed, a large proportion of recent research, especially in strategic management, seems to treat this as a non-issue (e.g. Dyer and Nobeoka 2000), simply assuming that networks exist to be managed. In our view this division is caused by the different ways of using the concept of networks, as discussed in this chapter. To those researchers who use the network concept as a means to construct a better understanding of the organizational context (the markets-as-networks perspective), it makes little sense to talk about network management. Rather, management becomes a question of interacting with a multitude of direct and indirect network actors and coping with their actions. In contrast, to those who use the network concept to refer to a wide coalition of companies, or an extended enterprise (the networks-as-organizations perspective), the question of network management is only natural; visualizations of networks as hierarchies (as clearly evident also in supply chain management) and the use of language such as network design and control is hardly surprising. Nevertheless, the use of the concept of networks remains very wide and as network definitions frequently do not reach beyond the general 'web of actors' level, making sense of managing *in* or managing *of* networks persists.

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Notes:

(1.) Porter credits the business system concept, developed by the consulting firm McKinsey and Co., as the origin of his value chain idea. See also Lamming (1993: 91) for a discussion on the supply chain as a value chain.

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(2.) See Lamming (1996). Note that the semantics are intentional: ‘vantage point’ has military connotations, in keeping with other management expressions; ‘syndrome’—a set of pathological signs.

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Steve Cropper, Chris Huxham, Mark Ebers, and Peter Smith Ring

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Alliances and Joint Ventures

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Abstract and Keywords

This article defines collaborations between firms that involve the creation of a separate, autonomous, and legally recognized firm — a 'newco' — as a joint venture. Joint ventures usually, but not always, involve parties who have contributed equity in creating the 'newco', so the term joint venture in this article refers to equity joint ventures. Joint ventures typically involve collaborations between two parties, but there can be more. This article defines an alliance as a cooperative agreement between at least two firms. These firms combine their resources and capabilities in the pursuit of collective and individual strategic objectives. This article begins with a discussion of the frequency with which firms rely on joint ventures and alliances and the motivations that lead economic actors to develop joint ventures and/or alliances. It provides a detailed discussion of the theory underlying partner selection in joint ventures and alliances.

newco, joint venture, equity, alliance, economic actors

Introduction

Addressing strategic alliances and joint ventures within the constraints imposed by the editors of the Handbook is a challenge. There simply is an enormous amount of work on these topics, as is demonstrated in Chapter 1 above.

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Much of the very early work on collaborations between business firms focused on equity joint ventures (see Pate 1969; Franko 1971; Peterson and Shimada 1977, 1978; Berg and Friedman 1978; Berg *et al.* 1982; Harrigan 1985, 1986; Killing 1982, 1983). This emphasis apparently reflected the empirical evidence that managersdid not like to relinquish control to others (Geringer and Hébert 1989), and that states, governments, or bureaucracies exerted significant influence over the market entry mode decisions of multinational enterprises (Beamish 1985). It also reflected the fact that the competitive landscape tended to be local (domestic) in nature and this meant that anti-trust considerations played a major inhibiting role in considerations of cooperation among competitors (Mead 1967). Given the motivations that led to interfirm collaboration, these dyadic relationships tended to be among firms that were equal in size and/or market position (assuming that their collective market power did not give rise to anti-trust issues).

Although the earliest approaches to the study of interfirm business collaborations focused on dyadic relationships involving equity joint ventures, over time, as the competitive landscape has changed, interfirm relationships have shifted from equity joint ventures to non-equity dyadic relationships to multilateral relationships. We now find alliances made up of centre firms managing multiple joint ventures with limited time horizons (e.g. Corning; see Nanda and Bartlett 1990), centre firms creating their value systems by relying on alliances (e.g. Pixtech; see Doz *et al.* 1997), centre firms that focus their core competencies on design and use large multilateral alliances for manufacturing, service provision, and/or distribution (e.g. Benneton, Piaggio, Ikea; see Lorenzoni and Baden-Fuller 1995). We also see the continued development of consortia such as Sematech, MCC, JESSI, Eureka, Esprit, Cal(IT)2, EUVLLC (see e.g. Hausler *et al.* 1994; Ring *et al.* 2005). Consequently, today we find alliances that are comprised of a much larger and more diverse number of partners. These alliances reflect a great deal more asymmetry among the partners that make them up in terms of size, capabilities, age, nationality, and so on.

In this chapter we define collaborations between firms that involve the creation of a separate, autonomous, and legally recognized firm—a ‘newco’—as a joint venture. Thus, CFMI is the joint venture created by the collaboration between General Electric and Snecma (see e.g. Doz 1990, 1996). Fuji-Xerox initially was a joint venture between Fuji Film and Rank-Xerox (itself a joint venture of Rank and Xerox) (see McQuade and Gomes-Casseres 1992).

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‘Newco’ is a lawyer's term for a new legal entity. Joint ventures usually, but not always, involve parties who have contributed equity in creating the ‘newco’, so when we use the term joint venture in this chapter we will be referring to equity joint ventures (for an early discussion of the logic of equity joint ventures see Beamish and Banks 1987). Joint ventures typically involve collaborations between two parties, but there can be more. The amount of equity frequently is evenly divided (especially when only two firms are involved); although there is no legal or economic requirement that this be the case.

Increasingly, firms are relying on alliances with a single partner where no equity is involved, i.e., a ‘newco’ is not created. Many of our colleagues describesuch cases as non-equity joint ventures. We believe it is useful to think of a relationship between two collaborating firms that do not create a newco as a dyadic alliance. Alliances may involve collaborations between firms that have been (and will continue to be) competitors (Hamel *et al.* 1989; Sinha and Cusumano 1991; Garrette and Dussauge 1995; Mitchell *et al.* 2002; Luo *et al.* 2007), as individual firms or in groups (see e.g. Gomes-Casseres 1994; Jones *et al.* 1998; Das and Teng 2002).

In this chapter we will define an alliance as a cooperative agreement between at least two firms. These firms combine their resources and capabilities in the pursuit of collective and individual strategic objectives. But the individual firms that make up the alliance remain autonomous throughout the course of the alliance and this distinguishes alliances from other approaches to implementing strategy at the corporate level such as mergers or acquisitions. For clarity, we adopt the definition of an alliance used by Gulati (1998), a voluntary resource exchange arrangement between firms engaged in the co-development or provision of services, products, or technologies.

In dealing with the challenge of synthesizing the enormous body of research on alliances and joint ventures we have focused on a topic that has not been the subject of a recent, reasonably comprehensive review: partner selection. In the course of implementing collaborative efforts such as alliances or joint ventures, an initial step is deciding with whom to collaborate (Kanter 1994). Who partners are in IORs, or ought to be, appear to be among the most critical factors in explaining their success. We begin the chapter with a discussion of the frequency with which firms rely on joint ventures and alliances and the motivations that lead economic actors to develop joint ventures and/or alliances. There follows a more detailed discussion of theory

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underlying partner selection in joint ventures and alliances and the empirical results produced by those studying these aspects of joint ventures and alliances We conclude with a discussion of our views on where research dealing with joint ventures and alliances might be directed in the future.

Why Collaborate? Frequency and Motivations

In this section of the chapter we will briefly explore what the literature reveals about two aspects of alliances and joint ventures. We will first explore some of the research that describes the frequency with which alliances are taking place. Second, we will explore what research says about the motivations that drive business executives to rely on alliances and joint ventures.

The Frequency of Alliances and Joint Ventures

Aside from the evidence that we referred to in the introduction to this chapter, what does the research provide in the way of support for our premise that IORs in the form of alliances and joint ventures among and between business firms (and, at times, other organizations) are here to stay? We know that there are many more alliances today but answering the question ‘just how many alliances are there today?’ proves to be no easier for us than for our colleagues who have written about alliances in the past (see e.g. Fusfeld and Haklish 1982; Hergert and Morris 1987).

Early data on alliances is described by Gerlach (1992) in his study of their use in Japan. He reported that the number of alliances used in his sample of firms rose from approximately 177 in 1984 to over 2,850 in 1993. These alliances were most pronounced in the computer sector, but were observed in telecoms, media, electronics, and robotics among other sectors of the economy. His study also revealed that they were used extensively in all major parts of the value chain: R&D, manufacturing, marketing, and services and management. Similar results were produced in early MERIT-CATI studies of alliances (see e.g. Hagerdoorn 1993). In a study of over 4,000 technology alliances he found firms relying on them in a wide variety of sectors of the economy, and for a very diverse set of reasons.

Harbison and Pekar (1999) reported that their research on alliances indicated that between 1995 and 1998 32,000 alliances were formed worldwide, 75 per cent of them involving cross-border deals. The *Economist* (1998)

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reported a figure from David Ernst at McKinsey that 18 per cent of revenues of major US firms came from alliances.

But some of our colleagues have suggested that while there are many more alliances these days than in the past, they do not sustain therm-selves over the long run. Harrigan (1988), Kogut (1988), Parkhe (1993*b*) and Sivadas and Dwyer (2000) all report dissolution rates approaching or exceeding 50 per cent.

We also have some data on the frequency with which specific types of alliances are relied upon. For example, Hagedoorn and Narula (1995) found that joint ventures are used much more in mature industries, while contractual alliances appear to be relied upon more often in so-called high tech industries. However, their results varied significantly depending upon the kind of technology being investigated. Nationality also mattered. The more sophisticated the home country was technologically speaking, the more firms were willing to partner. In related research, Singh (1997) reported that high complexity in the technology that firms are working with is positively associated with higher degrees of risk of survival (Das and Teng 1999). Singh found that alliances 'only partially moderated such risk'. He concluded that alliances seem most appropriate in areas where cooperation involved collaboratorsdealing with moderately high levels of technological complexity. Reuer and Koza (2000) found in a study of joint ventures that the market responds more favourably when information asymmetries exist between the firms. Their findings paralleled earlier results by Balakrishnan and Koza (1995) and by Koh and Venkatraman (1991).

Das, Sen, and Sengupta (1998) also looked at the impact that alliances appear to have on how stock markets react to their formation. In a study of 119 alliances they found that announcements of technical alliances had a more positive impact on stock prices than announcements of marketing alliances. Their results negatively correlated with firm size and profitability, which they interpreted to mean that investors think big firms capture less of the value of an alliance than do smaller firms.

When alliances involve firms in the same industry, they may be the means by which one firm begins implementing a strategy to outsource value-creating activities that it had previously conducted itself (Dyer 1996*a*). As firms become less vertically integrated, we find an increase in the number of long-term 'buyer—supplier' relationships—another form of dyadic alliance. The auto industry is replete with such alliances (Bensaou and Venkatraman 1995; Inkpen 2005). Laura Ashley initially sought to solve its logistic

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problems by outsourcing them to Fed Ex (Anthony and Loveman 1996). Outsourcing also brings with it a separate set of problems that can threaten the legitimacy of the firm or of the alliance (Olk and Ring 1997; Dacin *et al.* 2007). Outsourcing was a major political issue in recent US elections, and Nike and Wal-Mart are two firms that have suffered the condemnation of some stakeholder groups because partners to whom they outsourced specific functions acted in ways perceived by some as unethical if not illegal.

We have already observed that firms are also likely to have a number of such alliances, and with more than one firm. Corning is a widely recognized example of a firm that relies heavily on multiple dyadic relationships in pursuit of its strategic objectives (Nanda and Bartlett 1990). Makino and Beamish (1999) found that approximately 55 per cent of over 700 joint ventures that they studied had more than two partners. In addition to being described as multiparty joint ventures, these multilateral alliances have been given a number of other names by research colleagues: webs, constellations, federations, clans, or clubs. Other scholars have referred to multilateral alliances as networks, but we will reserve the use of the term network for alliances in which a number of firms are involved and the number and type of ties they have with each other have been empirically established. The firms in such a network may have both weak and strong ties (see e.g. Granovetter 1973; Krackhardt 1992; McEvily and Zaheer 1999; Uzzi 1999; Rindfliesch and Moorman 2003). The various ways in which the firms that make up alliances can be related to each other are illustrated in Figure 4.1.

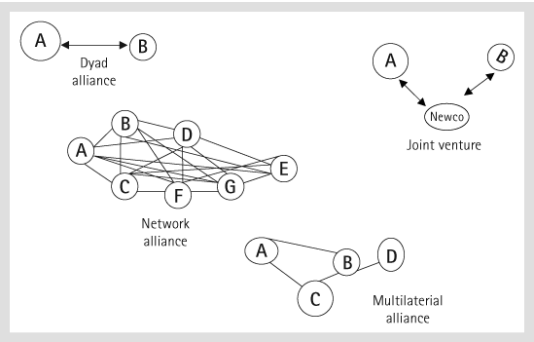

Fig. 4.1 Illustrations of alliance forms

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Motivations behind Alliances and Joint Ventures

There are many reasons why firms are relying on alliances and joint ventures. Anecdotal evidence is offered in the highly respected business periodical the *Economist.* Its reporters argued that while 'takeovers are certainly altering the corporate landscape … alliances may be altering it even more' (1999: 81–2). They observed that entry in non-domestic markets remained the primary reason why firms relied on strategic alliances. Their assessment of alliance practices revealed that they were a global phenomenon, although they concluded (at that time) that Europe led the way—and always had: they were the primary means by which firms could cross borders.

Doz and Hamel (1998) describe three generic motivations underlying many of the alliances that they studied: co-specialization, co-option and co-learning. In some instances, firms only pursued one of these three, but in many cases a search for the benefits derived from all three drove the alliance. In a world of increasingly global markets, alliances and joint ventures also can be used in the early stages of market liberalization as a means of gaining entry into new markets (Gillespie and Teegen 1995). They may also be required, or imposed, by host country governments (Contractor and Lorange 1988; Gray 1989; Yan and Gray 1994). As these kinds of economies continue to develop, joint ventures that have been mandated may take on other collaborative manifestations (see e.g. Kale and Anand 2006).

Eisenhardt and Schoonhaven (1996) provide an excellent empirically based picture of when, and why, alliances are used. They found that alliances were formedwhen the firms that partnered found themselves in 'vulnerable strategic positions' because they were in industries that were still in embryonic stages of development; or, alternatively, they were in very competitive industries. Alliances were also a likely managerial response in cases in which the firms were dealing with very innovative technologies and were operating in first-mover modes. But, there were other, more social, factors that helped explain alliance formation among the firms that they studied. These included the presence of a highly experienced top management team that had lots of well-established contacts within their personal networks. Their study involved firms engaged in product development alliances within the semiconductor industry in the USA Alliance formation, they found, was lowest in growth stage markets. Firms with few resources also did not rely much on alliances. Perhaps they did not have what it took to engage in alliance formation; perhaps their managers were

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indifferent to product development alliances. Contrary to the expectations of transaction cost economists (see also Hennart, this volume), Eisenhardt and Schoonhaven found that alliances were sought, not avoided, in highly uncertain environments, a result predicted by Ring and Van de Ven (1992) in their early work on the motivations behind alliances, and supported by Dyer (1996*b*).

In a variety of industries, the managers of firms are still exploring the role that alliances might play in the implementation of their corporate and business level strategies. In many cases firms are in industries that have been highly regulated in the past and are undergoing deregulation. In some instances, such as the telecommunications industry, there seem to be daily announcements of firms' intentions to form an alliance (see e.g. Bae and Gargiulo 2004).

Sampson (2007) offers support for the value of R&D alliances in the telecom equipment industry. Another group studying the telecommunications industry (Gimeno *et al.* 2005) found that firms in the industry frequently mimic each other's moves. Thus, we find a large number of alliances in this industry. The followers, those that are engaged in mimetic clustering behaviour, were reacting to first movers that had large domestic market shares. Gimeno and his co-authors found that this ‘follow the leader’ behaviour occurs among firms that have large chunks of the same domestic market segment. They also found that competitive explanations were better predictors of mimicry than non-competitive (social reference—the imprint of AT&T, strong cognitive or cultural ties, etc.). Included among the competitive explanations are rapidly changing technologies, deregulation, priviti-zation, increased demand from emerging and developing economies (Gabor 1999; Turnipseed *et al.* 1999).

The airline industry provides similar examples of changing alliance makeup (Tully 1996), again in response to the combined effects of regulations (such as those every country has regarding ownership or landing rights), deregulation (for example, changing views on ‘open skies’ policies), and privatization (Bruecker 2003; Stober 2003; Kalligiannis *et al.* 2006). As a consequence, large, global networks ofairlines are being formed (Gomes-Casseres 1994; Vaara *et al.* 2004). Easily recognizable examples include the OneWorld, SkyTeam, and Star alliances.

Financial services are another area of commerce that is undergoing significant change (see e.g. Fombrun and Astley (1983) for an early study). Again, a globalizing economy, deregulation, and privitization are primary

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reasons why alliances are being relied on in these industries (see e.g. Li and Rowley (2002) for a discussion of syndication among investment banks). In contrast to what has been occurring with ‘telecoms’ and the airlines, however, firms in this industry also seem to have been undertaking a series of mergers and acquisitions that are producing a growing number of very large global competitors. Although they are also employing alliances, especially for entry into transition economies such as China (see e.g. Hitt *et al.* 2004), for the moment at least, reliance on alliances seems to be competing with the more traditional means of implementing corporate level strategies of growth and diversification: merger and acquisition.

Alliances now appear to be very much a part of the global automobile manufacturing industry (see Monteverde and Teece (1982) for early discussions of this industry's experience with supplier alliances). Hill and Jones (1998: 277) report that the number of alliances in this industry increased from less than a dozen in 1978 to more than fifty ten years later and describe an alliance between Ford and Mazda that has existed since the early 1970s. Helper (1991) and her colleagues (Helper and Sako 1995; Helper and Levine 1992) provide excellent comparative assessments of the roles that alliances play among auto makers in the USA and Japan. Today, literally no major car manufacturer operates without cooperating with a competitor on one aspect or another of the value creation process (see e.g. Dyer 1996*b*). In another traditional industry—white goods—reliance on alliances is also a standard approach to implementing firm strategies (Lipparini and Sobrero 1997; Sobrero and Roberts 2001). In these industries, alliances are employed to cut costs, increase quality, reduce time to market with new models, and gain access to markets anywhere in the world.

Many new industries emerge because of heavy reliance on alliances. Biotechnology survives and grows in large measure because of the collaborative efforts of small R&D firms and large, global pharmaceutical firms (see e.g. Powell and Brantley 1993; Powell *et al.* 1996; Zollo *et al.* 2002; Sunberg *et al.* 2004; Tyebjee and Hardin 2004). The PC and semiconductor industries today rely heavily on alliances between assemblers/marketers and components manufacturers (see e.g. Browning *et al.* 1993). In these industries, alliances are a means by which the very high costs, and high risks, of research and development activities can be shared. Alliances also provide means by which the firms in these industries can gain access to complementary core competencies, thus enabling them to become more focused on their own distinctive capabilities.

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Relying on alliances to implement strategies is not exclusive to those in manufacturing sectors of the economy. Utilities now employ alliances (see e.g. Kumar 2003).The service industries are also employing them (along with other approaches such as mergers and acquisition. Law firms, advertising agencies, accounting, management consulting, and executive search firms, all rely on alliances to gain entry into new markets, to broaden the line of services they deliver, etc. (*Fortune* 1999; Wright and Lockett 2003). The same can be said for healthcare, and for an increasing number of public sector services (see Sandfort and Milward, this volume). In short, there appears to be no sector of an economy in which reliance on strategic alliances has not been employed as a means of implementing an organization's strategic objectives.

Alliances also have been described as being employed for offensive and defensive reasons. For example, Chen (1996) argues that antecedents of competitive behaviour include both an ability to undertake a strategy and the reasons that lie behind the strategy. Using this line of reasoning, managers may employ alliances to enter the markets of their competitors. Entry may be offensive when the alliance is designed to take market share away from the competitor. On the other hand, the objective behind the alliance, largely, may be to signal to the competitor that they should stay out of the firm's backyard. The former case involves using alliances for offensive purposes; the latter for defensive purposes (see e.g. Lei 1993). Finally, alliances provide managers with a great deal of flexibility —especially when contrasted with more permanent approaches to implementing corporate level strategies such as mergers or acquisitions. The *Economist* (1999: 82) describes the motivation thusly: ‘Steve Heyer, president of TBS, thinks one big argument for alliances is the freedom to be promiscuous. “*Being exclusive* only cuts you off from other market opportunities” (*Economist*1999: 82, emphasis added). To summarize, we simply want to reiterate that there will be many different answers to the question ‘Why Collaborate?’ The opportunities to collaborate present themselves daily (Koza and Lewin 1998). The need to collaborate becomes more pronounced as resources become scarcer in the face of an expanding global economy (Madhok and Tallman 1998). Consequently, both the risks and the rewards associated with collaborating are increasing (Das and Teng 1999).

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Partner Selection

Theories Underlying Partner Selection

The literature on alliance partner selection has grown enormously in the last two decades. From an examination of the theoretical and empirical work on alliance partner selection, a number of important theories have emerged providing criticallenses for furthering our understanding of partner selection decisions (see, generally, Parkhe 1993*a*). These include transaction-cost approaches (see Hennart, this volume), embeddedness approaches, and network-based approaches (Gulati 1998; Dacin *et al.* 1999, 1997; Hagedoorn 2006), institutional theory (Hitt *et al.* 2004); resource-based theory (Hitt *et al.* 2000), knowledge and learning approaches (Hamel 1991; Inkpen 1995; Powell *et al.* 1996; Simonin 1997; Khanna *et al.* 1998; Kumar and Nti 1998), social dilemma theory (Zeng and Chen 2003); and, most recently, studies employing theories of justice or fairness (e.g. Leung *et al.* 1996; Barden *et al.* 2005; Luo 2005). We review the evolution of this literature on partner selection noting the range of theoretical approaches that inform this work.

Partner selection is thought to be difficult and critical. Early studies established the viability of partner selection as a domain of research by isolating the decision about partner choice as one existing separately from the balance of collaborative venture management (see e.g. Tomlinson 1970; Daniels 1971; Adler and Hlavacek 1976; Tomlinson and Thompson 1977; Awadzi 1987; Koot 1988; Golden 1992). However, they provided little guidance as to the content or relative balance of desirable characteristics, or the conditions under which a firm might be motivated to select one partner over another based on criteria alone. For example, Killing (1983) concluded that as IJVs were so heterogeneous, it was not possible to define universally attractive characteristics that a focal firm should seek in a partner.

The most influential work to spark scholarly interest in this area was conducted by Geringer (1988) and Geringer and Hébert (1991). He provided additional insight and laid the foundations for a more detailed and substantive exploration of selection criteria by other scholars. Geringer proposed a typology of task-and partner-related criteria. While task criteria focused on the operational requirements of the alliance objective, partner criteria had more to do with the qualities of the partner that impact both the efficiency and effectiveness of the proposed venture. Situating alliances within an environment of mutual dependency, he proposed a typology of selection criteria that differentiated partner-related and task-related

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elements, and argued that the partner-related criteria distinguished the cooperative organizational form (in his case, the IJV) from other organizational forms. Geringer (1988) concluded that a partner's national culture, past experience, size, and structure were as important as task-related criteria in a selection decision by a focal firm (the task-related criteria included technical know-how, assets, expertise, and access to markets).

Consistent with Daniels's (1971) observation about how firm size influenced attractiveness, Geringer (1988) deemed an optimal partner to be relatively the same size, comparable in sophistication, and having goals that fit with those of a focal firm. His subsequent paper retained the original typology though focused more closely on task-related criteria. Geringer and Hébert (1991) found that an IJVparent's ‘strategic context’ affected the relative importance of particular task-related criteria. Specifically, the weighting attached to an individual criterion varied with perceived criticality to performance, the parent's position *vis-à-vis* that criterion, and the parent's expectations about the ability to develop sufficient stores of it internally. Critically, Geringer and Hébert (1991) demonstrated that firms explicitly considered the future competitive environment when selecting a partner, weighing their own abilities to generate the anticipated resources considered essential to securing competitive advantage against the abilities of a prospective partner. His conclusions paralleled those of Van de Ven and Joyce (1981: 10) ‘if a firm is to be successful, its design should be contingent upon the characteristics of the environment in which it operates’. The concept of comparative advantage in generating competitively critical resources was thus internalized into the theory of the joint venture. Geringer's key contribution was to acknowledge that both sets of criteria are highly relevant and that there exists a hierarchy ordering of criteria given consideration of other contingent factors such as parent preference and the transaction costs associated with conducting the alliance. In addition, attention was given to the importance of both tangible and intangible resources potentially leveraged in an alliance context.

A number of scholars built upon Geringer's insights (see e.g. Saxon (1997) for a review), seeking to test, validate, and extend Geringer's insights. In addition, continued importance was placed on tangible and intangible resources leveraged, acquired, and/or enhanced by potential partners. Combining resource-based and organizational learning perspectives, a number of scholars examined the motivation for alliance formation as well as criteria used to select specific alliance partners (Barkema *et al.* 1997; Hitt *et al.* 2000). This work examined how firms leverage complementary resources

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through integration in an alliance context as well as how firms learn from their partners to strengthen their own basis of competitive advantage.

In keeping with the focus on differences across context, a number of scholars utilize embeddedness, network, and institutional approaches to study partner selection. The embeddedness perspective (Granovetter 1985; Uzzi 1997; Dacin *et al.* 1999) acknowledges that organizations are nested in a broader context that constitutes and is itself constituted by organizational action. Thus, collaborative relationships are embedded in a broader set of forces that shape the nature of collective activity while simultaneously shaping the boundaries of opportunity sets and constraints. Economic, cognitive, and socio-cultural forces simultaneously impact the form and evolution of alliance dynamics and alliance activity, which in turn shape the context of alliances by serving to create new meaning systems and norms of conduct. The embeddedness of alliance activity potentially serves to motivate and produce both economic and social benefits (Dacin *et al.* 2007).

The focus on variation across contexts is important. It is not simply a story about locational differences but the fact that these locations are infused withdifferent norms and social practices (Stark 1996). Prior work has demonstrated strong linkages between organizational action, and the institutional infrastructure of a region, state, or society. Relationships are embedded in a broader set of forces that shape the nature of collective activity, as well as individual and organizational action, while simultaneously shaping the boundaries of opportunity sets and constraints. Thus, the embeddedness of firms in different contexts affects alliance objectives, partner selection preferences, and the sustainability of distinction (Oliver 1997). A rich and important stream of work that draws upon the importance of context can be found in alliance research that addresses international and cross-cultural variation in alliance partner selection and alliance performance. Dacin *et al.* (1997) examine differences between the partner selection criteria of US and Korean managers while Hitt *et al.* (2000) examine emerging and developed contexts. These studies found important distinctions in the partner selection criteria utilized by firms from each of these contexts. Their findings suggest that firms from both of these contexts have some differences in their partner selection criteria but also share some similarities in their preferences. Despite similarities in preferences by firms from different contexts, an important finding is that the relative importance or magnitude of a particular criterion varies across context. Thus, while firms may be seeking the same thing from a potential partner, they may place differential importance or value on that particular criterion.

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A significant body of work has accumulated on the topic of network embeddedness and its implications for repeated or recurrent ties. Building on pioneering work by Ring and Van de Ven (1992) perhaps the most prolific contributor to this literature has been Gulati (1995*a*, 1995*b*, 2007) and his work with several colleagues (Gulati and Singh 1998; Gulati and Gargiulo 1999) This research examines how the broader context and, in particular, the context of networks results in social structures which create logics for partner selection. Gulati and his colleagues examine the role of network resources and the impact of these resources on choosing a partner. According to Gulati (2007), networks play a critical role in guiding alliance formation because they provide much needed information about partner reliability and competencies over time.

Important questions emanating from this research include consideration of the role of prior ties in motivating and constraining partner selection. While networks afford opportunities for alliance formation, networks can also lead to inertia causing network members to not look elsewhere for strategic solutions. Prior ties may result in significant propensity to retain the same partner over time (Dyer and Singh 1998; Chung *et al.* 2000). The underlying logic central to these arguments is that firms develop efficient partnering routines or alliance capabilities which can be leveraged in their subsequent interactions. Furthermore, prior ties reduce risks and eliminate search costs. However, an important critique of Gulati's earlier theorizing is that it did not explicitly consider the impact of alliance outcomes inconjunction with the existence of prior relationships. Thus, it is difficult to ascertain whether a prior tie on its own leads to future ties or if the propensity to re-establish a relationship is somehow moderated by whether the prior alliance was a success or failure. Furthermore, Roijakkers *et al.* (2005) suggest that industry context is an important consideration in assessing the likelihood of observing the impact of priorties on subsequent collaboration. Another interesting extension is provided by Beckman *et al.* (2004) who examine the role of partner selection as a key factor of network stability and change. These authors suggest that further ties with existing partners are, in fact, a form of exploitation whereas new partnerships are a form of exploration and consider the impact of both firm and market uncertainty in impacting alliance formation.

Nonetheless, a key contribution of Gulati's work is the attention devoted to the role of alliance histories in shaping the character of subsequent partnerships. Thus, firms are embedded in ‘alliance networks’. Alliances can have multiple drivers, outcomes, and benefits. In this regard, alliances are

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comprised of multiple objectives inextricably linked to multiple outcomes. This results in multiplex ties—that is, multiple forms of cooperation, each with multiple objectives and benefits (Powell and Smith-Doerr 1994). In other words, the content of alliance objectives and benefits is layered upon one another. For example, the embedded nature of a single linkage may embody many forms of embeddedness such as economic transaction, information exchange, and social relationships.

Institutional approaches have become useful to examine the search for intangible assets such as reputation and legitimacy. Eisenhardt and Schoonhoven (1996) noted the importance of legitimacy acquisition in an alliance context. Dacin, Oliver, and Roy (2007) suggest that alliances provide an important source of legitimacy and elaborate upon a variety of forms of legitimacy operating within the context of alliances. Hitt *et al.* (2004) examined alliance partner selection preferences in two transitional economies with differing institutional infrastructures, China versus Russia. Arguing that these two contexts are characterized by radically differing institutional environments, Hitt *et al.* (2004) demonstrate that the particularistic qualities of the Chinese institutional context afford Chinese firms the liberty of taking a longer term view of partner selection whereas the shorter run focus of Russian managers pushes them to seek arrangements which afford quicker financial returns. This has important implications for capability development and raises important questions about the link between partner selection and subsequent alliance performance.

That there might be benefits to researchers investigating joint ventures and alliances to grounding their work in justice theories appears to have been initially suggested by Ring and Van de Ven (1994). They noted that justice theory might be fruitfully employed to explain a variety of the processes associated with the evolution of what they described as cooperative Inter-organizational relations, including a search for partners. Ariño, de la Torre, and Ring (2001) have takenthis suggestion a bit further: they recommend that justice theory be employed in research designed to investigate the dynamics of interpartner relationships. In developing the concept of relational quality initially proposed by Ariño and de la Torre (1998), they argue that procedural (Thibaut and Walker 1975; Levinthal 1980; Folger and Greenberg 1985; Lind and Tyler 1988) and interactional (Bies and Moag 1986) justice will have a stronger influence on the level of relational quality between partners than distributive justice (see e.g. Homans 1961; Adams 1965; Cropanzano 1993).

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What Makes a Good Partner?

Having decided to collaborate, the question confronting managers then is with whom to collaborate; i.e., what firm(s) will make a ‘good’ partner(s)? Much of the literature on partner selection is rooted in a stream of research located conceptually in strategy and international business that could best be described as being premised on adaptation (e.g. Porter 1986; Bartlett and Ghoshal 1988). In this stream, firms are posited to have considerable latitude about how they enter and exit markets and how they alter their scope to cope with environmental contingencies such as industry structure and competition (Stopford and Wells 1972; Harrigan, 1988). In a derivative sense, firms also choose their governance structures either to gain access to desirable bundles of partner-held resources (capabilities, assets, and competencies) which it commingles with its own to produce economic rents (e.g. Peteraf 1993), or to minimize the cost of transacting (e.g. Zajac and Olsen 1993). Extended to partnership, the adaptation-rooted literature defined partner attractiveness from the starting point of a focal firm's deficiencies. These deficiencies included tangible and intangible assets, knowledge, legitimacy, and influence with host country governments in those cases where an alliance was selected as a means of market entry.

Partner selection has received attention from researchers seeking to provide advice to managers as well as to describe the many organizing schemas employed to reduce a complex array of quantitative and qualitative characteristics to a rank-ordered list or, in many instances, a dichotomous go/no-go decision. At worst, the rationale for studying partner selection as a discrete element of an alliance's life-cycle lies in its inherent face validity: it is difficult to contest the proposition that a ‘desirable’, ‘compatible’, or ‘attractive’ partner is preferable to a partner lacking these characteristics. Appraising the existence and extent of such characteristics in a systematic manner, or determining whether those characteristics actually drive performance, are different matters.

In reviewing the literature on partner selection, we were struck by two dominant themes: the focus on selection criteria (derived from empirical studies) and, more recently, the emergence of a literature rooted in institutional theory that postulatesthe existence of limits on managerial flexibility to choose an optimal partner. While these themes suggest an emerging bifurcation within this research domain, the uniting meta-narrative of partner selection research is the idea that a ‘best partner’ exists and that the selection of such a partner influences the amount, type, and timing

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of performance obtained by a focal firm from the alliance. This creates a conundrum: despite high face validity, given the reported and consistent levels of alliance underperformance (e.g. Beamish and Delios 1997) and consistent high mortality rates (e.g. Hennart *et al.* 1998), we are led to wonder whether partner selection truly matters, and in what ways.

While ontologically antithetical to uncertainty—a well-researched cue for organizational action (Pfeffer and Salancik 1978; Granovetter 1985)—the implicit association of desirable partner characteristics with superior alliance performance outcomes gives insufficient attention to the *ex ante* condition of the firms so partnered and the *post hoc* interpersonal and resource-related operational dynamics of the alliance itself. Despite calls to the contrary (Ring and Van de Ven 1994; Ariño and de la Torre 1998; Koza and Lewin 1998) few studies have built the necessary process-focused bridges, causally connecting partner choice through alliance dynamics to performance outcomes.

In light of an increasing reliance on alliances as vehicles for learning new capabilities, an important characteristic of any potential partner is their ability to teach and to learn. Lane and Lubatkin (1998) have explored this issue in a number of important studies. They have developed the concept of relative absorptive capacity, which explores learning in the context of a dyadic relationship. Important partner characteristics in their model included the extent to which both of the partners relied on similar kinds of basic knowledge in conducting research, had similar kinds of knowledge-processing systems, and were members of the same kinds of research communities. In addition, they also found that similar compensation systems, organizational structures (similarities in formation of upper and lower management, decision centralization), and problem sets (e.g. similarity in commercial objectives) were positively related to the ability of a firm to absorb knowledge from its partner.

Li and Rowley (2002: 1107) argue that partner selection is a matter of ‘context, requirements and purposes of an alliance’ and find that ‘firms discriminate among their past allies by selecting partners with whom they have formed reciprocal relationship or shared favorable partnership outcomes and who possess experience relevant to the specific context of the new partnership’ (2002: 1116). Bae and Gargiulo (2004) explored the question of whether or not partners are substitutable or non-substitutible. Premised on the notion that more powerful partners can extract a disproportionate share of rents created by an alliance, they concluded that it

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would be important for a potential collaborator to focus not only on who their partners might be but also on the structure of a network in which the partner and an alliance might be embedded; concluding that the denser the network, the better off a concerned partner might be.

Whether it is simply a function of the availability of data, or a result of the search for managerially relevant research results, one interesting aspect of the empirical work that informs our understanding of the characteristics of ‘good’ alliance partners is the intensive study of R&D collaborations in the drug industry between ‘pharmas’ and biotech firms. In one of the first major studies in this industry, Powell, Koput, and Smith-Doerr (1996) argued that diverse alliance experiences enhanced the learning of a firm in alliance and also led to higher growth rates. Mowery, Oxley, and Silverman (1996) found that those firms with a history of referencing each other's patents prior to undertaking an alliance frequently ended up being less technological diverse in the aftermath of an alliance. Lane and Lubatkin (1998) demonstrated that when the employees of biotech firms and pharmaceutical firms published in the same kinds of publications more learning took place between the partners and that the more that this happened the greater the learning that took place between the firms. Similarly, Baum, Calabrese, and Silverman (2000) found that biotech firms that relied on a wide range of partner ‘type’ (e.g. allied with many different types of partners, such as universities, public sector laboratories) experienced greater success once they undertook their first initial public offerings (IPOs) than firms that had alliance experience only with a single type of partner.

In light of our previous discussion about the motivations that lead to alliances and joint ventures it is not surprising that much of the empirical work related to partner selection issues is cast in light of a search for resources that are critical to the success of one or more of the partners that make up an alliance or a joint venture. And in an environment in which technology is increasingly a source of competitive advantage, many alliances and joint ventures emerge as the partners seek to improve their technologies and their technological capabilities. Sampson (2007), for example, relying on a sample of 463 research and development alliances in the telecommunications equipment industry, explored the diversity of a partner's technological capabilities and found that those partners whose combined technological capabilities were moderately diverse, rather than very diverse or slightly diverse, were more likely to enhance their innovative capabilities. She also found that equity joint ventures as a form

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of governance led to firms deriving more benefits from an alliance. Sampson concluded that the characteristics of a partner had a decided impact on the extent of learning that took place between partners in an alliance. Ahuja (2000) also found that the greater the technological similarity between alliance partners the more likely they were to patent after their alliance. Moreover, Ahuja and Katila (2001) found similar kinds of behaviour when acquisitions were employed rather than alliances.

The ability to learn is another important issue in choices of partners for interfirm collaborations. In the strategic alliances that they investigated, Schoenmakers and Duysters (2006) found that weak ties were more important than strong tiesin facilitating organizational learning within the alliance and between partners. Their findings also provide support for the efficacy of embeddedness: trustworthy partners were preferred and prior alliance experience reduced the costs associated with searching for partners with those kinds of characteristics. Rowley, Behrens, and Krackhardt (2000) found that strong ties, a function of embeddedness, were beneficial to firm and alliance performance when the environment in which the partner firms were embedded demanded a high degree of exploitation. Conversely, weak ties were found to be more beneficial in cases in which exploration was driving an alliance.

Zollo, Reuer, and Singh (2002) considered the impact that differing experiences with alliances and joint ventures had on performance. Once again the setting was the biotechnology industry. Partner-specific experience, rather than other types of alliance experience, had greater influence on performance for the firms that they studied. They argued that their finding provided further support for arguments related to the importance of the types of ties that alliance partners enjoyed and concluded that their results could be employed to ‘highlight the benefits of relational embeddedness’. They were also able to qualify their results by arguing that they were stronger when non-equity forms of governance were employed by the alliance partners.

Seeking Partners

To begin with, the search for a partner will be governed by strategic objectives: the need to gain access to resources or capabilities that the firm does not have, cannot make, or cannot buy in arm's length market settings (Brouthers *et al.* 1995). The more closely allied those needs are to the firm's existing product/market objectives, the more likely it seems

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that the search for partners will focus on firms which will be reasonably familiar to the managers of the focal firm. Initially, the search for partners is likely to focus close to home: on existing partners or on contacts made through personal networks. Honeywell looked no further than to two of its more important partners in the computer business—CMB and NEC—as it sought joint venture partners that could ‘help’ it exit the industry (Ring *et al.* 1994). Jean-Luc Grand-Clement looked to old employers for new partners in PixTech's FED Alliance (Doz *et al.* 1998, 2000). An earlier partner was brought to the alliance by a member of PixTech's board of directors. Sense-making in partner searches can be focused further afield, however. NASA ‘found’ 3M in Fortune's list of most reputable firms (Ring 1997).

The characteristics of potential partners is clearly an important issue in search processes. As we have already noted, Geringer (1988) provided one of the earliest and most comprehensive assessments of these characteristics. Among those that he identifies as important are: access to financial resources, governmentsubsidies, technically skilled employees, proprietary technology, deep product lines, and reputations. Gulati (1995*a*) provides substantial evidence that an ability to engage in alliances with previous partners is an important consideration in the use of non-equity forms of governance. He concludes that cautious contracting gives way to looser practices as partners build confidence in each other. In other words, ‘familiarity … does indeed breed trust’. On the other hand, in a study of the dissolution of joint ventures, Park and Ungson (1997) concluded firm size, age, national culture, strategic intent, were not important contributing factors. When there was a significant degree of competitiveness or of operational overlap between the partners, however, dissolution was more likely (Medcoff 1997).

Although, as a result of editorial constraints, we are not focusing on the issue of dissolution in this chapter, this study suggests additional characteristics of partners that may explain why they seek each other out and what they look for in each other. Clearly two firms from the same national culture that have never done business with each other will have more in common and fewer barriers to climb over than two firms from entirely different cultures that are strangers to each other (all other things remaining equal). Firms that are of the same ‘age’ are likely to have shared similar experiences as they evolved, and are likely to find themselves in the same place—especially with regard to values. The same may be said for firms that are closer to each other in size. Their organizational processes, problem sets, etc. are more likely to resemble

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firms of the same size and age than partners who are much larger, smaller, younger, or older.

In the light of an increasing reliance on alliances as vehicles for learning new capabilities, an important characteristic of any potential partner is the ability to teach and to learn.

We conclude this discussion of what makes a ‘good’ partner and the processes of partner selection by taking notice of what has been described as the ‘good partner’ fallacy. Larsson and his colleagues (1998) make a solid case that simply finding good partners does not guarantee alliance success, citing work by Gary Hamel and Oliver Williamson, among others.

Conclusion and Discussion of Future Research Needs

The focus of research on alliance partner selection is noticeably diverse. While a large amount of work draws from and builds upon a number of theoretical perspectives, a significant body of literature has accumulated with respect to thecriteria utilized to motivate the partner selection decision. In contrast, relatively little attention has been devoted to the process by which partners are selected. In other words, what does the search process entail? When does the search for a partner begin? What decision heuristics prevail? What is the role of the third party intermediaries or referrals in sourcing partners? How do selection criteria evolve as a function of alliance experience, alliance type, across alliance portfolios and across life-cycles of a given alliance? How do partner selection criteria vary across industries? In multipartner alliances, how do focal firms position themselves as viable partners to diverse sets of partners with varied sets of partner preferences?

In addition to these questions regarding the process of partner selection, a number of other issues remain unresolved. First, while it is important to consider one's own set of selection preferences, it is also important to understand the selection criteria utilized by potential partners. As noted by Dacin *et al.* (1997), an understanding of potential partners' preferences allows focal firms to position themselves in strategic ways to enhance their own attractiveness as viable partners. Second, it is important to recognize the role of context in defining selection criteria as well as situating partners as more or less attractive partners. Embeddedness and network approaches to partner selections do a nice job in addressing this gap while research drawing largely on institutional theory provides important insights into opportunities and constraints provided by diversity across institutional contexts. This work acknowledges the role of prior ties, networks, contexts

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(political, social, cultural, and economic), as well as institutional constraints and/or requirements affecting partner selection decisions.

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Policy and Implementation Networks

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Abstract and Keywords

This article gives an overview of the research using the network concept to analyse policy-making and implementation. It discusses the three main research traditions that have used the network concept as a tool for analysing policy-making and implementation. The range of network types that have been studied from a network perspective is enormous and recently there seems to be a global explosion of research on policy and implementation networks. This article only presents a brief overview of some main findings and trends using a classification of the research on policy formation and implementation. Then, its focus shifts to what the literature has to tell about managing networks and the complex decision-making processes that take place within them. Furthermore, it considers the question of how to research networks of policy-making and implementation. Finally, it concludes with some observations about the future of this research tradition.

network concept, policy-making, implementation, networks, decision-making processes

Introduction

The world of policy-making and implementation seems to be full of networks. Indeed, empirical evidence indicates that governments across the world are looking for new forms of governance to cope with the network character of policy formation and implementation (Marin and Mayntz 1991; Marsh and

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Rhodes 1992; Kickert *et al.* 1997; Osborne 2000; Marcussen and Torfing 2006).

The growing trend towards partnerships and networks as vehicles to achieve policy outcomes and organize service delivery has been connected by many authors to the development of a ‘network society’. Interdependence and horizontal relations have grown in importance, partly as a consequence of information technologies. They are also the consequence of increased specialization (Castells 2000). Indeed, it seems likely the policies of new public management, in which specific policy implementation tasks are outsourced or autonomized, have exacerbated this trend(Rhodes 1997). Castells (2000) argues that our societies are increasingly formed in the bi-polar tension between the net and the self. If we look at his analysis, the development towards a network society has been a gradual progression which started somewhere in the 1970s, but which accelerated during the final decade of the twentieth century. The implicit assumption, if we accept this analysis, is that there is a growing need for Inter-organizational structures between organizations to deal with the growing complexity of interactions in the public and private sphere (and at the interfaces between those spheres).

Other societal trends have been linked to these developments. Individualization, considered as one of the major societal developments in western society (e.g. Bauman 2000; Sociaal Cultureel Planbureau 2000; Beck and Beck-Gernsheim 2001) brings about a greater variety of values. It goes hand in hand with a diminishing of the importance of traditional societal relations (see also Putnam's conclusions on the disappearance of social capital (Putnam 1995, 2000)). The move towards a network society makes our society less governable, not only because resources are divided, but also because there is no undisputed set of values against which to judge policy proposals and outcomes.

Neither Castells nor other commentators systematically explore what these changes in society mean for the role of government or, more particularly, processes of governance. There are however a few obvious effects which have been suggested by several authors. First, extended (international) networks will create conditions and pressures that are often beyond the reach of national governments. The tension between the ‘net and the self’ would lead both to a diminishing importance of classical binding mechanisms and groups (political parties, all kinds of intermediate, traditional organization), and to the emergence of new more ad hoc (social)

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movements of citizens. We would also witness a more critical attitude towards public authorities and their policy proposals. Such scenarios have led policy practitioners and scholars to seek new forms of governance which connect citizens' groups and societal actors to public policy, and thus create the necessary support that is failing as a consequence of the diminishing connections between citizens and traditional organizations (parties, societal organizations). Such strategies would also provide governmental actors with a means to acquire more information and knowledge from societal actors (for this complementary assumption against other assumptions, see Klijn and Skelcher 2007).

While these predictions remain very hard to prove, the growing number of (international) strategic alliances between firms (Faulkner 1995), the attention to chain management and networks of firms (Graeber 1993), the growing attention (at least rhetorical) to forms of co-governance and public–private partnerships (Osborne 2000; Pollitt 2003*a*) indicate that they should be taken seriously. This is evident from the struggles of both governments and firms to find new ways to cope with changing features of their environments.

Networks as Governance Mechanism: The Need for Network Management!

In order to solve the complex policy problems governments face, it is necessary to involve various actors in policy-making and implementation processes (see also Geddes, Chapter 8, this volume). Private actors, social alignments, and citizens have either important resources or the power to obstruct policy interventions. Therefore it is only through joint efforts and collaborative action that policy problems in a modern society can be solved.

The idea that the formation and implementation of policy or service delivery to citizens takes place in a network of organizations is certainly not novel. Early Inter-organizational theorists like Levine and White (1961), Emerson (1962), and Litwak and Hylton (1962) stressed the interdependencies of organizations in realizing interesting outcomes. Mapping the interactions of organizations very soon became an accepted way to analyse policy processes and service delivery (Aldrich 1979; Aldrich and Whetten 1981). In political science authors like Dahl and others focused attention on the networks of elite actors that were involved in policy making (Dahl 1961). This resulted in the famous debate between pluralists and elitists about how

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power was divided in policy-making and society more generally. In public administration, however, these early theories had almost no impact at all.

The recognition of the fragmentation of power—authority, resource, and control—was reflected in the late 1970s, in one of the seminal contributions on network decision-making (Hanf and Scharpf 1978). It has the telling title: 'Interor-ganizational Policy Making: Limits to Coordination and Central Control'. Scharpf remarks at the end: 'It is unlikely, if not impossible, that public policy of any significance could result from the choice process of any single unified actor. Policy formation and policy implementation are inevitably the result of interactions among a plurality of separate actors with separate interests, goals, and strategies' (Scharpf 1978: 346). According to Scharpf, research should not only be directed towards specific interactions between organizations and the strategic interactions that form policy and implementation, but also to the set of stable relations between organizations. Scharpf finds his theoretical inspiration not only in theories of dependency relations but also in public choice theory and theories of complex decision-making.

Two important observations can be made about the development of this line of thinking. First, although the concept *network* was known and used in organizational and political theories, it was not a very prominent concept in the 1960s and 1970s in general, and certainly not in public administration. One would not find any attention to it in the standard handbooks on public policy, or public administration at this time. It was not until the 1980s that the concept grew in popularity when it was used to analyse policy-making processes and implementation processes. The second observation is that the recent literature on networks as a governancemechanism has paid explicit attention to the managerial question: how can we guide and steer these complex interaction processes? This question went largely unasked in the earlier political science literature. The recent attention to management or governance of complex networks has both empirical relevance (research is being done on what management strategies do occur and what their effect is), as well as prescriptive relevance (what strategies should we use to be effective in governance networks?).

Structure of this Chapter

In this chapter an overview of the research using the network concept to analyse policy-making and implementation is presented. In the next section the three main research traditions that have used the network

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concept as a tool for analysing policy-making and implementation are briefly discussed. The traditions are compared and it is shown that they have recently tended to converge. In the following section the focus shifts to what the literature has to tell us about managing networks and the complex decision-making processes that take place within them. Next the question of how to research networks of policy-making and implementation is considered. Finally, the chapter is concluded with some observations about the future of this research tradition.

Policy and Implementation Networks: An Overview

The range of network types that have been studied from a network perspective is enormous and recently there seems to be a global explosion of research on policy and implementation networks. We can only present a brief overview of some main findings and trends using a classification of the research on policy formation and implementation from a network perspective.

Three Types of Networks Compared

Although it may be the case that every classification is arbitrary, given the various research traditions and the history of the field, it is nevertheless possible to distinguish between three different types of research focusing on different types of networks. Each is rooted in a different theoretical tradition. The three research traditions concerning policy and implementation networks (Table 5.1) are:

- Research *on policy networks;* this is strongly based on a political science tradition which focuses on which actors participate in decisions in policy networks and which actors have power and access to decision-making. This research can be traced back to the famous discussions on power in the 1960s and continued to be adopted in British research on policy communities and networks in the 1980s and 1990s.
- Research on *Inter-organizational service delivery and implementation* of policy; this research starts more from an Inter-organizational perspective and strongly focuses on networks as vehicles for service delivery and implementation. It is the coordination and creation of concrete products and outcomes which is central. It is not surprising that this research tradition also focuses more upon the construction of networks that can and do organize joint service delivery or policy implementation.

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• Research on *governance networks;* this research corresponds more to the public administration tradition and strongly stresses the complexity of decisionmaking to achieve policy outcomes. It focuses more upon existing networks around policy initiatives and implementation. It is also concerned with the deliberation process between actors, such as the possible outcomes and value conflicts that are at stake when actors try to achieve workable solutions for policy problems. More than in the other two research traditions, the authors assume that governance processes in networks are a consequence of, and tied to, modern network society.

This chapter emphasizes governance networks both because this literature is more recent and because other traditions are addressed in other chapters (see discussions in Chapter 6 (Sandfort and Milward), Chapter 17 (Knoke and Chen), and Chapter 8 (Geddes)).

The three traditions have been combined more and more over the course of time. While they originate from different sources and different research traditions, they seem to have converged as researchers have freely adopted different elements from the different traditions.

Policy Networks: Policy-making in Tight Coupled Networks

Research on policy networks has a substantial history. It was built on a rich tradition of political science research which has focused upon the influence of interest groups on decision-making, the process of agenda-building, the entrance of actors in that process (Cobb and Elder 1983) and the opportunities (on policy windows, see Kingdon 1984) that occur in these processes. Studies reported in this network literature over the last 20 years reveal strong interactions between actors in specific policy domains. This generalization holds for studies which use quantitative techniques for mapping interactions (see Laumann and Knoke 1987

Table 5.1 Types of networks in empirical research and their characteristics

	Policy networks	**Service delivery and implementation**	**Governance networks**
Main origin	Political science	Organizational science/Inter-organizational theory	Public administration

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Focus	Decision-making and effects Closure and power relations on issue and agenda-setting	Inter-organizational coordination Effective policy/ service delivery Integrated policy/ services	Solving societal problems Managing horizontal governance relations Connecting governance networks to traditional institutions Deliberation processes
Main fields and research questions	Which actors are involved in decision-making What are the power relations and what are the effects on decision-making?	How can complex integrated services be coordinated? What mechanisms are effective and efficient (contracting, partnerships etc.)?	How to manage governance networks How to organise them and connect them to traditional institutions How to improve variety of content and combine various value judgements
History	Starts with the pluralist political science research of the 1960s and continues through to research on subsystems, policy communities, and policy networks	Starts with the first Inter-organizational theorists that focus on Inter-organizational coordination and continues through to research on service delivery (also through	Starts in the mid-70s with work on inter-governmental relations (Hanf and Scharpf 1978) and continues with analyses of new governance forms and their effects and management requirements

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contracting) and implementation

for one of the best examples) and for studies which use case studies to compare and analyse different networks (see Milward and Wamsley 1985; Rhodes 1988; Hufen and Ringeling 1990; Marin and Mayntz 1991; Marsh and Rhodes 1992; Marsh 1998).

For instance, after an intensive quantitative study of interactions between actors in national policy domains in the USA, Laumann and Knoke (1987) concluded that these domains consist of a group of core participants made up of public as well as private actors.

> Despite their lack of formal decision-making authority, many private participants possess sufficient political clout to secure that their interests will be taken into account. This mutual recognition creates and sustains the legitimacy of core actors and their involvement in domain issues and events. Within the group of core participants, however, there exists a relatively dense system of knowledge on Inter-organizational interaction.
>
> (Laumann and Knoke 1987: 375)

Similar conclusions were reached by others including Rhodes in his analysis of British government (1988), by various researchers in case studies compiled by Marsh and Rhodes (1992), in an analysis of decision-making in the Netherlands (Koppenjan *et al.* 1987; Hufen and Ringeling 1990), and by several comparative analyses in other countries (Heisler 1974; Richardson and Jordan 1979). In their studies, the UK researchers focused attention on the characteristics of the networks (tight or not, etc.) and the influence of this network on decision-making. Marsh and Rhodes found that the existence of policy networks have influenced policy outcomes (Marsh and Rhodes 1992). Rhodes's work suggested that various forms of network can be found (differing in cohesion, interaction density, and shared views for instance). In several cases, close relations between actors led Rhodes and colleagues to speak of ‘policy communities’, that is networks characterized by stability of relationships, continuity of a highly restrictive membership, vertical interdependence based on shared service delivery, responsibility and insulation from other networks and invariability from the general public (including parliament). They have a high degree of vertical interdependence and limited horizontal articulation. ‘They are highly integrated’ (Rhodes 1988: 78). This research on policy networks and policy communities has also drawn criticism, the most important suggesting (*a*) that this research still

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focuses on individual characteristics of the actors and not on characteristics of the network, and, so, (*b*) it uses the idea of ‘network’ as a metaphor, and thus contributes little to earlier theories on decision-making (Dowding 1995).

Intensive interactions in sector networks can be found not only at a national level, where actors are strongly focused on policy-making processes, but also at a local level where implementation of sector policy is also at stake (see Lowndes and Skelcher 1998; Klijn 2001). Research on policy networks pays attention to a number of related topics:

- The importance of *sector culture* or shared frames of meaning: generally, actors within policy sectors share perceptions of the importance of the sector or professional norms and beliefs. Sabatier and Jenkins-Smith (1993) refer to these as ‘policy beliefs’ and Benson (1982) as a policy paradigm. This is evident in the health sector (e.g. Blom-Hansen 1997), housing (Sabatier and Jenkins-Smith 1993; Klijn 2001), and law (Cope and Starie 2002). These more or less shared perceptions of the field and their sedimentation as professional standards keep the network together and stable.
- The *closed character* of these sector-oriented policy networks. Research shows rather stable interaction patterns between actors involved in sector politics (see for implications Chapter 11 (Kenis and Oerlemans)). Although interactions can include a variety of actors, the durable character makes it difficult for new actors to enter the network. They have to become familiar with the rules in the network and invest in relationships, so incurring high transaction costs.
- The *interdependency between actors* in policy networks; although actors may have different opinions about policy aims and the division of resources, they nevertheless share a common interest in sector politics and the resources that result from that. Since they need each other's resources, they are interdepen dent.

Recently, there has been greater attention to policy problems that cut across sectors and this brings the research closer to that of the governance network tradition.

Service Delivery and Implementation Networks: Getting the Job Done

The network literature and research on service delivery and implementation can be traced back directly to the early literature on Inter-organizational relations of the 1960s and 1970s. In the research on Inter-organizational

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relations there is much attention to the resource dependencies and the types of dependency relations which these cause (Negandhi 1975; Rogers and Whetten 1982). There is also much attention for the exchange process in which actors exchange resources and coordinate their activities.

Mapping the actors of the network through which service delivery and policy implementation was realized was an important activity in this research (Aldrich 1979). The reconstruction of that network enabled the researcher to analyse precisely which actors were involved in implementation and service delivery and how these services and policies were 'processed' through the network. Research on Inter-organizational coordination for the 'war on poverty' programme, for instance, showed that coordination was not easily achieved and competition between organizations frequently occurred. The researchers pictured the Inter-organizational fieldas a self-sustaining system in which only minimal cooperation exists and which was dominated by an 'institutionalised thought structure' (Warren *et al.* 1975). They also found, like much other research on Inter-organizational coordination, that clear domains of organizations existed, which resulted in frequent domain conflicts between organizations when they had to cooperate with each other (Warren *et al.* 1975; Aldrich 1979; Pfeffer 1981).

The early implementation studies using a network perspective tried to identify the network of actors who were involved in implementation using so-called 'backward mapping' (Elmore 1979). This 'bottom–up' approach, as it was labelled, focused upon the views and strategies of local implementing actors about the effects of policy outcomes instead of about the goals and strategies of central actors (Hjern and Porter 1981; Hanf and Toonen 1985). The bottom–up approach showed that central programmes offer more opportunities to local implementing actors, but that central policy is only one of many considerations in implementation processes. They have been successful in highlighting the importance of other actors (and their perceptions and strategic choices!) in implementation processes, as well as in highlighting the unanticipated effects of implementation (Barrett and Fudge 1981; Hjern and Porter 1981).

Later research continued to focus on coordination efforts to achieve integrated services delivery. Most research on service delivery and service contracting shows a group of actors who interact intensively as a result of their dependency on delivering public integrated services (Milward and Provan 2000; Mandell 2001; Agranoff and McGuire 2003). In the case of contracting, some authors have found a tension between the need to tender

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the service delivery to acquire and maintain incentives for cost efficiency, and the need to promote interaction and learning processes between organizations to improve better service delivery. Contracting tends to disrupt the network, after which new learning and interaction processes are needed (Milward and Provan 2000). The expanding research into networks of actors which take care of service delivery or policy implementation affirms the image of the 'Hollow State'. The Hollow State (see Rhodes 1997; Milward and Provan 2000) refers to the image of a state which does not itself perform the policy-making and service delivery tied to the modern functions of government. Instead it is charged with ensuring, by a variety of means, that services and policy outputs are delivered by other organizations. This feature has been strengthened by the recent trends towards outsourcing, privatization, and agentification that have been taking place over the last two decades (Pollitt and Bouckaert 2000). Others have suggested that this hollowing out of function actually leads to a 'congested' state (Sullivan and Skelcher 2002).

Whether 'hollow' or 'congested' there has been a weakening of the position of public actors who now need many ties and connections with all kind of actors to realize their policy objectives. In a recent study on how city officials work with other layers of government and organizations to develop their city economics, Agranoffand McGuire conclude that: 'From the perspective of the city Government, there is not one cluster of linkages to manage but several clusters—some horizontal, some vertical, and some that include both within the context of a single project or program' (Agranoff and McGuire 2003: 123). Thus research on networks of service delivery and implementation highlight the growing complexity of these tasks and the need for more horizontal forms of network management.

Governance Networks: Connecting Values for Societal Problems

The literature and research in the tradition of the governance network focus primarily upon the complexity of decision-making and the problems of reaching acceptable outcomes for societal problems because of the involvement of many actors.

One of the first studies to use the idea of 'network' to analyse policy problems was the '*Politikverflechtung*' study of Scharpf and colleagues (Scharpf *et al.* 1978) into intergovernmental relations. For example, Scharpf researched how environmental problems which cannot be solved by one actor alone were addressed. He uses the word '*Politikverflechtung*' (political

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entanglement) for a situation which is characterized by dependency relations between different layers of government but which also characterized by a lack of central control. Pollution problems along a river, for instance, are caused at one point but have effects for other municipalities and regions which lack the means to influence the pollution. Especially in the federative political structure of Germany, there is no coordination level which can solve this problem. They also show how the structure of the networks, being a dependency structure, the rules of the game, and normative expectations, facilitate or obstruct the solution of the problem. Often Scharpf is called a structuralist (see Rhodes 1981) because he assumes in the study that the objective structure of the problem situation (like the dependency relations) requires specific forms of coordination in which we can find a clear contingency way of thinking.

Gradually more researchers have adopted the network concept to examine how complex decisions are being made. Especially over the last 15 years the number of studies has grown strongly. Although research addresses many questions there is an emphasis on decisions which require joint actions of various actors to achieve policy measures like urban regeneration and community governance (Gage and Mandell 1990; Mandell 2001; McLaverty 2002; Sorenson and Torfing 2003), infrastructure decisions (Friend *et al.* 1974; Klijn 2001, labour market policies (Considine and Lewis 2003). Recently, studies have examined attempts by public actors to increase the involvement of citizens and societal groups (Papadopoulos 2000; Klijn and Koppenjan 2000*b*; Lowndes *et al.* 2001; McLaverty 2002). The growth of partnerships as a vehicle to organize policy-making and delivery has led to much interestin governance network research (Osborne 2000; Sullivan and Skelcher 2002; Klijn and Teisman 2003; Hodge and Greve 2005).

The following topics have been widely researched in the last 10 years:

- how to combine different perceptions of actors and handle the problem that actors act and interpret them differently because of these different perceptions;
- how to organize necessary deliberation processes between actors (Forester 1989; Hajer and Wagernaar 2003);
- how to achieve solutions that are intellectually sound, meet actors' interests, and solve the different value judgements which are at stake;
- how these deliberative processes correspond to institutions of representational democracy (McLaverty 2002; Sørenson 2002; Sørenson and Torfing 2006);

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- what is the position of public actors in these new governance networks (Gage and Mandell 1990; Agranoff and McGuire 2003).

It is difficult to summarize the volume of findings, but it is possible to draw some careful conclusions about the findings. Again, the research tends to emphasize the need for governance networks to solve complex societal problems. This however can only work if much effort is directed at the management of these networks (Kickert *et al.* 1997; Sørenson and Torfing 2003). This finding is not surprising because there has been consistent evidence of the importance of a network manager reticulist, mediator, or facilitator (Friend *et al.* 1974; Agranoff 1986; Gage and Mandell 1990). With this strong managerial focus there is more in common with service delivery and implementation networks than with policy network research.

Recent research is also concerned with how to combine governance networks processes with the existing institutions of representative democracy, which have a strong hierarchical way of steering (Papadopoulos 2000; Sullivan and Skelcher 2002; Sørenson and Torfing 2003) (see also discussion of the challenges in Geddes, Chapter 8). Research reveals tensions between horizontal policy negotiations and the authorization of the outcomes to those interactions. In particular, representative institutions are reluctant to accept the outcomes of the interactive process because of the threat to their authority. It is also difficult to involve representational institutions in the deliberation process (Edelenbos and Klijn 2006). At the same time research also criticizes the managerial flavour of many of the new governance forms which lack attention to the democratic character (Sullivan and Skelcher 2002; Skelcher *et al.* 2005).

Conclusion: A Perspective on Policy and Implementation

Despite differences in research tradition, focus, and research questions, there are many similarities between the traditions discussed above. One can also see that the focus and questions that are raised are converging. In particular, the service delivery/implementation perspective and the governance network perspectiveshare attention to the complexity of interactions between actors and the managerial efforts to organize networks. They are distinguished because governance networks explicitly focus on the question of legitimacy, while the service delivery/implementation perspective seems often to take this for granted.

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Even without the observation of convergence one can see common characteristics in the literature on networks originating from the different research traditions and see something like a common perspective. One of the key concepts in this perspective is ‘mutual dependency’. As Rhodes (1988) and others, following Pfeffer (1981), have found, mutual dependencies emerge because actors do not themselves posses enough resources for survival or for the achievement of interesting goals. Thus they must interact with other organizations in order to exchange resources. Resources include financial resources, authority legitimacy, or knowledge. Networks develop because these resource exchanges continue over time.

Although the framework of the network perspective is strongly influenced by resource dependency theory, it is also influenced by the literature on complex decision-making in public administration and the literature on frames and learning from organization theory. Most theoretical network perspectives on policy formation and implementation agree on at least the following characteristics of networks:

• *Actors and frames* Policy is formed and implemented in a network of actors. Often a lot of different actors are present in these networks. Although these actors are interdependent, it is crucial to the network perspective that they are also conceived of as autonomous actors making their own strategic decisions. Most network researchers also stress that actors choose these strategies on the basis of their own perceptions of the world and thus have different views (frames) on problems and solutions (Schön and Rein 1994). Actors can be individuals, groups, or organizations, although the emphasis is on the last category. If analysis shows that an organization is not the originator of the action (for instance because a ministry is divided into separate sections with their own interests, perceptions, and strategies) then it should focus upon the separate sections of an organization.

• *Interactions and complexity* As a consequence of the interdependencies and the variety of perceptions of the actors, network theory recognizes that complex interaction and negotiating patterns surround policy problems and policy implementation. These decision-making processes could be labelled as *games* since this conceptualizes nicely the complexity which arises out of different players using strategies that interact with each other to achieve outcomes. It also captures the notion that outcomes can be unpredictable due to the interaction of strategies (and changes in strategies) of separate actors. Since outcomes can only be

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achieved through cooperation (due to interdependencyof resources) actors have to reach a minimum agreement on where to go and how to coordinate their efforts. Such coordination does not arrive by itself.

• *Institutional features* The lasting interaction between actors ensures that pat terns of interactions and institutional features develop.The political science and organization theory tradition of networks have been particularly con cerned with adopting quantitative methods to map interactions and identify the structural features that arise (Aldrich and Whetten 1981; Lauman and Knoke 1987; Scott 1991). In addition, rules are constructed through the endur ing interactions of the actors involved, which then also guide and aid further interaction in networks (Klijn 2001).

• *Network management* The complexity of interactions and the different per ceptions of actors' collaboration require guidance and managing actions; this is often referred to as network management (Friend *et al.* 1974; Gage and Mandell 1990; Kickert *et al.* 1997; Trevillion 1999; Meier and O'Toole 2001). These activities differ significantly from the usual activities mentioned in the organizational textbooks on intra-organizational management.

The emerging network perspective on public policy-making and implementation (and service delivery) has become popular both in the academic literature and in administrative practice. It also has important consequences for our ideas about the management of policy processes. These are elaborated in the next section.

Managing and Steering Networks

From a network or Inter-organizational perspective, policy-making and implementation is a complex process. Interesting outcomes for the actors involved do not occur automatically but have to be managed and coordinated carefully. This is in contrast to 'conventional public administration', which strongly emphasizes political decision-making and goal-setting as important factors. Such an approach focuses primarily upon the relationship between political decision-makers and how implementing bodies are organized (clear goal-setting, strong monitoring and steering opportunities, etc.). Such an observation holds not only for traditional public administration studies but also a lot of implementation studies which implicitly take central goals of central (departmental) actors as a starting point for analysis (see for instance the classical work of Pressman and

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Wildavsky 1983). It is also central to more recent theories such as the ideas expressed in New Public Management and many contracting theories (see Osborne and Gaebler (1992) for the most clear example).

The Public Manager as Network Manager

Almost all the literature on networks and Inter-organizational management agree that the role of the public manager differs significantly from portrayals in standard textbooks. These present the image of an identifiable organization, with clear hierarchy and goals and well-defined management positions (Robbins 1980). The literature that followed the influential publication of Hanf and Scharpf (1978) ascribes more or less the same characteristics to the position and role of the so-called network manager (Friend *et al.* 1974; Agranoff 1986; Mandell 1990; Kickert *et al.* 1997; Agranoff and McGuire 2003). These include:

- *Power and authority* Since the network manager is dependent on the resources of other actors and most of the time has at best limited authority over other organizations, she operates in a divided power structure (Bryson and Crosby 1992). Unlike standard accounts of managerial authority, the network manager simply does not have the position and authority to make unilateral decisions. This does not mean that there are no power differences or that power does not matter (Klijn and Koppenjan 2000*a*). From a network or Inter-organizational perspective, the power of an actor depends on the range of resources available to her and the ways in which she is dependent on the resources of other actors (see Emerson 1962; Scharpf 1978). The more the various actors are mutually dependent on each other's resources the more equal the power division in the network. But even powerful actors have limited authority since they have no direct authority regarding the way other actors use their resources.
- *Goal structure* Activities are not guided by uniform, clear goals such as those ascribed to internal organizational settings, where they are often also scarce—because the various actors involved have different goals. Goals also emerge during the cooperation process (Agranoff 1986; Mandell 1990). Much of the literature on governance networks suggests that goal-seeking constitutes a large part of decision and cooperation processes in networks (Forester 1989; Mandell 1990). It also often makes the goal structure of Inter-organizational cooperations and decision-making more like a

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‘menu’, where different actors find interesting elements that suit their interests and capacities, rather than a unified common goal (Koppenjan and Klijn 2004; Huxham and Vangen 2005).
• *Management activities* In the traditional literature on management, the activities of the manager are described as comprising three major tasks: setting the goals (planning); structuring and designing the organization (organizing); and ‘getting the job done’ (leading) (see Robbins 1980). Network management activities are more focused on bringing different actors together, adjusting and accommodating goals and perceptions, and building organizational arrange ments to sustain and strengthen interactions. If we were to name three network management equivalents of planning, organizing, and leading, these wouldprobably be goal-finding and perception accommodation, making organizational arrangements, and coordinating.

In sum, the *role of the manager* from an Inter-organizational network perspective is equivalent to that of a mediator, a process manager, or a facilitator (cf. discussion in Chapter 15 (Hibbert *et al.*)). This is because network management is in essence an Inter-organizational activity (see Friend *et al.* 1974; Hanf and Scharpf 1978; Lynn 1981; Gage and Mandell 1990; Kickert *et al.* 1997).

Strategies of Network Management

The number of network management strategies identified in the literature is impressive and this is not the place to describe them (see O'Toole 1988; Gage and Mandell 1990; Agranoff and McGuire 2001). It is clear, however, that if the network manager is to achieve important outcomes, a range of different strategies is required (see Kickert *et al.* 1997; Agranoff and McGuire 2001).These include activating actors and resources, coordinating goal-achieving mechanisms (including influencing the perceptions and goals of other actors), fostering organizational arrangements to facilitate and enable interactions between actors, and coordinating the stream of actions and interactions between different actors.

On the other hand, we have seen that networks consist of concrete interactions between actors within a network structure that is created by the actors (partly willingly and consciously, but partly as result of prior interactions and established ways of behaving). This means that network

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management strategies may be aimed at bringing about changes in the interactions of actors within networks, or bringing about changes in the structure of the network (Kickert *et al.* 1997). Although making no claims to be exhaustive, Table 5.2 summarizes the main strategies of network management (for an overview of the many different strategies of network management, see Hanf and Scharpf 1978; O'Toole 1988; Gage and Mandell 1990; Kickert *et al.* 1997; Agranoff and McGuire 2001; Koppenjan and Klijn 2004). Not all the strategies mentioned in any one cell are mutually exclusive. One can, for instance, influence the perceptions of actors by initiating a search process for variety in solutions.

Strategies for the activation of actors or resources are necessary to start the game. The network manager has to identify the actors necessary for an initiative and actually create a situation in which they become interested in investing their resources (see also Lynn 1981). Scharpf (1978) calls this ‘selective activation’. Inter-organizational policy-making requires correct identification of necessary participants and a lack of opposition from other actors with the ability to block the initiative. Conversely, the manager may wish to deactivate actors because their involvement is not productive. This of course also evokes normative questions, which are beyond the scope of this chapter. Once the game has started it is necessary to clarify the goals and perceptions of actors and to try to invest time and money in

Table 5.2 Overview of network management strategies

	Activation of actors and resources	**Goal-achieving strategies**	**Organizational arrangements**	**Interaction guiding**
Management of interactions	Selective activation, resource mobilizing, stabilization, deactivation of actors and resources, initiating new series of interaction, coalition-building	Searching for goal congruency, creating variation in solutions, influencing (and explicating) perceptions, managing and collecting	Creating new ad hoc organizational arrangements (boards, project organizations, etc.)	Mediation, brokerage, appointing of process manager, removing obstacles to cooperation, creating incentives for cooperation

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		information and research		
Management of network	Network activation, changing composition of networks, changing position of actors, • changing resources	Reframing of perceptions, changing decision rules in networks, changing information flow permanently	Creating permanent organizational constructions	Changing or setting rules for conflict regulation, for information flow, changing pay-off rules or professional codes

Source: Adapted from Klijn (2005).

developing solutions that create opportunities for actors' participation (Koppenjan and Klijn 2004). Creating temporary organizational arrangements to facilitate interactions is also important (Mulford and Rogers 1982; Gage and Mandell 1990). The transaction costs of these arrangements have to be kept as low as possible. Most of the time actors themselves understand this very well. Empirical research shows that despite all the talk about coordinating partnerships empirical research shows that organizational arrangements are often lacking or relatively light (Osborne 2000; Hodge and Greve 2005). Last but not least, the interactions in the game itself have to be managed. This can be done by appointing a process manager who invests time and energy in connecting the actions and strategies of actors throughout their interactions.

At the network level, the manager also has opportunities for intervening. Contrary to strategies aimed at managing the interactions, which assume a given network (and its rules and beliefs), interventions are aimed at changing the network, mostly by changing rules in the network. These could be rules of entry and exit (allowing new actors to enter), rules on evaluation (for instance in a very classical way by changing the reward structure by means of subsidizing), or changing conflict rules (for an extensive elaboration of various strategies, see Koppenjan and Klijn 2004).

These strategies are highly time-consuming and often more open to conflict and criticism because they are dangerous to established positions. They involve all kinds of normative questions (Koppenjan and Klijn 2004). Nevertheless, one can see many of these strategies in practice where

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(mostly) central public actors (like central politicians) try to achieve different outcomes by changing the rules for interactions, changing the positions of actors, or using one of the other strategies that are shown in Table 5.2.

The Effects of Network Management

O'Toole and Meier did research on the effects of network management activities using data collected from a large number of Texas school superintendents in different educational districts. Superintendents were asked how frequently they interacted with key environmental actors (school boards, local business leaders, other superintendents, and the state education agency). These frequency rankings were used to produce a measurement of network management and were connected to indicators of success and failure in the different educational networks in the districts (Meier and O'Toole 2001). They found that managerial networking was positively correlated with primary goals (they used standardized test scores to measure effectiveness), and also with other indicators of organizational performance. They also looked at the role of personnel stability and found that this was positively correlated to outcome indicators (O'Toole and Meier 2003). They conclude: ‘The results ofour analysis reconfirm the importance of management while it offers substantial support for the notion that personnel stability at both the managerial and the front-line level contributes positively to performance’ (O'Toole and Meier 2003: 61). Although Meier and O'Toole did not look at specific managerial strategies (such as those mentioned in Table 5.2) and thus were not able to assess the effect of certain types of strategies, their findings indicate that managing network interactions does has a positive effect on outcomes.

The Role of Public Actors

When public actors adopt a network manager role this requires that they play a less dominant role than if they use top-down steering. For that reason network steering has attracted the criticism that it hollows out the representational democracy and that it makes the ‘general interest’ ‘negotiable’. It is not possible here to deal fully with this discussion but two observations can be made, one normative and one empirical:

- The general interest is not without problems in modern pluriform network society. Complex value conflicts in most public and societal decisions mean that even public actors reveal different interests and opinions about what that general interest is. Are the positions of elected central office holders more legitimate than those of

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local elected office holders? The argument, emphasized in the network governance literature, is that something like a common interest is constructed during complex interaction processes. It is precisely this construction process which is the political part of the process and thereby also raises difficulties (Forrester 1989; Klijn and Koppenjan 2000*a*; Hajer and Wagenaar 2003).

• Scholars and practitioners recognize that it is very difficult to form and implement public policy in 'splendid isolation' and the empirical research of the last 20 years clearly supports this. Whatever is thought of the first argument above, the pragmatic argument is that networks are simply an empirical reality and that public actors have to deal with them anyway.

Public actors can always choose not to join networks or, if they are party to one, simply use central top-down steering mechanisms. Empirical research shows, however, that these strategies are not often (which does not mean always!) very effective. Public actors can also choose to represent their own interests and leave the role of network manager, to someone else. If a public actor wants to perform the role of network manager it requires a facilitative role where some distance is maintained from the representation of the goals and interests of that actor. Such a role may also focus strongly upon securing access to the decision-making process of other actors (especially actors which normally do not have easy access). In thatcase the general interest is interpreted in procedural terms, for example, as securing an appropriate decision-making process (Klijn and Koppenjan 2000*a*).

Managing Stakeholder Involvement in Complex Decision-making

A substantial part of the literature on governance networks is concerned with increasing citizens' involvement in policy-making and decision-making (see Søren-son and Torfing 2006). The supposed advantages (more citizens' support, better outcomes, and more democratic legitimacy) are, however, not always easy to achieve. Edelenbos and Klijn (2006) looked at six cases of so-called interactive decision-making in the Netherlands. Interactive decision-making is a new form of governance in which public actors, in this case local municipalities, involve stakeholders in the formation (and implementation) of public policy. Inspired by ideas of network theory on process management they compared the results of these processes and showed that in only two of the cases have unambiguously positive outcomes been achieved in terms of actor contentment and enrichment. They relate the outcomes to three organizational variables: stakeholder participation, the

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relation between the interactive process and the position of the municipal council, and last but not least network management efforts (namely the presence of a process design and the activity and flexibility of a network manager). The results show that positive outcomes in the cases are most clearly related to active and flexible network management while it is, surprisingly, difficult to see a link between outcomes and the degree to which municipal councils are involved since the involvement of municipal councils in general was low. The authors conclude:

> the outcomes seem to stress that participation is strongly appreciated by stakeholders if they see any real outcomes from this participation …our findings provide a good impression of the importance of good process management for the success of interactive processes.
>
> (Edelenbos and Klijn 2006)

Researching Networks: Actor, Game, and Network Analysis

If policy is made and implemented in networks, the practitioner or policy analyst needs to know what the characteristics of the actors are, what the network they are in looks like, and, last but not least, how the interaction process should orcan be conducted. The assumption is that the institutional characteristics of the network (rules, interactions patterns) matter and form the conditions in which specific actors and their characteristics (their resources, their perceptions of the world) achieve concrete outputs (policy outcomes, services, etc.) in interaction processes.

Three Types of Analysis

For a full understanding of the policy processes and their outcomes we need to combine three types of analysis (Koppenjan and Klijn 2004):

• *Actor analysis* Actors are the basic units of analysis because they are the source from which actions originate. Important analytical steps are the iden tification of the important actors and the reconstruction of their percep tions on important topics such as the nature of the problem, the desired solutions, or their views on other actors. After all the assumption in most network theories on policy-making and implementation is that these perceptions or frames inform and inspire the choice of strategies of actors (see also Schön and Rein 1994; Huxham and Vangen 2005). It is also important to get a picture of the resources of each actor and the

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dependency relations (see also Chapter 14) which result from the resource distribution between the actors.

• *Game analysis* Policy outcomes and policy implementation in the network perspective are a result of the complex interaction of various actors' strategies. In more complex policy problems these interactions often take place in different arenas, thereby enhancing the complexity of the decision-making process. These decision-making processes, which are called games, have to be analysed to know what is happening and why. Although many steps in this analysis can be isolated (like identifying actors' strategies, crucial decisions, and external events), highlighting two important steps illustrates the complexity of the process and its character. These steps are determining relevant arenas, and identifying and analysing stagnations. Determining the arenas requires identifying the groups of actors and interaction situations that are relevant for the policy decision or implementation process under study. For the practitioner this gives him/her a flavour of the complexity of the game and a hint about where he/she should be present to influence or even manage the game. For the analysts it makes clear how the outcomes are influenced by various decisions taken at various places. Identifying stagnations in the process (and assessing the influence of actors' strategies on that) assists in knowing where to start if you want to improve the decision making process (the practitioner). When decision-making accelerates or diesoff it also aids in knowing the consequences of this for achieving outcomes (analyst).

• *Network analysis* Getting a picture of the network and its characteristics is central to the assessment of the influence of institutional characteristics upon the decision-making process. There are several analytical steps which can be important in this respect. Mapping the interaction patterns through social network analysis techniques is a very classical way to get an image of the central and peripheral actors in the networks and which actors are connected to each other (see Chapter 11 (Kenis and Oerlemans)). Of course the demarcation problem (what are the borders of the network) is always difficult. One can look at the frequency of interactions to decide where to cut off the network, or ask the respondents directly for their opinion about who is in the network or not. This is a decision for the researcher who should keep the analytical value of different techniques and their relevance in mind. Looking at ties that seem to exist between actors in different

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networks is useful when analysing links between networks. There are several established statistical packages to analyse networks and their interactions (Scott 1991) with even the regular SPPS packages offering possibilities to analyse interaction patterns nowadays (for more information, see Chapter 12). One can also use multidimensional scaling (MDS). This frequently used technique for network analysis calculates distances between actors in a network on the basis of interactions matrices that contain information about the interactions of each actor with the other actors. A complex diagram is presented in two dimensions and identifies which actors with the same pattern of interaction find themselves close to each other (see Scott 1991). The same procedure can be used in analysing perceptions (mapping them or making an MDS analysis). These are measured by asking the actors involved to respond to explicit statements. Mapping interaction, however, does not give the analyst more information (though it is still very valuable!) than the interaction pattern at a certain moment in time. It does not tell much about the structure of the network or rather the rules that guide actors' behaviour and construct their meaning (Giddens 1984). The reconstruction of formal rules is not very difficult and only requires close reading of the official texts (laws, regulations, etc.). The reconstruction of informal rules, however, is far more laborious. It requires the in-depth interviewing of the actors involved, as well as confronting the findings with one another (Klijn 2001). It can, however, be very satisfactory since it is capable of revealing the kinds of rules that actors establish within processes, such as rules about profession, about the entry of actors in the network, and about the exchange of information, to name but a few examples (see Ostrom 1986; Burns and Flam 1987; Klijn 2001).

Table 5.3 provides an overview of the various analytical steps in actor, game, and network analysis.

Table 5.3 Steps in actor, game, and network analysis

Step	Intention	Important questions
Actor analysis		
Take a provisional formulation of a problem	Mapping a problem situation or initiative as	• What does the current

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or initiative as starting point	starting point for further analysis	or expected situation look like? • What are the (undesirable) consequences that flow from that? • What are regarded as the causes of this situation? • What is the desired situation? • What goals and criteria underlie this? • Which solutions/policy alternatives are pursued?
Identify actors involved	Which actors need to be taken into account?	• Who can be distinguished as the acting units? • Which actors in the network are important to realizing one's own objectives or policy goals? • Which actors have an interest in finding a solution to the problem situation?
Reconstruct perceptions of actors	Mapping images of actors with regard to the	• What images do actors hold about

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	problem, the solution, and other actors	aspects such as problem, causes, solutions and (competency) of each other? • To what degree do these perceptions differ, are there clear groups? • What obstacles could be caused by differences in perception?
Analyse actor positions and dependencies	What positions do actors take with regard to the problem situation and how much do actors depend upon each other?	• What means do different actors have at their disposal? • How important are these means and can they be acquired elsewhere? • Is there unilateral or mutual dependency? • Are actors critical, dedicated, and/or comparable?
Game analysis		
Determine the relevant arenas	Acknowledging coherent groups of actors and interaction situations around demarcated policy issues and/or initiatives that are meaningful to the	• Where are the decisions made that are important to the initiative/policy

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	initial initiative or policy game	game that is analysed? • Which actors interact in which context (sector, policy content, ad hoc, etc.)? • How coherent are these groups of actors? • Do these groups of actors have relations with each other (linkages)?
Identify and analyse stagnation	Make an inventory of stagnation in the game and determine the nature and structure of stagnation as a starting point for managing interventions	• Is there stagnation in the game? • What is the nature and structure of stagnation? • Which players are involved in the stagnation? • Are these blockades or stagnation? • To what extent is the stagnation cognitive by nature? • To what extent is the stagnation social by nature?
Network analysis		
Inventory of interaction patterns of actors	Through mapping the frequency and diversity of interactions of actors,	• Which actors interact frequently

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	networks and the actors who belong to them can be determined	and which infrequently? • Which actors have a varying contact pattern and which do not? • which actors are central and peripheral in the network given their contact pattern?
Inventory of patterns in actors' perception	By determining the relation in perceptions among actors, one can discover which networks actor belong to	• What perceptions do actors hold with regard to problems, solutions, and their environment? • To what degree do these perceptions correspond to those of other actors?
Inventory of institutional provisions that connect actors in networks	Make an inventory of and analyse the formal and informal rules of the game and other organizational arrangements in the network relevant to the policy game	• What formal rules and juridical procedures apply? • What informal rules can be distinguished (for instance, with regard to information provision, access

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	opportunities, professional codes, etc.)? • What meeting and consultation procedures or other organizational constructions exist in the network that structure the policy game?

Source: Adapted from Koppenjan and Klijn (2004).

Handling the Analytical Steps

It is of course not always necessary to perform all the analytical steps described in Table 5.3. In many cases the analyst can restrict himself/herself to just some of the steps or even pick out several elements of the steps. This could be connected to thetype of problems one is facing or the needs of the actors in the network. Each of the steps can also be performed extensively in a scientific manner or very loosely.

Another problem is that the dynamics in most networks are intense and situations change. This probably means that (parts of) the analysis have to be repeated over time. This is also a strategic decision, in which the costs of analysis have to be weighed against the gains.

Conclusion: Future for a Network Perspective on Policy

It can be concluded that the network perspective offers an interesting and promising theoretical perspective. It has generated a lot of empirical material on the complexity of policy-making and implementation processes, on the need for extensive ‘horizontal’ and unorthodox forms of management. Recent research also indicates that in order to achieve important policy outcomes and (integrated) service delivery, public actors often need more than one network (Agranoff and McGuire 2003), which makes their managerial tasks even more complicated. Further development is certainly needed. Several authors have criticized network theory because most of the variables seemed to be at the actor level rather than at the network

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level (Dowding 1995; Pollitt 2003*a*). This is not entirely correct since there is research which considers network characteristics (either the pattern of relations or the constructed rules). Nevertheless there is no doubt that the influence of network characteristics and how to analyse them require more sustained theoretical and methodological attention.

In addition, more research is needed to investigate the way that the institutional features of different networks clash since the many policy initiatives nowadays require the involvement of different networks. Last, but certainly not least, more attention needs to be devoted to the relationship between horizontal forms of managing and the problem of accountability in networks. The key question—both theoretical and practical—to be answered by network researchers is: how can accountability be arranged or, more likely, rearranged so that it ties in with and addresses the problem of the empirically complex world of networks (see also discussion in Chapter 8 (Geddes))? This is a world in which resources are dispersed, actors have opportunities to block decisions, and societal problems can only be solved by the involvement of a large group of actors. A final related question concerns the democratic basis of policy network management: how may citizens be involved in such complex decision-making processes and how may they be tied to the 'traditional' institutions of parliamentary democracy?

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Collaborative Service Provision in the Public Sector

Jodi Sandfort, H. Brinton Milward

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Abstract and Keywords

The topic of public service partnerships has clear substantive importance. Governments all over the world are increasing their dependence upon collaborative partnerships to delivery public services. This article reviews literature written in the crevice between the espoused benefits of collaborative service partnerships and the reality that they are difficult to create, sustain, and use to mobilize resources in ways that create positive results. According to this article, the literature exploring the collaborative public service delivery is diverse. This reflects the variation found in the field, as practitioners use an increasingly wide array of tools to work on complex, public problems. What has resulted is a disparate literature with two distinct streams of inquiry — one focusing on collaboration itself, the other on the consequences these new service arrangements have on organizations and citizens. This article reveals some fundamental issues unresolved in the ongoing scholarly inquiry.

collaborative partnerships, public services, public problems, organizations, citizens

Introduction

Over the last 40 years, a dramatic change has occurred in how government carries out public policies. Scholars have characterized this change as the ‘hollowing of the state’ (Milward and Provan 1993), a ‘revolution that no one noticed’ (Salamon 2002). Governments around the world, including New Zealand, Great Britain, China, and the United States, have shifted

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how they operate and how they work with and through private institutions. Six common ideas have supported this international public management revolution: the search for greater productivity; more reliance on private markets to achieve public ends; a stronger orientation towards service; more decentralization from national to sub-national governments; increased ability to conceive and monitor public policy; and increased tactics to enhance accountability for results (Kettl 2005). As these ideas have become widely accepted, the public sector has developed many ways of working with private business and not-for-profit charitable organizations.

Scholars of public administration and other policy fields have developed rich literatures exploring the multiple ways the public, private, and non-profit sectors now work together to implement public policies. Sometimes governments contract with private entities and buy staff, services, or expertise through 'purchase-of-services' contracts (DeHoog and Salamon 2002; Romzek and Johnston 2002; Van Slyke 2003). Sometimes, governments support business innovation by sponsoring research or providing infrastructure through public—private partnerships (Link 2006). At other times, the public sector works collaboratively with all other sectors, drawing resources and expertise across organizational boundaries as a partner rather than a purchaser or supporter.

While these 'ideas in good currency' (Schon 1971) have moved around the world, there has been the realization by policy-makers in many different countries that some public problems, such as homelessness, child welfare, or terrorism, transcend the expertise and capabilities of any one organization. Figure 6.1 is a visual illustration of such problems and their relationship with the conventional structures of public organizations. Each organization (labelled o_1, o_2, o_3, and o_4) intersects with only part of the problem and none of the organizations is linked in any kind of a collaborative relationship (Hjern 1992: 4). The policy problem space is far outside the purview of any one organization.

In the world of practice, there are many benefits to creating collaborative structures that fill this void. As more complex, multidimensional problems appear in the public arena, additional knowledge, further tools, and more refined services need to be mobilized. Collaboration offers the promise of accessing more resources and sharing the risks associated with finding a solution to them. Policymakers also argue that such partnerships increase efficiency and allow citizens to receive seamless services. Additionally, there are potential synergies that come from collaboration that can create

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opportunities for learning and organizational improvement. In all, there are many potential benefits of such structures that can create a ‘collaborative advantage’ over other forms (Huxham 2003; Huxham and Vangen 2005). In the words of one author, crafting public—private partnerships has the potential to ‘make a world of difference and a difference to the world’ (Heap 2000).

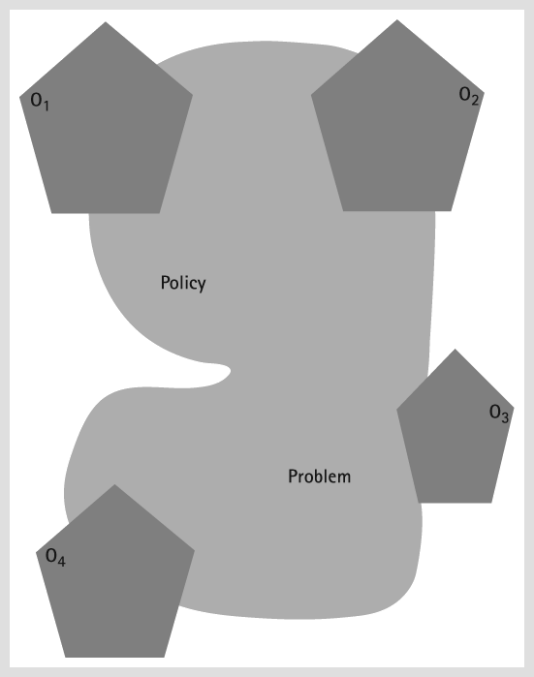

Fig. 6.1 The rationale for collaboration

Source: Hjern (1992: 4).

In practice, however, the creation of public—private structures that effectively and efficiently work in the public problem space and create the desired results is challenging. Rather than seizing the ‘collaborative advantage’, too often ‘collaborative inertia’ sets in (Huxham 2003; Huxham and Vangen 2005). In this chapter, we review literature written in the crevice between these espoused benefits of collaborative service partnerships and the reality that they are difficult to create, sustain, and use to mobilize resources in ways that create positive results. This literature delves more deeply into Powell's insight (1990) that networks are neither markets nor hierarchies, both of which are stronger forms of social action than networks. Networks are often viewed as the fallback position when markets or hierarchy fail.While research exploring the unique properties of these

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networks is found in other chapters in this volume, our contribution is to integrate lessons from scholarship concerned with how networks and other Inter-organizational mechanisms are used to deliver services to the public. In our synthesis, we do not include scholarship that considers how multiple organizations work together to resolve conflicts, set agendas around public problems, or share information (Roberts and Bradley 1991; Gray 1996; Huxham 1996; Milward and Provan 2006). Instead, our charge is to focuson what is known about how public and private resources are mobilized across sectors to deliver programmes and provide services to citizens.

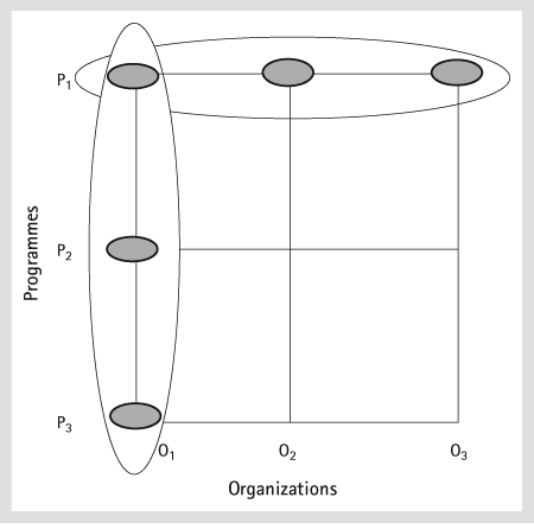

Fig. 6.2 Implementation structures: organizations versus programmes

Source: Hjern and Porter (1981).

In our conception, public collaborative service delivery has the following characteristics: (1) services are provided external to the government that funds it; (2) services are jointly produced by two or more organizations; (3) tasks focus upon horizontal management of service provision, not vertical governance; (4) funds flow to organizations to pay for contracted services; (5) cooperation, contracting, planning, and rationing are the primary tasks; (6) power is shared but not equal; (7) there are a mixture of organizational forms in use—public, private, non-profit, and hybrid; and (8) the focus is programmatic rather than organizational. This last point needs further explanation. While much of Inter-organizational scholarship focuses upon networks or organizations as a central unit of analysis, our intent is to highlight the structures designed to support the implementation of particular programs or services. This idea builds upon the work of Hjern and Porter

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(1981) that is illustrated in Figure 6.2. They describe ‘implementation structures’ as ‘a cluster of parts of public and private organizations [in which] subsets of members within organizations … view a program as their primary, or an instrumentally important,interest’. In a national study of mental health networks, Provan and Milward (1995) found that the programmatic part of these implementation structures, which they called ‘service implementation networks’, served as the production function for services to the seriously mentally ill. Since every organization receiving external funds for service provision has a programmatic element within it, inevitably a tension is created between managing the organization and managing the programme carried out by the network or public—private partnership. This tension between programme and organization is a source of management problems, like mission drift or goal deflection. It can affect both the service partnerships and the organizations that house them, as it is often the same people who manage the organization and their piece of the service implementation network.

Much of the scholarship about collaborative public service provision is grounded in descriptions of field conditions. Because collaborative service delivery is prevalent in so many fields, scholars from different perspectives are involved in this discussion. Researchers in social work, public health, community psychology, public administration, non-profit management, and education explore this topic in multiple ways: some provide normative arguments about the importance of service integration and collaboration (Beatrice 1990; Kagan 1991; Bardach 1996; Harbert *et al.* 1997; Eilers 2002); others discuss the prevalence of new service mechanisms and develop typologies of these forms (Gray 1996; Himmelman 1996); and still others investigate the consequences of these structures for addressing important social problems (Provan and Milward 1995; Jennings and Ewalt 1998; Agranoff and McGuire 2003*a*). As a result, the research questions explored and research approaches employed vary tremendously. Additionally, it is difficult to coherently discuss public—private collaborative services in an international context because the institutional definitions of ‘public’ and ‘private’ are so nationally bound (Osborne 2000; Pollitt 2003). Finally, there are no dominant theoretical traditions or analytical frameworks currently apparent. It is our aim in this chapter to make sense of this diversity and highlight the important insights, gaps, and implications for future scholarly inquiry included in this literature.

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State of the Research

The majority of articles written about Inter-organizational service delivery in the public sector focus on describing the diversity of forms that have sprouted up during the last forty years. These sources document that ‘collaboration’, ‘service integration’, ‘strategic alliances’, and ‘community partnerships’ are occurring in many fields—substance abuse and criminal justice, HIV/AID prevention andservices, mental health provision, employment and training services, primary education, and children's services. Most articles tell the story of a particular case and, inevitably, mention the challenges inherent in these new forms of service delivery.

At the broadest level, the literature has two distinct streams. The first focuses on service partnerships as the main topic of interest. In other words, it treats the partnership, the collaboration, the network as an outcome of managerial, social, and political actions. It is an end, in and of itself. As such, the research delves deeply into the process of the new form and explores what motivates its development and what is involved in its maintenance and refinement. In this tradition, variations in a particular form—such as dyadic public—private partnerships or a network for service provision—are intriguing and some scholars consider theoretical or practical rationales to help explain them. Authors also catalogue and theorize about the various barriers that make achieving collaborative partnerships challenging.

The second stream of research focuses on the consequences of these Inter-organizational forms; they consider the partnership, collaboration, or network as an independent variable. It is a means to an end. Often, this literature interrogates the purported outcomes of these new structures and investigates the effect they are having on a range of factors. Some scholars explore how they influence the operation of member organizations or the policy systems of which they are a part. Others consider consequences for specific citizens who receive services from them. In this second stream, the process of doing collaborative service delivery—so emphasized by scholars in the first stream—is often underplayed. Instead, the static structure of partnership is often assumed to explore the scholars’ main interest: what consequence is this structure having upon other, important outcomes? While we will consider both, in turn, let us first examine, in more detail, the ways collaborative service structures are described.

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Describing Variations in Form among Inter-organizational Service Delivery

When scholars first explore this area, many are struck by the diversity of the form of public—private partnerships due to the transformation of public service delivery over the last forty years. Terminology abounds, with little consistency found between the way practitioners refer to ‘public—private partnerships’, ‘collaborations’, ‘strategic alliances’, and ‘joint ventures’. A number of scholars try to make sense of this diversity through classification (Gray 1996; Himmelman 1996; Agranoff and McGuire 1998; Linder 2000). Some of these attempts occur inductively, as authors try to understand the various service forms used in a particular field and attach labels to the variety they observe (Gans and Horton 1975; Kagan 1993). Others start with social science theory and glean principles from academic literature thathelp to create a defensible typology (Martin *et al.* 1983; Mitchell and Shortell 2000). While this descriptive process of field conditions is necessary, the typologies developed are rarely used as the foundation of any future research. As a result, while numerous field-based typologies exist, the models are seldom linked to any ongoing thread of empirical examination testing their validity or refining their terminology.

With this caveat, there are a few significant characteristics that transcend the various descriptive typologies. First, some authors emphasize the important of differentiating purpose (General Accounting Office 1992; Kagan 1993; Agranoff and McGuire 1998; Agranoff and McGuire 2003*b*), particularly in making distinctions between initiatives that attempt ‘systems’ change and those oriented towards ‘service’ change. Reorganizing or linking state and local government administrative entities, for example, has the potential of improving system efficiency. Similarly, initiatives that reorganize local services through collocation may create new links and decreasing fragmentation. These macro-‘systems’ change efforts are often contrasted with more modest attempts to improve the way services are provided for individual clients. Sometimes such change involves actually altering the content of services because new resources are brought to bear. At other times, such change is a mere repackaging of existing services through techniques such as case management (Dill 2001). In this approach, the collaboration is focused on work around and among the existing systems—rather than changing the systems themselves—to assure that individuals receive the services they need. Scholars describing the diverse conditions in the field illuminate that these purposes are distinct.

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Another characteristic used to describe and differentiate collaborative service delivery arrangements is by the level at which they occur. A number of scholars (Agranoff and Pattakos 1979; Martin *et al.* 1983; Kagan 1993) distinguish four levels of service integration:

- *Policy level:* Decision-making bodies, such as commissions or policy councils, that allow information to be shared, programmes to be developed, and revenues to flow beyond the traditional boundaries of categorical programs (see Klijn, Chapter 5, this volume). Public-private partnerships that combine public and private revenue streams to create new programs.
- *Organizational level:* The reorganization and creation of unified 'umbrella' agencies within government to improve the sharing of information and administration of existing programmes. Joint ventures where government and private, non-profit organizations share administrative functions.
- *Programme level:* Strategies such as collocation, linking information systems, or integrated staffing that change the scope and implementation of programmes.
- *Client level:* Efforts that coordinate services for individual clients or their families and may include single application procedures or case management services.

Fig. 6.3 Continuum of collaborative service arrangements

Within any particular level, a collaborative effort might focus on either improving systems or services. The purpose of collaboration is distinct from the level at which it occurs.

Finally, many authors that describe field conditions try to make sense of the varying intensity of collaboration among the examples they observe. One approach is to conceptualize the variation along a continuum that describes intensity from informal to more formalized relations (Kagan 1993; Himmelman 1996; Cigler 2001; Mattessich *et al.* 2001). Figure 6.3 illustrates a common representation of this continuum. At one end is *cooperation* supported by informal and personal relationships. At the other is formalized *service integration* in which two or more organizations work together to provide new services to their mutual clients. Between these two extremes

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are *coordination*, in which both organizations make an effort to calibrate their actions, although the organizations themselves remain independent, and *collaboration* in which organizations share existing resources, authority, and rewards. Collaboration can occur through multiple mechanisms, such as integrating staff, joint planning, or joint budgeting. Although these terms—cooperation, coordination, collaboration, and service integration—are often used interchangeably in practice, there are reasons for distinguish among relationships based on their intensity.

Another approach describes the various stages of a single collaborative relationship, considering what is involved in forming Inter-organizational relationships in practice. Hudson and colleagues (Hudson *et al.* 1999), for example, highlight ten stages that seem to characterize the 'collaborative endeavour' from the practitioners' perspective: (1) consider contextual factors, both expectations and constraints; (2) recognize the need to collaborate; (3) identify a legitimate basis for collaboration; (4) assess collaborative capacity; (5) articulate a clear collaborative purpose; (6) build trust; (7) ensure wide organizational ownership; (8) nurture fragile relationships; (9) select an appropriate collaborative relationship; (10) select a pathway to create it. Yet, like other descriptions, this model is not substantiated with subsequent empirical investigation. In fact, there are other cases that suggest other paths than this linear approach (Ramiah and Reich 2006). Based on 15 years of extensive action research, Huxham and Vangen (2005) question the validity of such a linear conception and, instead, suggest that many of the dynamics of the collaborative process are recursive. They do not get established at one time to be forgotten. Instead, purpose, membership, trust, power, leadership, and identity allmust be negotiated, nurtured, and managed continuously throughout the collaborative process (See Huxham and Beech, and Bachman and Zaheer, this volume).

While other chapters in this volume explore how various social science theoretical traditions conceptualize and describe Inter-organizational relations, it is important to note that some scholars describing public sector service partnerships draw upon these traditions (see Part III, this volume). In fact, Hill and Lynn (2003) summarize two major paradigms for understanding cross-sector work. On the one hand, some theories such as exchange theory (Emerson 1962), principal agent (Williamson 1975, 1985), game theory (Axelrod 1997), collective action (Olson 1965) presume that the collaboration or public service partnerships are best understood as rational forms designed to maximize production abilities. On the other hand, many theories, including

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institutional (DiMaggio and Powell 1991), structuration (Giddens 1984; Bourdieu 1990; Sewell 1992), and network theories (Jones and Hes-terly 1997) point to more nuanced, social factors to describe these forms. Future work that describes the diverse forms of public service partnerships might be enhanced if it interacts with these theoretical traditions.

So while considerable attention is paid to describing the array of collaborative service structures found in professional fields, no dominant perspective has emerged. Those writing for more applied audiences stop at describing what they see. Their frameworks, while having some face validity, are not often explored in subsequent studies with more robust tests. New scholars intrigued with the diversity of service delivery forms found in their fields face significant choices in shaping their research. One viable approach is to test and refine the many field-based typologies that exist. Another approach is to embrace theories that frame these Inter-organizational forms in economic or social paradigms and push those theories with the empirical complexity found in the field to glean new insights. Each approach would be valuable and would lead to differently scholarly products.

Focusing on Service Partnerships as the Outcome of Interest

As mentioned earlier, there are two main streams of scholarship that move beyond a mere description of collaborative public service partnerships. The first focuses mainly on investigating various dimensions of these new service structures—what motivates their creation, what barriers must be confronted, what practices are most likely to predict their sustainability. In this approach, the structure itself and the social dynamics involved in its existence are important and worthy of enquiry. Other outcomes of the partnership are not focused upon.

Motivations for Cross-sector Service Partnerships

Many researchers explore what forces cause or contribute to the proliferation of inter-organization structures and—as is summarized in other chapters of this volume—there are competingtheoretical interpretations. In the public service research literature, it is generally assumed that many forces are driving the proliferation of these collaborative forms (Bryson *et al.* 2006). When organizations face turbulent environments, they seek partnerships with other organizations to smooth out operational flows (Hall 1999), reduce resource dependencies (Aldrich and Pfeffer 1976), and gain institutional legitimacy (DiMaggio and Powell 1991). Oliver (1990) provides a concise

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summary of this literature that suggests six distinct motivations for the formation of Inter-organizational relationships that transcend theoretical tradition: (1) mandated by legal or regulatory requirements as 'necessity'; (2) realized potential to exert power or control through 'asymmetry'; (3) desired 'reciprocity' with another organization through cooperation or coordination; (4) improved organizational 'efficiency'; (5) increased 'stability' of the organizational environment; (6) enhanced 'legitimacy' among other organizations and decision-makers. In practice, of course, the decision by an individual organization to enter into a relationship with another is commonly based upon more than one of these motivations.

In fact, while not explored systematically, there are suggestions about how these factors play out in scholarship about public service partnerships. As governments increasingly mandate collaborative planning, oversight bodies, or integrative service models, there are increasing *necessities* for public and non-profit organizations to engage in partnerships. In the United States, for example, federal employment policy requires that job training support be offered through 'one stop' service centres that bring multiple entities together to improve client access to services (Holcomb *et al.* 1993). Additionally, private philanthropic foundations find funding collaborative service models an appealing way to attempt systemic change (Ostrower 2005).

Similarly, there is a theme in this literature stressing that collaborative service models emerge because of the complexity of social problems and a desire to have *reciprocity* in services. (Mitchell and Shortell 2000; Huxham and Vangen 2005). Some efforts rise from the bottom up, as practitioners come together to address multifaceted problems, such as homelessness or substance abuse, with a larger spectrum of services. Interestingly, there is no empirical evidence that either mandated or emergent collaborative service models constitute a superior method of collaborating. In the literature, there is a bias towards highlighting emergent or bottom-up forms as more authentic and effective (Jones and Hesterly 1997). Yet, government and private funders often mandate from the top the form that collaboration can take.

Research on city economic development programmes (Agranoff and McGuire 1998, 2003*a*; Parkinson *et al.* 2006) highlights that complexity and uncertainty in the environment motivate city governments to engage in collaboration (see Geddes, Chapter 8, this volume). By using various strategies, managers try to *stabilize* the environments within which they

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must work. Finally, the literature about public sector service partnerships documents that *legitimacy* can come just from being perceivedby key stakeholders as participating in collaborations. In the current funding and political environments, the institutional forces encourage participation in Inter-organizational initiatives (Mulroy and Shay 1998; Weiner and Alexander 1998).

It is worth noting that the terminology commonly used to refer to these new forms of public service imply different motivations. For example, ‘collaboration’ implies a consensual relationship created to improve operations, while ‘partnership’ reinforces the notion of reciprocal motivation. In contrast, ‘joint ventures’ and ‘strategic alliances’, the terminology adopted from the world of private business, imply purposive relationships designed to maximize efficiency and exert influence over competitors.

The factors noted by Oliver (1990) as motivating Inter-organizational relationships certainly are mentioned within this literature. However, few public sector studies are undertaken in reference to social science theories regarding the motivation to engage in service partnerships. As a result, there are no systematic tests that explore the degree to which this framework applies to these forms. This might not be an oversight. Some authors (Hjern and Porter 1981; Alter and Hagen 1993; Agranoff and McGuire 1998) argue that research should not focus on the futile attempt of trying to isolate factors that motivate public service collaboration. Instead, they argue, research should focus upon what factors are important in sustaining and enhancing these efforts when they are being tried.

Sustaining and Enhancing Collaborative Partnerships

The ongoing management of service collaborations has attracted considerable attention in the literature, possibly because of the interest among this community of scholars in the practical implications of research. Some studies try to isolate characteristics that can be used to predict longer-term collaborative success (Mattessich and Monsey 1992; Shortell *et al.* 2002; Bryson *et al.* 2006). Because of the inherent complexity in collaborative service delivery, other scholars highlight the significance of leadership and management skills (Mitchell and Shortell 2000; Alexander *et al.* 2001; Keast and Brown 2002; Agranoff and McGuire 2003*b*; Page 2003; O'Toole and Meier 2004; Crosby and Bryson 2005). In public sector partnerships and networks—where goals are often multiple and poorly defined, the specification of tasks ambiguous, and the articulation and

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assessment of results challenging—management is complex (Ferlie and Pettigrew 1996; Kickert *et al.* 1997; Milward and Provan 2000*a*; O'Toole *et al.* 2005).

As mentioned earlier, the new public management being implemented around the world emphasizes both measuring the results of public investment and using Inter-organizational structures (Hood 1991; Kamensky and Morales 2005; Kettl 2005). In this context, some scholars specifically examine how performance measurements influence public service partnerships. For example, a US study of statehuman service reform documents how performance measurement systems to help interagency collaborations survive and garner more legitimacy (Page 2004).Similarly, an investigation of watershed management where collaboration was used for habitat restoration and public education found that articulating and measuring performance helped to direct activities, motivate stakeholders, celebrate accomplishments, and enhance learning and governance (Imperial 2005). Yet, both of these studies stress that performance measurement is not a panacea. In fact, this management tool can highlight conflicting values within collaborative service partnerships. It can also illuminate to participants that, even though a collaborative service partnership might exist, desired programmatic outcomes still might prove illusive. Future investigations of how performance measurement is used in public service partnerships could more systematically explore how this management technique influences the ability of these partnerships to form, be sustained, and perform the public good.

In addition to leadership and management, other scholars highlight the importance of governance in sustaining and enhancing service partnerships (Hill and Lynn 2003; Davies *et al*. 2005). Throughout much of this literature runs the assumption that these arrangements evolve because of perceived mutual benefit among the participants or strategic decision-making (Faerman *et al.* 2001). Governance, to the degree to which it exists, is emergent, resulting from the ongoing exchange relationships among the members of the collaborative. In this model, no one party is in a position to mandate a particular form of governance through the control of funding, contracts, or other valued resources. However, within contracted services areas, such as child welfare or mental health, collaborative governance is often designed by the funding authority. Often one organization—a public, nonprofit, or private firm—is designated by the government to be the ‘fiscal agent’. This agent can deliver some services, contract for others, or simply procure; in practice, this form of collaboration can resemble hierarchy in many ways.

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While governance structures seem significant to the structure and operation of service partnerships, there is much left to be investigated. Some scholars are beginning to consider these different models of network governance and explore their relative strengths and weaknesses for service provision (Uzzi 1997; Kenis and Provan 2006).

Other scholars explore service partnership sustainability by examining the structural characteristics of the form itself, particularly when it is a network structure. In a study of workforce development programmes, Whetten and colleagues explore the significance of network linkages and the centrality of power and resources (Whetten and Leung 1979; Boje and Whetten 1981). An analysis of mental health networks by Milward and Provan (2000*a*) reveals that continued stability of network structures is important to providing effective service to clients. Yet, network stability is not always desirable because it might impede the ability to respond to changing circumstances as needed to survive. As Milward and Provan (2000*a*) conclude: 'Stability of a system is both a strength and a weakness. The key is to find a balance between flexibility and rigidity.'

In contrast to focusing on structures themselves, another stream of this literature tries to unpack the actual social processes existing behind each network, each partnership agreement, and each case management model. Rather than seeing the structure as something that can be measured as a consistent factor, Huxham and Vangen's (2005) theory of the collaborative advantage stresses the complex negotiations that occur around defining objectives, navigating power differentials, building trust, battling partnership fatigue, and establishing leadership. Although each of these factors is widely cited as being necessary for the formation and maintenance of collaborative structures (Weiss 1981; Wood and Gray 1991; Gray 1996; Mitchell and Shortell 2000; Bryson *et al.* 2006), Huxham and Vangen suggest that they are not merely predictive of whether or not a collaborative service form will be sustained. Instead, there is a social complexity underlying collaborative service delivery that requires ongoing attention. Sandfort's (1999) analysis of welfare-to-work partnerships suggests that these human interactions—when embedded in the social systems of organizations—can be quite significant in the enduring form of service arrangements in a particular community. As individuals draw upon shared schemas to interpret events, make judgements about how to work with other organizations, and deploy resources, they shape the very structures that network scholars examine.

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Unresolved Issues

Many perspectives are brought to the study of the diverse forms of collaborative service partnerships. While the motivation to engage in Inter-organizational partnerships has been an important focus in the sociological literature, many more scholars of public service partnerships focus on what is needed to sustain and enhance these relationships. A challenge remains, however, because there is no consensus about the most appropriate way to focus the inquiry. Some researchers try to isolate factors that predict success, such as leadership and management actions. Others examine the significance of structural form or focus on the human dynamics that must be negotiated and re-negotiated throughout the collaborative process.

These streams reflect the larger tension within the academy about the most useful way to conceptualize and explore social reality. Scholars have drawn upon positivist traditions that try to isolate causal factors and use them to make predictions about other cases. Other scholars embrace an interpretivist tradition that sees scholarly inquiry most effectively focused on unpacking the multiple ways in which social phenomenon come to have meaning. The literature also reflects a tension between individual-level and structural analysis. Some researchers highlight leadership and strategic management choices and emphasize the importance of individual agency in the operation of service partnerships. Others examine formal structures and highlight their significance in the traditions of structural functionists.

There is a great need to overcome these intellectual divides. Given the proliferation of these alternative forms of service delivery, individuals need to know more about how to shape collaborative partnerships through strategic managementdecisions. They also, however, must learn about the importance of structural factors in influencing the likelihood of success. New scholars could follow the lead of O'Toole and Meier (2004) who systematically explore how management action shapes and is shaped by larger Inter-organizational structures. In their study of public education in Texas, they explore how both the structural features of intergovernmental networks and the networking behaviour of top managers influence an array of performance results. Another viable approach would be to draw upon insights gleaned from the descriptive writing that collaboration occurs at multiple levels within service systems. Research could more explicitly acknowledge and disentangle the various levels involved in collaborative service partnership—frontline, programme, organizational, systems—for it is possible that the dynamics of collaboration vary by level. By combining positivist and interpretivist

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approaches to research, new scholarship could both identify the causal relationships between factors and the causal mechanism that makes these relationships plausible (Lin 1998; Davies *et al*. 2005).

Exploring the Consequences of Public Sector Service Collaborations

In various public arenas, such as education, social welfare, and public health, policy-makers now require administrators to document the consequences of public interventions—be they in seventh-grade classrooms, psychotherapy sessions, or immunization programmes. Scholars, too, are increasingly examining how management and organizational operations influence the programmatic and policy outcomes desired by the public (Heinrich and Lynn 2000; Kamensky and Morales 2005; O'Toole *et al.* 2005). This orientation is increasingly reflected in the research on collaborative structures of public service delivery. Rhetorically, collaboration is touted as providing important benefits to systems and clients. In an overview of research about service integration, Martin *et al.* (1983) reports that it is purported to reduce duplication, improve coordination, prevent inefficiency, minimize costs, and improve responsiveness and effectiveness within the system. It is also depicted as being able to better resolve the issues of multiproblem clients and improve overall client access (Beatrice 1990; Poole and Van Hook 1997; Farel and Rounds 1998). However, as many scholars are quick to point out (Gans and Horton 1975; Weiss 1981; Martin *et al.* 1983; Chamberlain and Rapp 1991; Kagan 1993; Zuckerman *et al.* 1995), most of these purported consequences are not substantiated by empirical investigation

There are numerous reasons for this disparity between assertion and substantiation. First, as we have discussed, there are some inherent challenges in managing these relationships. The other stream in this literature documents the many challenges that must be confronted when forming, developing, and sustainingInter-organizational partnerships. Secondly, it is often difficult to precisely define the desired consequences of these collaborative efforts. As mentioned earlier, there is a wide array of purposes embedded in many public service partnerships, such as systems or service change. Politicians may want the problem to be as hidden as possible, advocates may want clients to have more power over how their services are delivered, funders may want evidence of increasing effectiveness. Each group brings its own evaluative criteria to judge how well a network is performing, which makes it very difficult to focus on one outcome (Bardach and Lesser 1996; Ferlie and Pettigrew 1996; Provan and Milward 2001; Bryson *et al.* 2006). This, of course, is not a problem unique to

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Inter-organizational models of service delivery. Lively debates occur among scholars about how to best understand and operationalize ‘performance’ and ‘effectiveness’ in public and non-profit organizations with consensus emerging that it is a multidimensional construct (Forbes 1999; Herman and Renz 1999; Rainey and Steinbauer 1999; Brewer and Selden 2000; Heinrich and Lynn 2000; Provan and Milward 2001; Sowa *et al.* 2004).

Finally, the gap between purported results and empirical evidence may be caused by the state of the research itself. This stream of empirical work is at the beginning of its development and there are many fundamental issues to be grappled with. A potent illustration is case management, a type of collaborative delivery for human services that has received considerable research attention (Dill 2001). Although the benefits of case management for both systemic and client outcomes are widely cited, it is rarely substantiated with empirical study (Bailey 1989; Chamberlain and Rapp 1991; Attkisson 1992; Dinerman 1992; Marks 1994). Like other strategies of collaborative service delivery, this is partly because there is no consistent definition of form. Although it is widely recognized as a set of techniques used ‘to organize and order services that address an individual's problem’ (Merrill 1985), there is considerable variation in how this is structured and implemented. A number of authors have tried to standardize the terminology by describing five functions of case managers that cross particular programmatic contexts (Chamberlain and Rapp 1991; Marks 1994; Merrill 1985). Yet, they acknowledge that even within these functions, there remains significant variation in the deployment of the tool and, as a result, it is difficult to generalize empirical results about the efficacy of the intervention (Chamberlain and Rapp 1991; Attkisson 1992; Solomon 1992). This example is not unique; the diversity of collaborative forms discussed earlier in this review serves to limit our ability to generalize research findings about the consequences of public sector partnerships.

There are, however, some solid empirical studies that begin to explore the outcomes of these structures. With the caveats offered above, we would like to highlight research about two distinct outcomes—organizational capacity and citizens' conditions. Like the other stream of this research, much of this literature is cross-sectional. It has not yet allowed us to consider how time might influence what collaborations achieve. In fact, Innes and Booher (1999) suggest that, in the case ofplanning, collaboration might have first-, second-, and third-order effects. While some consequences might be immediately discernible, such as new knowledge possessed by participating professionals, other effects might not happen until the partnership is implemented. These

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second-and third-order effects might include new organizational practices or substantial change in citizen circumstances. It is important for future scholars writing in this vein to take care in conceptualizing and specifying how collaborative service structures can influence a variety of outcomes over a prolonged period of time.

Alterations to Organizational or Systems Capacity

Because partnerships involve altering the connections between organizations and the arrangement of services, it is reasonable to expect that these efforts influence the capacity of front-line staff, managers, organizations, or systems to deliver services. Much of the existing literature supports this notion. For example, an article summarizing studies included in two special issues of the *Journal of Applied Behavioral Science* highlights many such outcomes: risks and costs were distributed among organizational participants; collective understanding at multiple levels was developed among professionals that, in turn, contributed to sustained links between organizations; incremental changes occurred in the organizations participating (Gray and Wood 1991). A study of youth service integration in eastern Australia illustrates how community-wide networks have helped to broaden notions of problems and solutions, build relationships, and resolve conflict that previously impeded effective service delivery (Keast *et al*. 2004). Studies of health alliances (Zuckerman *et al.* 1995), water systems management (Sabatier *et al.* 2001), and early childhood education (Selden *et al.* 2006) reinforce these findings of increased resources within the participating organizations.

It is possible that as more professionals and organizations have positive experiences with inter-organization service partnerships, they develop more ‘collaborative know-how’ and learn how to capture the ‘collaborative advantage’ (Huxham 1996). This involves the ability to identify, negotiate, manage, and monitor collaborations. Once such competencies are possessed, people and organizations may operate differently. In a study of private businesses involved in strategic alliances, Simonin (1997) documents that firms who are able to develop and institutionalize these skills, who are able to learn from the experience of past collaborations, receive more benefits from it, including financial advantages and learning competencies from other organizations. This perspective is supported by a study of private colleges over a 16-year period. Kraatz (1998) found that participation within small, more homogeneous consortiums created the opportunity for sharing high-quality programmatic information that, in turn, inspired the creation of new degree programmes in the colleges. Additionally, in their rigorous

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study of local government's economic development activities, Agranoff and McGuire (2003*a*) suggest that the level of collaborative activity is correlated with the type and number of policy tools beingused by public managers. Their work suggests that the strategic engagement of cities is clearly connected to their pattern of collaboration. The process of working in the public problem space with other organizations shapes the actions of public managers.

In the United States and United Kingdom, a number of regional-level governments have undertaken service integration since the 1980s (Kagan 1993; Waldfogel 1997; Parkinson *et al*. 2006). The consequences of these administrative reforms can be seen at multiple levels within the public system. At the most micro-level, new collaboration in preventative services for at-risk pre-school children has changed the nature of front-line workers' job tasks and their caseload size (Farel and Rounds 1998). At the organizational operations level, interagency collaborative efforts may affect provision of services and its duration (Dellario 1985; Rogers *et al.* 1989). At the systems level, Page (2003) illustrates how some US state governments made significant alterations in human service systems as a result of a collaborative endeavours. The comparative case study design he uses increases the external validity of his findings. However, like the case management example discussed earlier, the unique characteristics of service collaboration at these various levels mean that there is still much to be learned about how these ways of working influence organizational and systems operation.

Influencing Citizens' Conditions

Public service collaborations might significantly alter how organizations and staff can respond to citizen's needs. In fact, the fragmentation of programmes, the desire for seamless service for citizens, and the need to increase effectiveness are oftens a rallying cry inspiring collaborative efforts. In the early 1970s when public service integration was just beginning in the United States, Gans and Horton (1975) conducted fieldwork studies on local health and social service programmes. From their fieldwork, they developed a set of generalizable hypotheses about how various collaborative strategies should affect client access and service continuity. For example, they suggested that joint planning, collocation, outreach, and case coordination should have a large impact on improving client access to services. Alternatively, they asserted that sharing or transferring staff, sharing information or grants management, improving record-keeping—while

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viable collaborative strategies—would have less significant impact on client access. This line of reasoning appears sound for it recognizes that different managerial strategies will have differential affects. However, in the review of the existing literature, no subsequent studies have built upon this framework to empirically test these hypotheses.

Taking their premise seriously would involve conceptualizing more fully how managerial change should affect the circumstances of citizens. It is quite plausible that collaborative service models have some type of effect on service accessibility. That is, in fact, what such service arrangements are often designed to do—make existing publicly funded programmes more coherent and less duplicative.Yet, it is more challenging to conceptualize the causal mechanisms that might lead these service partnerships to directly change citizens' lives. When we consider the other factors important in determining how an individual's circumstances change—income, education, family background, experience within the particular intervention, the validity of the particular intervention in alleviating his/her problem—it becomes less apparent why service structures should—in and of themselves—influence well-being to any significant degree. Some research on collaborative partnerships is beginning to explore both types of outcomes for citizens.

Some research focuses on how service integration influences client access to services. Lehman and colleagues (Lehman 1994) studied four cities that reorganized the governance of their mental health delivery for the chronically mentally ill. They found that in three cities, the second cohort of clients accessed case management more frequently and had fewer disruptions of case managers. The research methodology used, however, is unable to determine what it was about collaborative governance itself that contributed to the finding of improved access to services. Another study summarizing demonstration projects in Australia to improve community-based services for the aged found that the collaborative efforts improved client knowledge of services and enhanced access (Fine 2001). Yet, the research design used in this examination cannot isolate whether the new collaborative administrative arrangements themselves created this change.

Studies using experimental designs do not face such a challenge. One such study (Franklin *et al.* 1987) examined the provision of case management to the chronically mentally ill. The ‘treatment’ was provided by seven case managers situated in one service unit and clients were interviewed at the beginning of the project and one year later. This study concluded that case management improved client access to in-patient treatment in

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hospitals and other community-based services (see Mandell and Keast, Chapter 7, this volume). It did not have a statistically discernible impact on outcomes related to clients' quality of life. Similar results—that case management influenced access but not client outcomes—are reported in other experimental studies of the severely mentally ill (Bond 1988, cited in Attkisson 1992).

Although the empirical support documenting improved citizen access to services is thin, conventional wisdom holds that partnerships must improve access. They are, in fact, created to address service fragmentation. Some scholars, however, suggest that they can, in fact, have the reverse effect (Moore 1992). Tightly connected systems can be unstable and difficult to manage because disturbances in any part of them quickly ripple from one side to the other (Simon 1962). Tightly connected systems may also exhibit a lack of innovation because as time passes, everyone knows the same thing and the same people. In contrast, there is evidence that loosely coupled systems (where everyone isn't connected to everyone else) dampen this effect (Scott 1985; Glisson and James 1992). Weak ties to other systems allow new ideas, people, and opportunities to enter the system (Granovetter 1973) and avoid the problem of entropy. While reasonable performance has been foundto require a certain level of stability in a network (Provan and Milward 1995), a testable hypothesis flowing from this debate is that collaboration will increase the performance of a system up to some point and then after that point, decrease it.

Because there are wide assertions that the new collaborative forms are more effective in changing citizens' outcomes, some scholarship tries to explore how these forms are related to service outcomes. A study of maternity care coordination for Medicaid recipients in North Carolina, for example, asserts that ‘case management’ reduced the number of low birth weight babies, decreased infant mortality, and lowered the cost of medical care (Buescher *et al.* 1991). In a study of early childhood collaborations (Selden *et al.* 2006), intensity of collaborative form is found to be a significant predictor of children's school readiness. Another study of clinical case management for the mentally ill reported higher levels of functioning and greater life satisfaction (Stein and Test 1980; cited in Attkisson 1992). However, in all cases, the research methodology used is not sufficient to assure that the research is isolating the effects of the service delivery form, in and of itself. What is more likely is that there is, at least, an indirect effect on these outcomes. Clients had increased access to pre-natal care or mental health services which, in turn, influenced these positive outcomes. This distinction is

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not just one that is important theoretically. Recognizing that the relationship is indirect, rather than direct, would help to explain the situation in which the same case management system, implemented in another community, did not have the same effect on low-weight births or infant mortality rates. In such a case, the explanation could potentially lie in the quality of the pre-natal care rather than the quality of case management.

In fact, as mentioned earlier, some studies of services for the severely mentally ill document that collaboration improved access but not client service outcomes (Franklin *et al*. 1987; Bond 1988, cited in Attkisson 1992). Another study of the use of case management in child abuse cases found no discernible impact on child outcomes (Cohn and Degraff 1982). Similarly, an experimental design evaluating case management in the national Comprehensive Child Development Program (St Pierre *et al.* 1997) found no statistically discernible differences in well-being between the group of clients receiving case management and those in the control group. The authors conclude, 'CCDP clearly was successful at organizing and delivering services to families, however, the evidence presented in this evaluation shows that the services did not have the intended impacts on mothers and their children' (p. 7). Again, though, this study does not have a clear way of describing how the intervention—itself—was implemented across the 21 sites examined.

Some research, however, does use more sophisticated analytical methods. In a study of US employment and training services, Jennings and Ewalt (Jennings and Ewalt 1998, 2000) construct a model that tests how administrative coordination and programme coordination are related to client outcomes, such as job placement and retention, and longer term wages. With their multivariate model, they findthat administrative coordination shows a strong positive effect on the majority of outcome measures, while programmatic coordination has a more limited (but still) positive effect. Unfortunately, the authors provide little discussion of their interpretation of these findings and, as a result, leave many questions unanswered about why different strategies of service coordination are having these quantifiable effects.

Milward and Provan's studies of mental health community service networks also explore how the structure of these networks influences client outcomes (Provan and Milward 1995; Milward and Provan 1998). Because they are primarily interested in the forces that influence network effectiveness, they develop a map of the network of organizations involved in the provision of

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mental health services to the severely mentally ill in each community. They probe characteristics of that network and develop the following hypotheses about the relationship between collaborative structures and service outcomes: (1) network effectiveness is enhanced when the organizations are integrated through a central authority; (2) networks that must respond to a single source of direct fiscal control are more effective; (3) other things being equal, network effectiveness will be enhanced with system stability, although stability alone is not sufficient for effectiveness; (4) in resource-scarse environments, networks are unable to be effective.

Unresolved Issues

Scholars are beginning to explore whether or not the new public service partnerships have an effect—in and of themselves—on both citizen access and service outcomes. As these approaches gain traction, it is imperative that researchers carefully test the casual relationships they are asserting and clearly conceptualize the causal mechanisms that underpin them. They will require the use of more rigorous research methods, both quantitative and qualitative. More sophisticated quantitative modelling techniques must be used to isolate the influence of structure itself, particularly in these complex, multilevel service arrangements. More thorough qualitative analysis can help illuminate the causal mechanisms to help explain what processes create the causal relationships identified. To investigate whether or not these new forms of service arrangements influence citizen outcomes, both types of question about causality need to be explored.

Focus of Future Scholarly Inquiry

As is clear from this review, the literature exploring the collaborative public service delivery is diverse. This reflects the variation found in the field, as practitioners use an increasingly wide array of tools to work on complex, public problems. Asscholars from diverse disciplines and methodological approaches confront these complex field conditions, they have tried to respond. What has resulted is a disparate literature with two distinct streams of inquiry—one focusing on collaboration itself, the other on the consequences these new service arrangements have on organizations and citizens. Our review reveals some fundamental issues unresolved in the ongoing scholarly inquiry.

At the most fundamental level, the literature illustrates ambiguity about how scholarship should be conducted, indicative of larger debates within the academy. Much of the existing scholarship about public collaborative

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partnerships focuses on describing individual cases or making comparison among cases. Some scholars build upon such descriptions with inductive analysis that strives to create new propositions or theories about how service partnerships are managed. Others scholars use public service collaborations as sites for deductively testing concepts from social science theories.

Scholarship also does not come down on one side of the long-standing debate about the respective roles of individual agency and functional structures. Instead, some focus their inquiry on individuals and explore the role of leadership or strategic decision-making in the workings of collaborations and their consequences. Others try to isolate the structural form and make assertions about it, overlooking the individuals and communities that have created the collaborative partnerships. Additionally, there is no agreement about how to conceptualize the results of these complex service arrangements.

In the course of this review, we have identified questions that are could fruitfully be explored in future research: How does the purpose of collaborative service impact its implementation and its consequences? Does the level of partnership—policy, organizational, programme, front-line—and alignment among these levels influence collaboration implementation and outcomes? How does time influence how collaborative structures operate and how they produce results? How should we theorize about the causal mechanisms that link these new service arrangements to tangible results? New scholarship should explore these questions or work to resolve some of the other intellectual divides.

In spite of these challenges, the topic of public service partnerships has clear substantive importance. Governments all over the world are increasing their dependence upon collaborative partnerships to delivery public services. In part, this orientation is caused by shifting conventional wisdom about the appropriate role of the public sector. In part, it is caused by an increased recognition that the important issues of public service lie in the policy problem space beyond the purview of any one organization. In this context, it is important that researchers craft empirical work that improves our understanding of the operations and consequences of these complex service forms, informs policy formation, and hones management practice.

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Voluntary and Community Sector Partnerships

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Abstract and Keywords

The community and voluntary sector sits alongside the state sector and the private sector. As such, it is sometimes referred to as the ‘third sector’. Organizations within this sector play a number of important and active roles in society. Some of these roles are either relatively new or have changed over the years. Many of them involve different types of inter-organizational relations. For instance, as an advocate for change on behalf of their constituents, voluntary and community organizations (VCOs) have often formed coalitions involving a number of VCOs working together. This article highlights the changing role of VCOs, with an emphasis on their role as a partner with government and others. It draws on extant literature including a suite of case studies undertaken across a number of sectors and from a range of disciplines including public administration, community and urban development, and integrated service delivery.

community, voluntary sector, organizations, inter-organizational relations, voluntary and community organizations

Introduction

The community and voluntary sector sits alongside the state sector and the private sector. As such, it is sometimes referred to as the ‘third sector’. Organizations within this sector play a number of important and active roles in society. For instance, they may focus on:

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- providing services to strengthen communities;
- mutual aid and self-help for members of organizations;
- policy advocacy or campaigning;
- advocacy on behalf of individuals; and
- expressing and fostering culture and identity.

Some of these roles are either relatively new or have changed over the years. Many of them involve different types of Inter-organizational relations (IOR). For instance, as an advocate for change on behalf of their constituents, voluntary and community organizations (VCOs) have often formed coalitions involving a number of VCOs working together. In their role as a service provider, they have always relied on other organizations, to some extent, in terms of funding their programmes. This is especially true in terms of their relationships with government agencies and/or foundations. In addition, they have often worked together with each other in order to better serve their clients. More recently, in terms of their relationships with government, they have become involved in a more active role, one in which they work alongside government agencies and other stakeholders in new forms of collaborations.

While IOR are often presented as new and innovative measures it is important to be aware that Inter-organizational relationships and arrangements between voluntary sector organizations as well as with government have been a common feature of service delivery within this arena. Indeed, most if not all of the countries explored in this chapter (e.g. Canada, Australia, New Zealand, the UK, and the USA) have long histories of interaction between organizations and sectors in the delivery of services and to a lesser extent the development of policy (Lynn 1980; Perri 6 1994, 1997; Quiggan 1999; Brinkerhoff 2002; Najam 2000; Brown and Keast 2005).

In this chapter we highlight the changing role of VCOs, with an emphasis on their role as a partner with government and others. In unpacking the changing relationships between VCOs and key stakeholders, we draw on extant literature including a suite of case studies undertaken across a number of sectors and from a range of disciplines including public administration, community and urban development, and integrated service delivery.

Based on the findings generated from the case studies and the extant body of literature, in this chapter we delineate the associated differing perspectives of IOR that now apply to VCOs. In doing so we first provide a definition of VCOs. Following that, we examine the various roles played by

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VCOs and the various types of Inter-organizational arrangements, at the local, national, and international levels, used to facilitate these roles. We then turn the focus to the current relationships among VCOs, the private sector, as well as to government-non-profit sector relationships. In this section we highlight the changing relationships VCOs have not only with each other, but with governments as well. Finally, we highlight some of the emergent issues for consideration and the future challenges for VCOs and researchers.

Definitions

VCOs are important alternative venues for the delivery of services that government and private sector organizations cannot or will not provide. VCOs have been defined as independent bodies with self-governing structures and a wholly or predominantly voluntary governing body. They do not distribute profits to individuals and are run for the benefit of others in the community. Some, although not all, are registered charities and/or companies limited by guarantee. Community and voluntary organizations are accountable to their membership and more generally to the people they serve or represent and to funding bodies for how they spend their money. Community and voluntary organizations have paid employees, volunteers, or a mixture of both (Scottish Compact Implementation Strategy 2003–4: 99).

Three key organizational aspects therefore characterize VCOs (Najam 2000; Lyons 2001; Berry 2005). First, they have a communal orientation motivated by what de Tocqueville (1945) has termed ‘the principle of association’. That is, they are formed and sustained by groups of people voluntarily acting together to achieve mutual goals. Second, VCOs do not seek to make profit and any profit generated from activities is returned to the organization for development. Finally, VCOs operate under democratic principles in which members elect representatives to a governing body.

Over time VCOs have come to provide a diverse array of services and functions ranging from counselling and social support, to housing and legal assistance, to recreational, sporting, and artistic programmes, and community and urban development work (Anheier 2005; Berry 2005). According to Brinkerhoff (2002: 5), ‘Nonprofits are playing a much more prominent role in public life and the sector's growth has expanded accordingly’. Drawing on conventional indicators of number of organizations and employees as well as proportion of GDP, across a number of individual national jurisdictions there is considerable consensus that the voluntary and community sector has expanded (Lyons 2001, 2003; Berry 2005). Salamon *et*

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al. (2003) comparative study of 35 nations provides additional support to this view of an expanded third sector.

While most VCOs are relatively small and have retained their voluntary operational basis, a feature of the 21st century has been the growth in the number of larger and more professionally oriented organizations in this sector (Lyons 2001). Indeed, a more recent study of the Australian social services sector indicates that in new developments, for-profit organizations outnumber not-for-profit organizations (Australian Council of Social Services 2006). This reliance on economically orientated measures of size and impact undervalues the broader social contribution of the voluntary and community sector. Further, by retaining an individualistic organizational focus such measures fail to capture the benefits of cross-organizational work.

Inter-organizational Relations

Although in Inter-organizational relations (IOR) participating organizations and sectors are looking to work together and may forfeit some level of autonomy, they nevertheless retain their formal identity. Interface strategies employed such as buffering and boundary spanning activities and the relationships established, often based on power between organizations, reflect that independent, self-interested orientation. As we show in the next section, this type of IOR applies to many of the current roles played by VCOs. In these arrangements, although often providing critical services and support that the government could not or would not deliver, the community sector is often treated as a safety net or stopgap and therefore not afforded input. The exception to this appears in the European experience where the community/ voluntary sector is part of the three pillar approach which relies on a more equal allocation of responsibility and has long been practised (Perri 6 1994; Kickert 1997; Brinkerhoff 2002; Anheier 2005).

Also in the literature a distinction is made between horizontal and vertical relations. Over the years VCOs have been involved in both horizontal and vertical IOR. In terms of horizontal IOR, there is a long history of sharing information, resources (including client referrals), and/or expertise with each other. In these types of IOR, VCOs remain independent and only interact with each other as needed to maintain their viability (Benson 1975; Van de Ven 1976; Pfeffer and Leong 1977; Provan *et al.* 1980; Provan 1982, 1983; Anheier 2005). However, in other cases VCOs have gone so far as to form more formal relations and/or coalitions with other VCOs that extend past just the sharing of information to the establishment of joint programmes and services (Selsky 1991; Goes and Park 1997; Walsh *et al.* 1998; Brinkerhoff

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2002; Goodwin 2004; Anheier 2005). Some of these efforts are reflected in the formation of councils, associations, and partnerships. In these types of relationships VCOs go beyond the more traditional types of IOR and must adapt to newer types of interdependencies.

In addition to maintaining horizontal relations with other VCOs, they are also involved in vertical IOR. When VCOs deliver services based on funding from government agencies or foundations, this involves vertical IOR in the sense that the funding entity not only controls the resources, but also sets up the guidelines by which services are delivered. The government agency or foundation is therefore in a position of telling VCOs what to do and how to do it. VCOs are expected, in effect, to carry out the contractual requirements set out by the funding organization in a top-down, 'authoritative' relationship.

More recently, in many countries the relations between VCOs and government agencies have changed (Birrell and Gray 2001; Brinkerhoff 2002; Osborne and McLaughlin 2002, 2004; Agranoff 2003; Kamensky and Burlin 2004). Rather than telling VCOs what to do, many government agencies, in a variety of countries,have moved to form more equal partnerships with VCOs in developing more innovative means of delivering services. In some cases, as Keast and Brown (2006) point out, governments have stipulated evidence of collaboration between VCOs as a condition of funding. Although these relationships can be seen as horizontal types of IOR, they differ from the more traditional or limited horizontal relations which VCOs have conventionally had with other VCOs and with government. In the following section we give an overview of the historical relationships and the changes that have occurred leading to the most recent round of IOR.

Background of the Roles Played by VCOs in IOR

Historically, taking care of the poor and marginalized came within the purview of religious and/or family/communal responsibility. In this situation government accepted little or no responsibility for the provision of social services. Over time these private efforts became more organized and resulted in the formation of associations, fraternities, local benevolent societies, charities, and subsequently non-profit organizations. These types of organizations not only took on the role of providing services, they also became advocates on behalf of those they were helping and the marginalized. These advocacy efforts have become more formalized and currently have often resulted in VCOs being at the forefront of both policy development and lobbying efforts involving social service types of legislation, as well as legislation that might affect their non-profit status.

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As urban development expanded and social problems increased, governments took on a more active role in either subsidizing or delivering certain services (Tierney 1970; Fraser 1973; Lynn 1980; Painter 1987; Brown and Keast 2005). Although this emergent role of government as service provider came at different times and in different formats in various countries, nonetheless the result was that government programmes came to stand alongside VCOs in the delivery of services and in many cases the community sector was assigned a more safety net type of role (Saunders 1998; Brown and Keast 2005).

Current Relationships

Over the years, the ability of VCOs to act by themselves to try to deal with the complex problems facing their constituents has become more constrained. ManyVCOs now routinely share information, expertise, and resources with other similar VCOs in their respective fields (Provan and Milward 1995; Agranoff 2003).

In addition, the need for VCOs to collaborate has also currently evolved from one of independent partners protecting their own interests to one of interdependent collaborators working for the common good alongside many different participants. VCOs are no longer just providers of services. Instead, they also take on the role of ‘policy advocacy and constituency empowerment’ (Brinkerhoff 2002: 11) on behalf of the community. As a result, the role of the community *vis-à-vis* VCOs and government agencies is also strengthened.

In terms of IOR with government agencies, VCOs can currently be seen to be involved, to some extent, in three different roles. First and foremost they are involved in service delivery (see also Sandfort and Milward, Chapter 6, this volume). In this role they work alongside other VCOs to ensure more effective delivery of services to their constituents. They also have a contractual arrangement in which the funding organization (government and/or foundations) tells them which services to deliver and how they should be delivered. In a second role they are advocates on behalf of promoting policy and legislation that will benefit their operation and/or their constituents. Finally, they are in a (supposedly) more equal partnership arrangement with government and other stakeholders. In this role they actively work with government and other individuals, groups, and organizations in making decisions, not only regarding service delivery, but more importantly in developing innovative solutions for changing the existing systems that currently deliver services (Keast and Waterhouse 2006).

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All of the roles that VCOs are currently involved in rely, to varying degrees, on IOR with other VCOs, private organizations, and with government. Although there are differences in different countries with regard to how these roles are played and the resulting IOR associated with them, they are nevertheless seen to exist to some extent worldwide. In the next section, we discuss these roles and the various Inter-organizational arrangements associated with them.

Understanding the Various Inter-organizational Arrangements of VCOs

Throughout the world VCOs are active at the local, national, and international levels (Anheier 2005). For instance, at the local level VCOs are involved, not only in the delivery of services, but also in community development and empowermentstrategies on behalf of local communities (Agranoff 1991; Agranoff and McGuire 1998, 2003; Mandell 2001*a*, 2001*b*; Brinkerhoff 2002; Keast *et al.* 2004; Koppenjan and Klijn 2004). Anheier (2005: 10) indicates that these activities range from 'community development organizations in Los Angeles or Milan to organizations among slum dwellers in Cairo or Mumbai, and from neighbourhood improvement schemes in London or Berlin to local councils in Rio de Janeiro where representatives of local nonprofits groups sit next to political party leaders, business persons and local politicians'.

At the national level, VCOs have become advocates for changes in national legislation in the fields of health, welfare, and educational reform. According to Anheier (2005: 10), these efforts:

> Include the expansion of nonprofit service providers for the elderly in the U.S., the establishment of private hospital foundations as a means to modernize the National Health Service in the U.K., the transformation of state-held cultural assets into nonprofit museums in former East Germany, and the privatization of day care centers and social service agencies in former socialist countries more generally.

At the international level, large organizations or non-governmental organizations (NGOs) have become a major force on the international scene. Organizations such as the World Health Organization (WHO), the United Nations Development Programme (UNDP), and the World Bank are striking examples of this (Najam 2000; Anheier 2005). In addition there are now websites listing numerous international efforts led by VCOs. For instance LogoLink (<http://www.ids.ac.uk/logolink>), a global network of citizen participation organizations, lists at least a dozen international organizations

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based on partnerships of VCOs throughout the world (see Appendix for a list of some of these organizations).

Examples of IOR with VCOs at the Three Levels

At the local level, VCOs work together with other non-profit organizations, the private sector, and/or government agencies. These efforts range from simple exchanges of information, expertise, and/or clients to the formation of more formal alliances and coalitions and councils. In their role as service provider in the USA, there are many examples of the different ways in which VCOs interact. These efforts range from a simple exchange of clients to more coordinated and integrated service delivery systems.

Due to the particular constraints in health care, many of these studies focus on this field (Alter and Hage 1993; Provan *et al.* 1996; Austin 2000; Jenkins and Laditka 2000; Mandell 2001*a*, 2001*b*). For instance, Provan *et al.* (1996: 94) look at 138 agencies in mental health services delivery systems in four cities. In this studythey look at the 'relationship between resource acquisition, resource utilization, and three types of cooperative, client-based Inter-organizational relationships; referrals received, referrals sent, and case coordination'.

Other studies look at the need for organizations in this field to coordinate their efforts (De Witt 1977; Agranoff 1991; Alter and Hage 1993; Goes and Park 1997). In these studies IOR are more formalized as organizations try to coordinate their efforts. Goes and Park (1997: 677) examined multihospital systems (MHS) which 'usually involve a governance structure that is legally distinct from the management structures of their member hospitals'. For Alter and Hage (1993) the need to serve clients better in the hospice system is the reason for the coordination efforts.

These types of relationships are also seen in other fields in the USA. These studies range from IOR in the field of education, economic development, and community development, to relationships between VCOs and businesses (Mandell and Harrington 1999; Austin 2000; Maurrasse 2002; Thacher 2004).

In addition, relations between VCOs and others have also been cited in other countries. Williamson *et al.* (2002) discuss public/private partnerships in England, Scotland, and Northern Ireland. They look at case studies of three partnerships in rural areas in these three countries and the involvement of VCOs in regeneration partnerships. In another study, Geddes (2001) looks at how partnerships in Ireland help promote the inclusion of local

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communities. Schimank (1988) discusses how technology innovation achieved by university scientists and private firms is disseminated through Chambers of Commerce in Germany. Within the Australian context, Fine (2001), Keast *et al.* (2004), and Reddel and Woolcock (2004), Keast and Brown (2006) have examined the formation and operation of policy, service, and locality-based partnerships, collaborations, and networks, while Larner and Craig (2005) have noted the increased reliance on a more collaborative mode of service delivery in New Zealand. Finally, Huxham and Vangen (1996; 2005) give many examples of collaborations involving VCOs in the UK.

More formalized relations can be seen at both the national and international levels. At these levels, IOR take the form of alliances, councils, and associations. This is very prevalent in the USA. For instance, Selsky (1991) presents a case study of 148 small non-profit organizations in the Philadelphia area that form the Delaware Valley Council of Agencies. A number of studies have been conducted on the importance of the United Way in fostering IOR among various VCOs (Wenocur 1975; Pfeffer and Leong 1977; Provan *et al.* 1980; Provan 1982). In one such study Provan (1982) collected information from forty-six human service agencies affiliated with the United Way. In this study the emphasis was on the influence of United Way on the internal decisions of the member organizations.

Numerous other efforts have been cited in the USA as well. Innes and Rongerude (2005) cite four collaborative regional initiative programmes (CRIs). CRIs are ‘regional partnerships that bring together Californians from government, businessand community to promote the economic vitality and improve the quality of life in their respective regions’ (Innes and Rongerude 2005:1). The William and Flora Hewlett Foundation (2005) also list numerous efforts at the regional and national levels of VCOs in collaboration with other VCOs, businesses, and government agencies.

These efforts are not limited to the USA. For instance, Brinkerhoff (1996, 1999) cites an effort initiated by the World Bank to work on Madagascar's Environmental Action Plan (NEAP), which involves a variety of local VCOs, international NGOs and the public sector. In another effort, the Foundation for Contemporary Research (<http://www.fcr.org.za>) is a non-governmental organization based in the Western Cape province of South Africa that works with local government, communities, citizens, the private sector, and other NGOs to do research and engage in advocacy projects.

In a special symposium on non-profit-government relations edited by Brinkerhoff (2002), there are a number of other examples of relations

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from France, Central Asia, and the European Union. In these instances, relationships range from governments facilitating service delivery to groups of non-profit organizations to forming associations that aim to make a difference by advocating for change. A number of forces have currently served to change the type of relationships VCOs have with each other and government agencies. The next two sections explore these newer types of relationships for VCOs.

New Types of IOR among VCOs

Although cooperation, partnerships, and other types of collaborations have existed for a while in the non-profit sector, the topic of mergers and acquisitions among VCOs is relatively new. Anheier (2005: 166–7) lists several types of these arrangements, including:

- interest organization (pooling of resources to represent and further common interests);
- partnership (for common programme activity);
- joint venture (including simple forms whereby the parent organization remains in control to complex forms whereby the parent organization gives up their control);
- parent corporation and franchise system;
- merger.

There are a number of reasons for VCOs to form these new types of relationships with each other. These include economies of scale, economies of scope, forwardand/or backward integration, pooling of resources and leveraging (Anheier 2005). Economies of scale refer to reducing costs. This can be done by increasing the capacity of a VCO, for instance, by acquiring an organization with similar programmes and services. Economies of scope also refer to the ability to reduce costs by combining complementary programmes (e.g. a convalescent home and a hospital) through mergers. Forward and/or backward integration are related to the concept of economies of scope. Forward integration refers to control of the distribution (output) of an organization's product or service, whereas backward integration refers to control of the inputs of an organization's product or service. Non-profit cooperatives are examples of these methods. Pooling of resources refers to joint activities to reduce costs such as occurs when VCOs join together for advocacy purposes. Leveraging refers to achieving greater impact of existing programmes and/or services. This is particularly applicable to foundations and other philanthropic organizations.

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These newer types of relationships among VCOs are the result of a number of current forces including increased competition, technological changes affecting the economy, globalization of markets, and changes in the labour market and general population (Torjman 1998; Foreman 1999; Salamon 2001; Hudson 2002; Anheier 2005; Toepler *et al.* 2006). These forces have led to two major influences on VCOs. The first is the increased demand for social services that VCOs find difficult to meet by themselves. The second has to do with the costs involved in maintaining an advantage in an increasingly competitive field. This has resulted in a number of different types of relationships from loose types of partnerships to coalitions, federations, and finally mergers.

Torjman (1998: 5) points out that partnerships 'can help complement public policy with an on-the-ground approach that seeks local and immediate solutions to economic and social problems'. According to Torjman (1998: 6) partnerships can be categorized by purpose or process. Partnerships by purpose include pre-emptive, coalescing, exploration, and leverage types of partnerships. Partnerships by process include consultative or advisory, contributory, operational and collaborative.

In addition to partnerships VCOs are also involved in coalitions. Butterfoss *et al.* (1993: 316) define coalitions 'as formal, multi-purpose and long-term alliances'. In coalitions, 'members collaborate not only on behalf of the organization they represent, but also advocate on behalf of the coalition itself' … (Butterfoss *et al.* 1993: 316).

Although these relationships are among different VCOs, another emerging type of relationship is also worthy of note: the relationship between VCOs and the private sector (Torjman 1998; Salamon 2001). According to Salamon (2001) globalization has made corporations more vulnerable in their home countries for the activities they carry out away from home. This may provide the incentive for multinational corporations to work more actively with VCOs. Torjman (1998) points out four different ways in which corporations are currently working with VCOs in theUSA. These include public education, social marketing, community investment, and social change.

At the international level the impact of globalization has resulted in incentives to form hybrid national organizations. For instance, Foreman (1999) discusses two types of international federation: the donor-member federation and the global bumblebee federation. Membership in the donor-member federation is based on the ability to generate resources. Membership in the global bumblebee federation is based on considerations

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other than resources, such as geographic location. World Vision International and Habitat for Humanity International are examples of these types of federation (Foreman 1999).

In addition to these two types of federation, international NGOs are also engaged in other types of relationships. For instance, Goodwill Industries is a ‘network of 207 community based autonomous organizations from 24 countries’ (Anheier 2005: 179) and Civicus is an international alliance (Anheier 2005).

Another issue that has resulted from globalization is the relationship between what is termed Northern and Southern NGOs (Lewis 1998; Salamon 2001; Anheier 2005; Sanyal 2006). Northern NGOs are NGOs based in industrialized countries, whereas Southern NGOs are those based in many recipient countries (Lewis 1998). The difficulty is the inability of Northern NGOs to mesh the need for linkages with NGOs at the grassroots level and the need to also meet the demands of the larger socio-political systems in which they are located (Sanyal 2006). To overcome this problem, a new type of NGO has emerged. These NGOs are referred to as ‘intermediary organizations’ or ‘bridging organizations’ (Sanyal 2006: 67).

In South Asia and South and East Africa intermediary NGOs have identified three functions: support of grassroots organizations, educational support and sectoral support (Sanyal 2006: 81). In these functions they provide capacity-building and training for local organizations, they work with local governments and Northern NGOs to give a voice to the grassroots level, and work to form partnerships across the different sectors of society (Sanyal 2006: 81). In addition to these newer types of IOR among VCOs, VCOs also are involved in a new type of relationship with government. This new role for VCOs is discussed in the next section.

A New Role for VCOs in their Relationship with Government

A number of authors have cited an array of different types of relationships between governments and VCOs (Najam 2000; Young 2000; Lyons 2001; Anheier 2005). These relationships range from VCOs as supplements and substitutes forgovernment, complements to government, and adversaries to government (Anheier 2005). As supplements and substitutes, VCOs ‘step in to compensate for governmental undersupply’ (Anheier 2005: 283). In this relationship, VCOs and governments are independent of each other. As complements to government, VCOs deliver services with resources supplied by government. In this relationship, there is a contractual or service-

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based relationship between government and VCOs. As adversaries, VCOs serve to protect the interests of minorities and marginalized groups. In this relationship, VCOs become advocates for underrepresented interests. All of these relationships, although distinct, can change and evolve over time (Anheier 2005).

Due to the complexities of finding solutions for the difficult problems non-profit organizations and government face, a new relationship is emerging between the non-profit sector and government. This new role involves an active collaborative partnership between government and the non-profit sector. It is not based on a contractual arrangement in which government gives money to the non-profit sector and then spells out how it is to deliver services. Instead it involves a more horizontal relationship between government and the non-profit sector in which the non-profit sector is seen as a necessary part of a more comprehensive solution to difficult problems. In this type of relationship, the non-profit sector is asked not only to implement government policies, but to help in developing them as well.

This change reflects the growing influence of the non-profit sector as well as community members, individually and as represented by groups and associations (including VCOs), and how this affects the way activities are carried out. It also reflects a change in emphasis from working with government to the idea of governance (Milward 1996; Rhodes 1996; Brinkerhoff 2002; Considine 2004). This shift is seen not only in the USA (Mandell 2001*a*, 2001*b*; Agranoff 2003; Kamensky and Burlin 2004), but also in the UK, New Zealand, Australia, Canada, and Ireland as well as in many developing countries (Ross and Osborne 1999; Ministry of Social Policy 2000; Birrell and Gray 2001; Keast 2001; Keast and Brown 2002; Osborne and McLaughlin 2002; Brown and Troutt 2004; Considine 2004; Crowley 2004; Goodwin 2004; Office for the Community and Voluntary Sector 2005). It is argued that the changing relationships between VCOs and the government have a number of inherent benefits (Adams and Hess 2001) including in particular more relevant and community-specific services. More specifically Brinkerhoff (2002: 13) has identified these benefits as including: ‘the efficiency and effectiveness of public service delivery, the quality and responsiveness of public policies, the degree of social exclusions, the expression of public values and the building of social capital’.

Many studies reflect these benefits (Edwards and Stern 1998; Ross and Osborne 1999; Cordero-Guzman 2001; Keast 2001; Provan and Milward 2001; Keast andBrown 2002; Agranoff 2003; Agranoff and McGuire 2003; Crowley

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2004; Goodwin 2004; Keast *et al.* 2004; Larner and Butler 2004). However, as Brinkerhoff (2002: 10) points out, although partnerships between VCOs and government are seen as becoming more prevalent, ‘government repression, rivalry and adversarial relationships with the nonprofit sector have not disappeared’. Therefore this new type of partnership relationship, although prevalent in many countries, takes a variety of forms.

In Canada, for instance, Brown and Troutt (2004: 7) discuss how contracting relationships between government and VCOs have changed to one that is supportive and amicable. These arrangements ‘were devised through a cooperative process in which they felt listened to, accommodated, worked *with*, superbly advised, and supported in their missions’. In this model the government and the VCOs see themselves as partners, with the contract seen as flexible and subject to adjustment and making ‘full use of the service deliverers’ knowledge of the service and clients and recognizes that contractors often have better information and more professional expertise than the government does' (Brown and Troutt 2004: 10).

Ireland is a particularly striking example of this change. Birrell and Gray (2001) discuss how, in the 1990s, relations between the government and the voluntary sector moved towards partnership arrangements. The government policy document *Building Real Partnership* (DHSS 1998) provided the basis for this shift in relationship between the sectors. This document ‘advocated a partnership based on shared values and mutual respect stating that voluntary and statutory sectors should work closely’ (DHSS 1998: 5). This new relationship is in addition to their recognizing that their roles ‘whilst different were complementary, interdependent and mutually supportive’ (DHSS 1998: 5). Walsh *et al.* (1998: 6) in another study on the Republic of Ireland indicate this same type of relationship in the area of social exclusion. In their study they indicate that Community and VoluntaryForums, with NGO sector representatives, have been set up in each city and county ‘to facilitate an interface with a wide range of state bodies to act as a platform for voicing concerns and obtaining information’. They indicate that these partnerships reflect not only a change in government policies but a new influence of the European Union in establishing more democratic partnerships. They go on to trace the evolution of the changing roles and relationships between the public sector and voluntary sector in a number of different and significant areas.

Other authors discuss the changing relations in the UK (Ross and Osborne 1999; Osborne and McLaughlin 2002). A key element of these changes

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was ‘the development of the Voluntary Sector Compact (VSC) as a framework for the restructuring of government—VCO relationships’ (Osborne and McLaughlin 2004: 575). Although originally this compact applied to relationships between national and local government, it soon also incorporated local relationships between VCOsand government. An original element in the design of the VSC was that the voluntary sector ‘should be not just an agent of policy implementation, … but also a core actor in its formulation’ (Osborne and McLaughlin 2004: 575).

Changes in relationships between VCOs and government can also be seen in both New Zealand and Australia (Ministry of Social Policy 2000; Keast and Brown 2002; Brown *et al.* 2003; Crowley 2004; Goodwin 2004; Keast *et al.* 2004; Larner and Butler 2004; Brown and Keast 2005; Office of the Community and Voluntary Sector 2005). For instance, the Goodna Service Integration Project (Keast *et al.* 2004: 364) in Queensland, Australia, highlights the need for government to develop more ‘holistic responses’ that involve a different kind of working relationship between government and VCOs. In this project, representatives of a variety of government agencies, VCOs, and learning institutes came together, not to deliver services, but to change the systems involved in delivering these services. Members realized that business as usual would no longer work and that there was a need to develop new relationships between the fragmented service providers. The authors cite this project as becoming a unique structural arrangement: a network structure in which all members are seen as interdependent, equal partners and in which the building of relationships to establish trust is critical.

The reference to a network structure is also seen in the literature on networks, which has also been cited as reflecting these new arrangements (Kickert *et al.* 1997; Edwards and Stern 1998; Klijn and Koppenjan 2000; Mandell 2001*a*; Keast and Brown 2002; Agranoff 2003; Kamensky and Burlin 2004; Keast *et al.* 2004; Koppenjan and Klijn 2004). This literature focuses not on separate independent organizations working together, but rather on the interdependence of all organizations working towards a common goal. This literature therefore reflects a number of differences with the traditional IOR literature.

First, in these types of IOR, VCOs are seen as a partner with other stakeholders, often including government. Indeed, in such arrangements no one stakeholder, including any government agency, supposedly has any more authority than any others in the collaboration to tell them what to do.

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Second, VCOs, as well as government agencies, can no longer maintain their autonomy and independence in these new types of relationships. Indeed, the foundation for these types of relationships is that the members recognize their interdependence on each other. Third, in these settings, unlike in their traditional horizontal IOR, VCOs cannot maintain a position in which they consider only their interests (on behalf of their clients) as primary. Instead, they need to make a commitment to work on behalf of the whole. This means that they will often have to change their way of operating. Finally, in these new types of IOR, community members are seen as active participants alongside VCOs and government. This means that new types of relations between VCOs and community members also now come to the fore.

Despite the optimism and evidence of a broad process of experimentation with new ways of working between the government and community sectors, genuineand successful collaborative endeavours have been hard to achieve and even harder to sustain (Huxham and Vangen 1996; Limerick *et al.* 1998). As has been established these new mediating arrangements which have been termed partnerships and Compacts require a greater level of trust, communication, reciprocity and commitment than has previously been in place between the two sectors (Edwards 2001; Brinkerhoff 2002; Osborne and McLaughlin 2002; Lyons 2003). A primary reason for the apparent failure of the emergent collaboration endeavours is the inability of participating organizations, government and community alike, to make and sustain the necessary adjustments in the strength of relationships and changes in behaviour required (Keast and Brown 2006), including, as Brinkerhoff (2002) notes, the need to share power and assume a joint identity.

While such issues confront both the non-profit and public sectors, government organizations, because they exist in a legal/political environment with strong needs for transparency, accountability, and effectiveness (Klijn and Koppenjan 2000; Keast and Brown 2002), are often confronted by competing service and operational goals including their own electoral survival (Alford 2004). They are therefore particularly apt to renege or fail to fully meet the new terms of engagement. Indeed, as a number of authors have demonstrated, when under pressure government tends to ‘revert’ to known and comfortable authorative relationships (Klijn and Koppenjan 2000; Keast and Brown 2002). It appears that where these new relationships between government and community sectors are enshrined in more formalized processes and committed institutional arrangements, such as has been the case in the UK Compacts and the Canadian Accord, there is a greater likelihood for sustained ‘partnership’ interaction (Lyons 2003).

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As these case studies have demonstrated, all of these new relations, including those among VCOs, those between VCOs and the private sector, and those between VCOs and government, present not only a challenge for VCOs and government but also for researchers studying these new types of IOR for VCOs. In the next two sections we detail more fully some of these challenges and the future direction for the study of IOR for VCOs.

Future Directions and Challenges for VCOs and Researchers

In the future there will be a number of continuing areas of interest for researchers and practitioners alike. These will relate to the growth of innovative relationships among VCOs, the impact of NGOs in the international arena, the need for new management skills, the blurring of the line between the public and non-profitsector, and the need for a new language of IOR, especially to describe the new relationship between VCOs and the government.

Growth of Innovative Relationships among VCOs

Salamon (2001) points out that the new paradigm for IOR among VCOs in the future will be one that looks at non-profits, not as an individual sector, but as a number of different types of relationships among the sectors (non-profit, government, and the business sectors) as well as with citizens. Salamon is referring to the types of partnerships, coalitions, alliances, federations, and mergers previously discussed.

Although these new types of relationships will continue to be of interest, they will also pose a number of concerns. Indeed, the more current types of relationships among VCOs are not without their difficulties. Although there is growing pressure to form different types of partnerships, much time and resources are required to do so and they may not be the appropriate vehicle. VCOs need to spend time up-front to create a successful partnership, as well as putting in an ongoing investment of learning new leadership and management skills (Torjman 1998). One of the primary concerns, especially when mergers and/or coalitions are involved, is the strategic fit among the stakeholders involved as well as the need to mesh the different boards of directors (Toepler *et al.* 2006).

One of the continuing concerns for practitioners and researchers in the future will be the problem of the loss of emphasis on the values and unique identity of the organizations involved (Toepler *et al.* 2006). Future researchers will need to look at how these innovative relationships affect the integrity

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and unique identity of VCOs and what changes this will bring about in our understanding of VCOs and their continued role in society.

Another key issue that is discussed as a result of these different types of IOR among VCOs is the fear that large VCOs are squeezing out smaller VCOs. One side of the argument is that there are too many small VCOs that are weak and inefficient and mergers, acquisitions, coalitions, and alliances will serve to alleviate this problem. On the other side is the argument that the fact that VCOs are small is the very reason they can be closer to communities and serve them better. If they become large-scale professional bureaucracies they will lose this unique edge. This debate will be of continuing interest in the future.

The Impact of NGOs in the International Arena

NGOs will be a growing force in the future and their roles in the international arena will continue to change. For international NGOs the future concerns willinclude the need to serve multiple constituencies, dual citizenship of international board members, and balancing their role as facilitator of the partnership with national NGOs and their ability to monitor the activities of these same national organizations (Foreman 1999). There will also be questions posed as to the legitimacy of national organizations that are part of international NGOs in terms of the impact of the international NGOs on the national organizations (Foreman 1999).

In addition, the changes in relationships among Northern and Southern NGOs will also be of continuing interest. Both Northern and Southern NGOs will find themselves in more challenging situations as the impact of globalization expands. How they will meet these challenges will most certainly affect the type of IOR in which they will engage in the future. The role of intermediary NGOs, which is a relatively new phenomenon, will also have an impact on these relationships. As a result, in the future, researchers will find a focus on the ability of NGOs to adapt to the demands of globalization, while at the same time maintaining their impact in the international arena, to be of particular interest.

The Need for New Management Skills

An interesting impact of both the innovative relationships among VCOs, as well as the newer type of relationships with government is the need for practitioners to be able to adapt to new ways of managing these

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relationships. One of the challenges for VCOs, in dealing with partnerships, coalitions, alliances, and mergers is the need to meet demands of multiple stakeholders, especially funders and donors. In some instances, this has resulted in internal role conflicts with staff as well as the need to learn newer skills. In addition there is now an increasing emphasis on new management techniques, which has had an impact on the professional orientation of those in VCOs (Butterfoss *et al.* 1993; Torjman 1998; Hudson 2002; Nissan and Burlingame 2006).

The same is true of the newer types of relationships VCOs now have with government agencies. In this regard, the literature specifically on community partnerships, regional development, community development, and joined-up governance also highlights the need for different types of management strategies (Mandell and Harrington 1999; Ross and Osborne 1999; Cordero-Guzman 2001; Agranoff 2003; Goodwin 2004; Larner and Butler 2004; Huxham 2005; Keast *et al.* 2005). These include the need to establish flexible and adaptable structures, non-hierarchical and participatory decision-making, building relationships through developing mutual respect, understanding, and trust, capacity-building, defining an overriding mission, building consensus, and managing conflict.

As these new types of IOR become more prevalent, more will be learned about what works and what does not. The key will be to recognize that reliance ontraditional management techniques, although useful, will need to be supplemented by an emphasis on those management skills and techniques that are more specific to these unique endeavours. This will apply to both the professionals in VCOs as well as to the academics undertaking research and teaching with respect to IOR.

The Blurring between Public and Non-profit Sectors

A major consideration of the new collaborative arrangements between VCOs and government agencies, and perhaps most challenging for VCOs and government, arises from the required closeness of the relationships between the entities. Although in collaborative arrangements there is clearly the need for both government and VCOs to adopt a level of mutuality that allows for a sharing and even cross-over of roles, VCOs still have to retain a strong tie to the fundamental ideology of the parent body. This duality of roles and loyalty can be difficult to understand and sustain. As collaborating partners VCOs need to be able to share roles and perspectives but they have to be careful that they retain their ethos and not become government. Also in entering

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into closer or collaborative arrangements with government, VCOs run the risk of becoming too closely associated with the government and its way of working and may lose the potential to act independently. This can lead, in the long term, to a loss of the societal roles of VCOs as a ‘watch dog’ and voice for the marginalized (Young 2000; Brown and Keast 2005).

A further consequence of the closer relationship between government and VCOs occurs especially where government provides funding for collaborative endeavours. In this situation, government has made specifications for a level of operating rigidity that, while consistent with government requirements, is not always possible or desirable within the voluntary and community arena. Two current examples are government's expectations for VCOs to have a compatible professional workforce and highly specified accounting procedures and mechanisms. Although in large part understandable as a way of ensuring that outcomes are achieved, operational similarity has a strong potential for organizational ‘isomorphism’ to occur, thus limiting the role of VCOs to forcefully provide alternative views and challenge ill-considered policies and legislation. In this way, governments need to critically analyse policies and funding requirements to ensure that they do not undermine the inherent benefits of VCOs creating what in effect becomes ‘a shadow government’ (Wolch 1990).

For researchers the growing trend of VCOs becoming too closely associated with government will continue to be of concern in the future. Isomorphism has become a new focus (Powell and DiMaggio 1991; Brinkerhoff 2002). Two issues in this regard are noted in the literature. One refers to the blurring of the line between public and private while the other refers to the impact on VCOs' core values. These two issues are interrelated. Brinkerhoff (2002) notes that VCOs add value to thegovernment—non-profit relationship and if their unique identity is not maintained this advantage will be lost. This relates to the concern also expressed by Young (2000) that if links between government and VCOs become too tightly intertwined, their raison d’etre or defining values will be lost.

This phenomenon can be seen at both the local and international levels as well. The increasing role of NGOs at the international level has led to a variety of partnerships with the public sector. In some developing countries where the public sector has a fear of the growing strength of these NGOs, the arrangements can lead to co-optation by the government rather than true partnerships. Further research on the impact of the blurring of the

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line between the public and non-profit sectors will therefore be needed to determine what this growing trend will mean for VCOs and government alike.

The Need for a New Language of IOR

The growing body of literature on the impact of networks and how they apply to relations between VCOs and government is not merely a minor shift in how VCOs interact with other organizations. It reflects a shift in the literature from an emphasis on government to governance (Kickert *et al.* 1997; Brinkerhoff 2002; Koppenjan and Klijn 2004; see also, Klijn, Chater 5 this volume). It also reflects a shift in the literature on IOR. Just as the study of IOR recognized the need to move from an analysis of relationships between single organizations to an analysis of the 'field' of organizations (Warren 1967; Van de Ven 1976; Negandhi 1980; Zeitz 1980; Aldrich and Whetten 1981; Provan 1983; Galaskiewicz 1985; Galaskiewicz and Bielefeld 1998; Oliver and Ebers 1998), so too now does the study of IOR need to move to incorporate an emphasis on networks. The importance of the literature on networks for VCOs is that it points to the need for them to incorporate a revised view of their role *vis-à-vis* other organizations.

Although many researchers (Agranoff and Lindsay 1983; Mandell 1988, 1999, 2001*a*, 2001*b*; Gage and Mandell 1990; Agranoff 1991; Provan and Milward 1991, 1995; Rhodes 1996, 1998; Stone 1996; Kickert *et al.* 1997; Agranoff and McGuire 1998; Milward and Provan 1998*a*, 1998*b*; Klijn and Koppenjan 2000; Harris *et al.* 2004; Kamensky and Burlin 2004; Keast *et al.* 2004) now focus on networks as the framework to better understand the new types of relationships between VCOs and government agencies, there is a need to better integrate this literature with the traditional literature on IOR relating to relationships among VCOs as well. There is a need to look at the language used to communicate different forms of IOR. For instance, the emphasis in the traditional literature of IOR looks at interactions from the standpoint of individual organizations and their need to control uncertainties, protect their boundaries, and secure scarce resources. This language is not appropriate to the newer kinds of relationships, both between VCOsand government and among VCOs. The emphasis, instead of being on protecting their boundaries, will be on breaking down boundaries through enhancing trusting relationships. The focus therefore is not on achieving outcomes (service delivery) *per se*, but rather on the processes needed to establish new and different types of relationships. Collaborations necessarily should include any and all organizations, groups, and/or individuals who are seen as making a difference to the issue to be dealt with. Since the collaboration

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itself becomes the focal point, rather than the individual members, the idea of protecting individual boundaries will no longer be appropriate. VCOs will need to deal with other organizations as partners rather than adversaries (Mandell 1988; Chisholm 1989; Gray 1989; Innes and Booher 1999; Cordero-Guzman 2001; Booher and Innes 2002; Agranoff 2003; Guo and Acar 2005). Instead of an emphasis on controlling for uncertainty, the emphasis is on power sharing, building trust, and risk taking.

When teaching IOR in the future, the literature on networks will also need to be incorporated alongside the traditional language of IOR as a new way of viewing the roles that VCOs will play. This literature, although particularly applicable to relationships between VCOs and government agencies, is also relevant in many ways to the more innovative relationships among VCOs. These innovative relationships rely on learning the techniques of how to establish different types of relationships with each other, learning how to trust each other and breaking down boundaries. Researchers will do well to focus, not only on the traditional language of IOR in the future, but to incorporate a more multidisciplinary view, one that allows for a better understanding of the need for VCOs to be able to adapt and be flexible in their future dealings with each other. The authors believe that the literature on networks will become a prime source of this perspective.

Conclusion

It is clear that currently VCOs engage in a complex array of IOR. They engage in a variety of roles at a number of different levels. Although the way these are perceived may vary in different countries, they are nevertheless observed in some form in most countries throughout the world.

In addition to their more traditional roles with government, in many countries VCOs are now becoming more involved in more unique partnership arrangements. These new efforts require a new look at the way we research and discuss IOR for VCOs.

It is clear then that VCOs, as well as the academics who research them, will need to be aware of the variety and complexity of IOR they now face. For VCOs this will involve an understanding of the complexity of the problems they need to address,their ability to deal with the problem on their own, and their assessment of whether the way they are currently working continues to be an option. For researchers this will require an ability to deal with abstract, as well as concrete, issues. The use of both the traditional literature on IOR as well as the literature on networks and a move to an interdisciplinary focus,

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one that combines literature from fields as diverse as public administration, sociology, and social work, will be needed.

LogoLink < http://www.ids.ac.uk/logolink **>**

This is a global network of citizen participation organizations. LogoLink consists of regional networks in South Asia, South-East Asia, Latin America, East Asia, and the USA. It consists of local VCOs, research institutions, and governments. Since July 2004, they were selected by the Ford Foundation and the Institute of Development Studies (Sussex University, UK) to organize a South African Regional Network.

LogoLink also lists a variety of other NGOs operating at the national and/or international levels. In some cases these organizations are engaged in national service delivery programmes. In others they are advocates for minorities and/or the marginalized.

These organizations include:

- Transparency International <http://www.transparency.org> This organization operates in Sub-Saharan Africa and the Middle East and North Africa. It advocates for change in laws to prevent corruption.
- *Swabhemana and Kriakatte (two NGOs in India)* <http://www.pacindia.org> Comprised of a number of NGOs, they serve as an advocacy group in the areas of public property, violation of civic law and other political activities.
- Civicus <http://www.civicus.org> An international alliance which acts as an advocate for citizen participation.
- *The Non-Profit Consortium (NPC)* A partnership between the UK-based Charities Aid Foundation (CAF), the Southern African Grantmakers Association (SAGA), the South African Non-governmental Organization Coalition (SANGOO), and Kagiso Trust. Its purpose is to keep the non-profit sector financially viable.

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Inter-organizational Relationships in Local and Regional Development Partnerships

Mike Geddes

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Abstract and Keywords

This article reviews the relationships between institutionalized actors in local and regional development partnerships. Its main focus is on partnerships in the UK, Europe, and the USA, but attention is also given to other parts of the world. Local and regional development partnerships frequently include actors from the community and civil society as well as from formal organizations in the public, for profit, and not for profit sectors, and in this respect, this article is likely to share some concerns with a number of other works, from those on policy and implementation networks and on public service partnerships to those on community and voluntary sector partnerships. This article also discusses the policy and practitioner-oriented literature about the strengths and weaknesses of partnership as a way of pursuing local and regional development and regeneration. Finally, it concludes with an assessment of the possible future of partnership for local and regional development.

institutionalized actors, partnerships, networks, practitioner-oriented literature, regional development

Introduction

This chapter reviews the relationships between institutionalized actors in local and regional development partnerships. The main focus is on partnerships in the UK, Europe, and the USA, but attention will also be given to other parts of the world.

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Local and regional development partnerships frequently include actors from the community and civil society as well as from formal organizations in the public, for profit, and not for profit sectors, and in this respect the chapter is likely to share some concerns with a number of other chapters, from those on policy and implementation networks and on public service partnerships to that oncommunity and voluntary sector partnerships (see Chapters 5, Klijn; 6, Sandfort and Milward; and 7, Mandell and Keast).

Partnership has now been an integral part of urban and regional development since at least the early 1990s, but this orthodoxy continues to conceal concerns about the effectiveness of partnerships from the point of view of policy-makers and practitioners, and difficulties in either theorizing the concept of partnership or assessing its outcomes on the part of academics.

The chapter first reviews the history and origins of partnership in local and regional development, documenting the spread of partnership principles around the world, and discussing both the factors promoting this spread and those which nevertheless limit its application. It then reviews the different forms which local and regional development (LRD) partnerships take (which partners, remits, resources etc.) (see also Chapter 18, Yeung).

The next part of the chapter discusses the policy and practitioner-oriented literature about the strengths and weaknesses of partnership as a way of pursuing local and regional development and regeneration. There is a voluminous literature in this area, including many case studies but also some wider overviews and evaluation reports on partnership programmes, and rather than reiterate what are often now widely understood principles, the discussion concentrates on a number of key issues:

- building partnership and the issue of trust;
- inequality and difference in partner contributions;
- managing partnerships;
- governance and accountability;
- identifying the added value of partnership.

This leads into a discussion of theoretical perspectives which have been employed in analysing partnership in local and regional development. Perspectives from the policy network, governance, and new institutionalist literatures are contrasted with political economy approaches which associate partnership with the rise of neolib-eralism.

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The chapter concludes with an assessment of the possible future (or futures) of partnership for local and regional development.

The Origins and History Of Local and Regional Development Partnerships

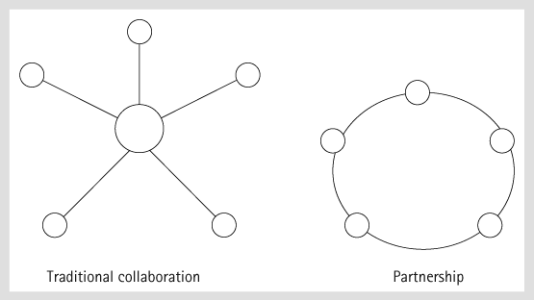

Fig. 8.1 Traditional collaboration versus partnership

There have always been Inter-organizational (and inter-sectoral) relationships and joint working in local and regional development. In particular, the public sector (inits many roles as planner, regulator, provider of resources and factors of production such as land) has always worked closely with private sector interests: developers, financial institutions, and employers. At the same time, the interests of communities and social groups have been taken into account, primarily but not only through the institutions of representative democracy. However, in many countries, these Inter-organizational relationships have been increasingly overlain by the development of more institutionalized forms of partnership. One key distinction between traditional collaboration and partnership is that, while in the former the normal pattern was a core—periphery model, in the latter, at least in principle, the model is of a number of partners collaborating with each other, without (in principle at least) any assumption of primacy by one partner (Figure 8.1).

It is notable that LRD partnership became increasingly prominent at a particular period—during the 1980s and especially the 1990s and the early years of the 21st century. Partnership is therefore historically associated with a specific context of political economy—the collapse of the Fordist-led economic boom in the advanced industrial world and the crisis of the Keynesian welfare state (KWS).

How is this context associated with partnership (and especially LRD partnerships)? The concept of the changing relationship between three spheres—the state, the market, and civil society—helps to explore this issue.

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During the Fordist boom, which both supported and was supported by the Keynesian welfare state, the relationships between state and market were close but the boundaries between the two were clear—the private sector was responsible for the economy (production) while the state was responsible for social reproduction. The notion of civil society as a 'sector' did not exist—citizens were either workers (in the economic sphere) or recipients of state services in the social sphere.

The crisis of Fordism and Keynesianism questioned this dispensation in key ways. The crisis of private profitability led to firms restructuring their operations, with frequently damaging implications for cities and regions, while critiques of the KWS paved the way for state expenditure cuts and privatization of state services. In this context the boundaries between the state and the market sectors began to break down, with a New Right emphasis on the primary role of the market and the importation of 'market' principles and practices into the state sector, thus setting the stage for the emergence in the 1980s of public—private (or private—public) partnerships in regional and local development.

The rise of partnership has though taken place to different degrees and according to different timescales, and has taken somewhat different forms, in different countries.

In the UK, partnership has been a key feature of regeneration programmes since the 1970s (Roberts *et al.* 1995; Sullivan and Skelcher 2002: 59), but the dominant form of partnership has passed through several phases. In the 1970s, partnerships such as those established by the ('Old') Labour government under the Inner City Partnership Programme were predominantly between central and local government, with the voluntary and private sectors being relatively peripheral. By contrast, in the 1980s Conservative governments led by Margaret Thatcher introduced radically different forms of partnership led by the private sector, such as Urban Development Corporations and Enterprise Zones, with local government (as well as the voluntary and community sectors) reduced to a subordinate position. The tensions (both economic and political) of this model of partnership, as well as those of the wider Thatcherite policy agenda, led to a more consensual approach by the following Conservative governments under John Major, with programmes such as the Single Regeneration Budget Challenge Fund in urban areas, and parallel programmes in rural areas and at regional level, introducing a more pluralist form of partnership in which the state, the private sector and the voluntary and community sectors were more

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substantially represented, with the lead role at local level passing back to local government, although at regional level business has continued to exert a dominating influence. New Labour governments since 1997 have in many ways stuck to this model, although in some partnership programmes, especially those operating at the neighbourhood level such as the New Deal for Communities programme, local community interests have been allocated a more leading role (in principle if not always in practice). Under New Labour, partnership has become the dominant—almost unchallenged—framework for local and regional regeneration, with a maze of overlapping programmes setting up partnerships at different spatial scales and dealing with different policy issues, from health and education to multidimensional policy development and delivery (Imrie and Raco 2003; Bennett *et al.* 2004; Fuller *et al.* 2004).

A feature of the UK experience has been that the influence of the European Union has been relatively limited. Even though the UK has shared in many EU fundingstreams for regional and local regeneration for which partnership is a precondition, these have been marginal to the main thrust of policy development. The picture is however very different in some other European countries, where the promotion of partnership by the EU has been a key factor in introducing local partnership. The process in Brussels, however, started a good deal later than in the UK. Prior to the late 1980s, the European policy process was dominated by the traditional forms of tripartite corporatist partnership between the nation state, employers, and trade unions which were central to EU member states such as Germany and France (Andersen and Mailand 2002). Towards the end of the 1980s however, and especially under the Delors presidency, a greater emphasis within the European Commission on local and regional development was accompanied by the initiation of new forms of partnership in a number of fields, from regional development and the application of the Structural Funds (in which the state and the private sector became the key partners) to local economic development and tackling poverty and social exclusion (where the EU pioneered various models of partnership between local governments, the voluntary and community sectors, and business, such as the Poverty 3 and URBAN programmes) (European Foundation 2003). Because such partnerships have been a condition of access to EU funding streams, they have exerted a powerful influence on member state policies—but much more in some cases than others. In countries such as Ireland, Spain, and Portugal, EU models of local and regional partnership quickly became the model for national policy programmes. In others however, the local partnership model met with more resistance—particularly in some of the Scandinavian countries

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with a strong social democratic state (Geddes and Benington 2001). In more recent years, EU models of partnership have exercised a similar influence in new East and Central European member states—although again to different degrees. Today, however, despite this variable geometry, it is clear that local and regional partnership is becoming hegemonic across the whole of the EU.

The EU has, therefore, been a powerful force promoting policy transfer among member states. Similar if less powerful forces have also been at work elsewhere in the world. The OECD has in recent years been actively promoting partnership models of local and regional development, not only in EU old and new member states but in others, from Norway and Slovenia to Mexico and Australia (OECD 2001, 2004). There have also been important policy transfer mechanisms operating (in both directions) between the UK and Australia and New Zealand, and in both the latter partnership programmes, in some cases drawing very directly on UK experience, have now been established, in a wider policy climate very favourable to partnership principles (M. N. Geddes 2005; Larner and Butler 2005; Smyth *et al.* 2005).

There have also been policy transfer processes operating between the USA, the UK, and Australia and New Zealand—but while there has been considerable transfer of policy ideas especially from the USA to the other countries, the US experienceis very specific in several ways. In the first place, certain forms of public—private partnership for local and regional economic development appear to have developed much earlier in the USA, from the 1950s and 1960s: so-called ‘urban regimes’ or ‘growth coalitions’, largely informal (but not necessarily therefore less effective) alliances between business and local political elites, rather than the formal partnerships operating to rules embedded in government partnership programmes typical of the EU and the UK (Stone 1989, 1993; Olberding 2002). Second, federal funding has been important in promoting community development and local economic development partnerships between localized state agencies, business, and not for profit and community interests, through programmes such as the more businessled Urban Enterprise Zones of the 1980s and 1990s and the more community-oriented Empowerment Zones from the mid-1990s (Moulton and Anheier 2000;McCarthy 2003; O'Neal and O'Neal 2003). Third, the tradition of ‘small government’ in the USA gives partnership a specific business-led flavour, whether the businesses concerned are for profit or not for profit (Ebers and Erickcek 2004), while the federal nature of the state means that there is much more variety in the practice of partnership within the USA than there is

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within European nation states (Australia, also a federal state, exhibits some of the same state-level variety as in the USA).

The diffusion of partnership is not restricted to the advanced world. The World Commission's influential *World Report*, as Jessop (2000) notes, contains

> a strong emphasis on partnership and networks rather than top-down national government. Thus, in addition to subsidiarity and solidarity across different scales of economic, political and social organisation, the report also calls for partnerships between the public and private sectors and between government and civil society. Public-private partnerships should nonetheless work with the grain of market forces, not against it. In addition, partnerships should involve not only actors from the private economic sector but also NGOs, religious groups, community action groups, or networks among individuals. Promoting partnerships requires a retreat of the state so that it can do well what it alone can do.
>
> (p. 466)

Abrahamson, writing from the perspective of a cross-national European research project undertaken by the Copenhagen Centre, and including case studies of partnerships in eastern, northern, western, and southern Europe, comments that

> More than ever partnership is being promoted as the development approach of our time. Social development and social cohesion are no longer seen as the sole responsibility of governments; increasingly actors from the business community and civil society are becoming actively involved as well. Partnership is now part of global-level policy making.
>
> (Abrahamson 2003: 13)

There remain, however, substantial differences in the extent to which the partnership model of local and regional development has really yet taken root. On the one hand, in the UK, the USA, some EU countries, and others such as Australiaand New Zealand, partnership seems now to be ‘part of the furniture’. In some other European countries, though—especially those where the social democratic state and/or traditional corporatist arrangements were strong, the tradition of partnership is less established. This is also true in many countries of Central and Eastern Europe, and even more so

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in the developing world, where the weakness of both state institutions and of organized civil society inhibits the diffusion of partnership (M. N. Geddes 2005).

Forms Of Partnership

Although the broad principle of local partnership is now becoming increasingly generalized across the globe, partnership takes many forms. Partnership vary in relation to:

- their remits, responsibilities, and resources;
- the spatial scale at which they operate;
- the organizations and interests which are partners;
- and in the broad form which collaboration takes.

Remits, Responsibilities, and Resources

The remits of partnerships can cover a wide spectrum of activity relevant to urban and regional regeneration, from economic and property (re)development to poverty and social exclusion. They can have a specific *sectoral* focus—for example on education, crime or health—and/or can be oriented towards the interests of specific *social groups*—women, young people, minorities. However, given that a key purpose of partnership is to bring together all the key organizations and interests involved in urban and regional development, in many ways the classic partnership remit is a *multidimensional* one, in which one of the main purposes of partnership arrangements is to unite sectorally specific activities which are less successful when undertaken in isolation from each other.

At the same time, the remits and responsibilities of partnerships vary in other dimensions. Some partnerships have more *strategic* responsibilities, while others are more *operational.* Relatedly, some are concerned with the development of strategy and policy, others only with its implementation. Increasingly, some partnerships have broader responsibilities not just for local development programmes but for the wider governance of local areas. Some partnerships' remits and funding are *time-limited,* while others are envisaged as more *permanent* elements in local institutional arrangements.

The *resource* base of partnerships also varies widely, in terms of the amount of resources available to the partnership but also their source(s) and nature. On the one hand, many partnerships depend for resources (at least primarily) on government funding streams, and in some cases are set up specifically

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to administer a particular funding allocation. On the other hand, there are partnerships which rely on funding which the partnership itself generates locally. There is some relationship between funding and sectoral remit—economic development partnerships tend to have more substantial funds than those concerned with poverty and social exclusion. An increasingly important issue is whether the aim of the partnership is to deliver a defined programme utilizing the funding provided, or alternatively whether the objective is to use the core funding to lever in more resources, and influence the way partners apply their own resources.

Spatial Scale

The scale at which 'urban and regional' partnerships operate is complicated by cross-national differences in terminology regarding regions, local authorities, municipalities, and so on. Thus while in many EU states local government units are small or very small (sometimes no more than a few hundred or thousand people), in others, they may cover populations of hundreds of thousands, and in the former case would be called regions. Notwithstanding such confusion, it is clear that partnerships exist at all scales from the subnational to the very local, and that a number of ideal types can be distinguished in which spatial scale correlates with other characteristics:

- Partnerships at a large, regional, subnational scale. These are most often focused on economic development and competitiveness, and tend to be primarily driven by national policy agendas, with business and business-related partners occupying powerful positions.
- Partnerships at the urban or city-region scale (or similar areas in rural contexts). These tend to be concerned with wider, strategic, developmental, or governance remits.
- Partnerships at local, neighbourhood level. These are frequently if not exclusively concerned with the regeneration of deprived areas; may have a multidimensional or sectoral focus, and tend to give more prominence to 'community' partners.

Table 8.1 illustrates some of these dimensions of LRD partnership with reference to examples from a number of countries, including partnerships concerned with economic development and employment; social development; more multidimensional remits spanning economic, social, and environmental issues, and partnerships with a more defined remit concerning a specific social group.

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Table 8.1 Examples of different forms of local and regional development partnerships

Name	Remit	Location	Source of resources	Scale	Partners
	Economic				
Territorial Employment Pacts	Employment development	EU member states	EU	Regional	State agencies, employers trade unions
Initiative for Employment partnerships	Labour market and employment policy	Germany	Private and public	Regional	Businesses and business associations, trade unions, public agencies
Greater Halifax Partnership	Economic development	Canada	Public and private sectors	City	Public and private sectors
Regional growth agreements	Economic competitiveness	Sweden	Public and private	Regional	Public and private sectors
Marlborough Regional Partnership	Economic competitiveness	New Zealand	National and local government	Regional	Public and private sectors
EQUAL partnerships	Employment discrimination based on gender, racial or ethnic origin, religion, disability,	EU member states	EU	Varies	Public, private sectors, trade unions, voluntary organizations

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	age, sexual orientation				
Workforce development partnerships	Workforce/ local economic development	USA	Public sector	Urban	State and other public bodies, businesses, training bodies
	Social				
Social Inclusion Partnerships	Social inclusion	Slovakia	National government, EU	Municipality	Public sector, NGOs, business, community leaders
Poverty 3 partnerships	Poverty	EU member states	EU	Neighbourhoods	Public, private, voluntary and community sectors
	Multidimensional				
Community renewal partnerships	Disadvantage	Queensland, Australia	Federal government	Neighbourhoods	Federal and local government, local community, private sector
LEADER partnerships	Rural development	EU member states	EU	Rural areas	Public, private, voluntary/ community sectors
New Deal for Communities	Regeneration of poor neighbourhoods	England	National government	Neighbourhood	Public, private, voluntary and

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					community sectors
Empowerment Zones	Urban regeneration	USA	Federal government	Urban districts	Public agencies, community organizations, business
	Social group				
Pavee Point Partnership	Social justice and socio-economic development for traveller communities	Ireland	EU, other public sector, trusts	Traveller communities	Travellers and settled people
Hiuumaa Initiative	Jobs for disabled young people	Estonia	Estonian public sector, Danish government	Municipality	Public sector, employers, voluntary organizations
Informal economy in Durban	Informal economy women traders	South Africa	Durban municipality	Municipality	Local government, businesses (formal and informal), trade unions
Ry Partnership	Socio-economic integration of refugees	Denmark	National and municipal government	Municipality	Public sector, businesses, voluntary organizations

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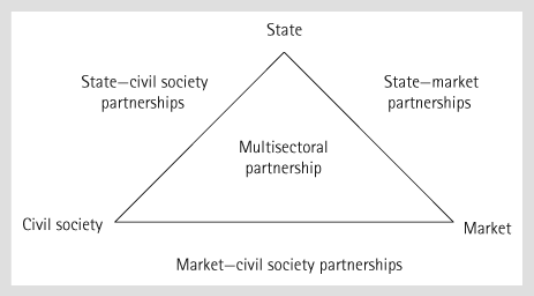

Fig. 8.2 Partnership ideal types

Partner Organizations and Interests

As Table 8.1 shows, LRD partnerships exhibit considerable variety in the organizations and interests within the partnership. The 'partnership space' in this context can initially be defined as that of the intersection between the three spheres of the *state* (and the public sector), the *market* (including both business and trade union interests), and *civil society* (including NGOs, community groups). This can help us to identify a number of ideal-types (Figure 8.2):

- Partnerships at the centre of this space, involving partners from all three spheres. There are many partnerships of this kind, often with multidimensional remits. Such multipartner partnerships are promoted by a wide range of state programmes of the EU, many EU member states including the UK, and by federal or state governments in Australia for example.
- Partnership primarily between state and market partners. Not surprisingly, such partnerships are often concerned with economic development or labour market issues.
- Partnerships primarily between state and civil society partners. There are distinctions in this type between those where the civil society partners are community organizations and interests, and those where the partnership is between state agencies and NGOs. In parts of the developing world, large transnational NGOs often play a lead role in development partnerships.
- A fourth ideal-type, partnerships primarily between market and civil society actors, is much less common, and although examples do exist, this is an indication of the dominant role of the state in urban and regional development partnerships.

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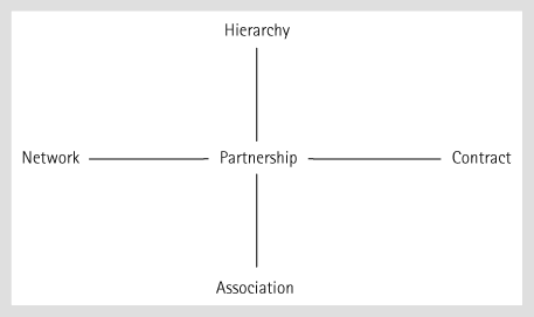

Fig. 8.3 Partnership and other ideal types

This triangular partnership space between state, market, and civil society is one of the main characteristics which distinguishes the ‘new’ urban and regionalpartnerships from either collaborative relationships within the state/public sector (either between different tiers of the state, or between various sectoral state agencies), or from the corporatist model of partnership in which the three poles were the state, business, and trade unions. It is interesting to note, however, that new versions of essentially corporatist partnership, widened to include participation from employment-related NGOs such as those delivering training and employment placement services, are emerging around local and regional labour market issues (Andersen and Mailand 2002).

There is also considerable variation in the nature of the partnership relationships in which partners are involved. Various aspects of this issue will be discussed in the following section, but it is useful at this point to establish the parameters within which partnership is located in terms of another set of ideal-types. Partnership is, on the one hand, located between networked (loose) and contractual (tight) forms of collaboration, involving elements of each, depending on the precise form of the partnership in question. At the same time, partnership is also located on the spectrum between hierarchical and associational organizational forms—and again different partnerships display elements of both (Figure 8.3).

Conclusion: Defining the Field

This part of the chapter has attempted to define the field of urban and regional development partnership as a form of Inter-organizational and cross-sectoral collaboration. Table 8.1 provided examples of typical partnerships, while the sphere of LRD partnership has also been shown to have a number of dimensions:

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• *temporally,* the generalization of partnership is a feature of the 1990s and the early years of the twenty-first century;
• *politically,* partnership is associated with the hegemony of neoliberalism;
• *sectorally,* partnership lies at the intersection between the three spheres of state, market, and civil society;
• *collaboratively,* partnership is positioned around the middle of the spectrum between network and contract.

Partnership in Practice

If partnership is now widespread as the practical framework for urban and regional development, why is this? What do policy-makers and practitioners see as the benefits of partnership working? What downsides to partnership are also recognized? If partnership is to deliver its benefits and costs are to be minimized, what are the issues for policy and practice in making partnership work? What outcomes and impacts can be anticipated, and how can they be measured and evaluated?

Partnership working, it is argued, has a number of potential advantages in the new policy environment (Benington 2001):

• It assists in *problem-solving,* by bringing together the approaches and experience of a range of partners, who will have different perspectives and knowledge.
• In particular, joint working across organizations and sectors can produce *innovation* as individuals and organizations are exposed to new ideas and ways of working.
• It should be possible to make better use of *resources* (financial and otherwise) by applying them in a more coherent way. Additionally, a cross-sectoral, Inter-organizational approach may open up possibilities of new resources.
• By bringing different actors together, partnership working helps to reduce the *risk* of policy failure, or at least the risk of exposure of any one organization.
• Relatedly, partnership should increase the *legitimacy* of governance processes, by building a broad alliance of actors behind the policy process.

Some of these gains can of course be achieved through more limited forms of coordination which do not require formal institution building, and indeed it can be the case that an insistence on institutional structures gets in the way of effective collaboration (see e.g. Healey 1997). In practice the perceived

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benefits of partnership—in some cases reinforced pragmatically by the requirements of government funding programmes to have partnership arrangements in place—means that increasingly formalized partnerships are seen as the means of reaping the benefits of joined up working.

At the same time—and increasingly as the experience of partnership leads to a recognition of some of its downsides—partnership is acknowledged to bring a number of costs (Geddes 1998). These include:

- the *transaction costs*—in both time and money—of working with a number of partners;
- the *complexity* which can be encountered in developing and implementing policies when a large number of partners (and partnerships) are involved;
- the potential lack of *transparency and accountability*—both to partners them selves as well as to the wider public—as decisions are made in partnership forums.

The necessity to maximize the benefits and limit the costs of partnership has given rise to an immense literature, and substantial debate, about 'what works' (for a review see Carley *et al.* 2000; M. Geddes 2005; see also <http://www.renewal.net>, a website offering examples of good practice in local regeneration in England). In broad terms, this debate has ranged over three areas:

- *Building* partnership. The process of setting up partnerships involves bringing together the right partners, securing resources, and setting up effective gover nance arrangements within which the partnership can then operate.
- *Managing* partnerships. The effective management of partnerships has many dimensions. These range from the 'soft' issues of building trust and managing conflict, to the acquisition and management of resources, staffing and skills is sues, and, increasingly, emphasis on more formal procedures for performance review, management, and improvement (see Chapter 15, Hibbert, Huxham, and Ring).
- Securing *outcomes.* Achieving outcomes—for the partnership and for partners—is a crucial but difficult issue, exacerbated by difficulties and weak nesses in monitoring, measuring, and evaluating policy outcomes and impacts, and in particular the *added value* of partnership working (see Chapter 26, Provan and Sydow).

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These broad issues arise both for partnerships themselves (at the local level) and for those setting up and managing partnership-based programmes (most commonly at national and supranational levels).

The following sections look at some of the key issues in building and managing urban and regional development partnerships and securing outcomes.

Building Partnership: The Issue of Trust

The process of building effective partnership is widely seen as time consuming, both in terms of the amount of time which needs to be devoted by key players, and in the length of time which it is acknowledged it usually takes. A key term here is often trust (Lowndes and Skelcher 1998; Huxham and Vangen 2000). Effective partnership is held to require trust among partners (though see Chapter 20, Bachmann and Zaheer). Trust is often difficult to achieve, because partners may not knowand understand each other; will have different interests and may have different objectives in relation to working in partnership; will come from different social and organizational cultures and often have vastly different resources behind them. Building trust and collaborative capacity, it is equally frequently argued, requires a number of things: strong leadership; the development of a shared vision and a common basis of knowledge; a willingness to recognize difference, compromise, and ensure that all partners are treated equally; and cultural change at both the individual and organizational level (Sullivan and Skelcher 2002).

There is, of course, much truth in this perspective. In many LRD partnerships trust or the lack of it between public agencies and community representatives has often been an issue (Hastings *et al.* 1996; Perrons and Skyers 2003). In Eastern Europe, the lack of trust in the state is a serious barrier to partnership (Soos and Zentai 2005). In the advanced world, the perceived need to build collaborative capacity has proved a fertile field for ‘change agents’ offering consultancy to practitioners desperate to make their partnerships work. However, the need for trust can be overemphasized. In many cases LRD partnerships are set up extremely rapidly, especially if the appearance at least of working partnership relationships is a condition of access to financial or other resources. Trust may be an ideal base for partnership working, but many partnerships function on the basis of strictly limited trust, and it may be better to recognize that partnerships can function as arenas in which distrust can be managed. A shared vision may

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be highly desirable but equally it may be possible for different partners to have different objectives and indeed visions and still obtain outcomes from working together. If trust-based partnership remains an ideal, making partnership work in a context of limited trust may be a pragmatic necessity in many cases.

Partner Contributions: Inequality and Difference

Formally, the objective of many partnerships is to secure high levels of involvement and commitment from all partners. However, most partnerships are characterized by serious inequalities of power and capacity among partners, and it is clear that it is easier to engage with some categories of partner than with others (Balloch and Taylor 2001).

Given the lead role of local and regional governments in many partnerships, local and regional authorities frequently make primary contributions. Indeed, the problem with the role of the local authority may be that it is seen to be too dominant, excluding or marginalizing other partners' interests. However, the major local government contribution to partnerships often tends to come from officials. Elected local (or regional) councillors tend to be much less actively involved, and indeed may be suspicious of some partnerships if they see them as a threat to their traditional sphere of authority (Geddes 2006*a*).

Other public agencies are also major players in partnerships. However, the extent of their commitment is likely to depend on a number of factors, including the degree of consonance between the partnership's objectives and those of the agency concerned. On the one hand, local or regional agencies with sectoral remits can be strongly committed to partnerships focused around ‘their’ sector—partnerships dealing with local labour market issues are a case in point (see e.g. Eberts and Erikchek (2001) on the USA, Keane and Corman (2001) on Denmark). On the other hand, local public agencies faced with a disjuncture between the targets set for them by national governments and the priorities of local partnerships may well display strictly limited commitment—as in the case of regional development partnerships in Norway (Geddes 2004) and in Austria (Campbell 2001).

Business is in principle a key player in local and regional development partnerships (European Foundation 2004). In some cases, especially partnerships concerned with economic, property, or infrastructural development, this principle is often realized in strong business sector involvement, at both the strategic and the more operational level.

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Business involvement may be via organizations such as Chambers of Commerce, or on the part of individual businesses (Davies 2001). However, where partnerships' agendas are less directly concerned with economic development, and appear to offer less direct benefits to business, involvement can be hard to obtain, and may be limited to relatively formal and tokenistic participation as part of firms' corporate social responsibility briefs. This has frequently been the case for LRD partnerships concerned with poverty or social exclusion, such as the EU's Poverty 3 programme. Nevertheless, even when business is not an active player, business interests may still have an influential ‘defensive’ role in ensuring that the partnership agenda is ‘business friendly’ in broader terms.

Trade union involvement shows a differentiated pattern. In some countries, especially those where corporatist arrangements are still strong at national level, trade union participation in local and regional partnerships is routine, even if their degree of influence is variable (Geddes 1998). The EU-sponsored Territorial Employment Pacts are a case in point. But in some other countries, including the UK, trade union involvement was actively discouraged by Conservative governments in the 1980s and 1990s and still remains minimal.

The involvement of community interests and organizations is in some ways the mirror image of that of business. Community organizations and activists are generally extremely keen to become involved, regarding partnership as forums in which they can have greater influence than via traditional local government arrangements (Mayo and Taylor 2001). However, they (and especially perhaps the organizations and representatives of poor and deprived communities and excluded social groups) face numerous obstacles, from resource constraints to coping with partnership cultures and processes designed by and for formal organizations. Thus residents from poor communities may find it difficult to ‘think strategically’ in the way formal organizations do, and to adapt to a culture of minuted meetings,requirements of government audit and inspection, etc. The reality of community involvement in LRD partnerships is frequently much less than the rhetoric would suggest (Hastings *et al.* 1996; McCarthy 2003; Perrons and Skyers 2003; and see Chapter 7, Mandell and Keast).

The position of NGOs and voluntary organizations is more differentiated. In some cases, small voluntary organizations may play a similar role to community groups, while not for profit organizations providing local services may have some similar interests to those of the business sector. On the other hand, in some partnerships in the developing world, large and powerful

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transnational NGOs may dominate partnerships in the way the state sector tends to do in the advanced world (Davis 2001).

We can sum up some of the practical differences and inequalities in partner contributions along a number of axes. Engagement maybe:

- active or passive;
- strategic, instrumental, or defensive;

and partners may be subject to either:

- inclusionary or exclusionary pressures.

Managing Partnerships

LRD partnerships are in most cases small or very small institutions, in comparison with the formal organizations which are among their principal partners. Some partnerships are also time-limited—if for example they are set up as vehicles to apply a specific funding package or implement a specific project (for detailed treatment, see Chapter 9, Jones and Lichtenstein). Many partnerships are, therefore, extremely lean institutions—mostly counting their management capacity in terms of no more than a few—maybe only one—individual, often only of middle management status. Yet partnership management is a complex business, requiring a range of skills—strategy development, project delivery, networking and lobbying, partner liaison (see Chapter 15, Hibbert, Huxham, and Ring). Moreover, partnership managers are required to work closely with very senior managers of partner organizations. To an extent, it is the nature of partnership that it will be possible to call on the resources of partner organizations to provide some of the skills needed to manage a partnership. Nevertheless, there is growing recognition that partnerships may have a 'management deficit'. In England, LRD partnerships such as New Deal for Communities partnerships at neighbourhood level (CRESR 2005) and Local Strategic Partnerships (ODPM 2006) both exhibit capacity problems which threaten their fitness for purpose, and recent work by the OECD indicates that this is a widespread problem (Geddes 2006*b*).

Partly as a result of the limited management capacities of partnerships themselves, and partly because of the significant resources that are now being channelledthrough urban and regional partnerships, increasing emphasis is being placed on formal performance management arrangements as a means of improving partnership effectiveness. Typically, such arrangements will be developed and managed within the framework of

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the government programmes which deliver through local partnerships, and will involve the specification of targets and performance indicators, and regular processes of review and formalized improvement planning—see for example the performance management frameworks for a range of partnerships involved in neighbourhood renewal in England (NRU 2006). Such arrangements are typical of the New Public Management principles which now pervade public administration. But there are important differences between performance management within an organization and in a partnership context. Within an organization, management is—within limits of course—in control. But partnership rests on the contributions—often more voluntary than otherwise—of a wide range of partners, whose actions are not controlled by the partnership management in the same way as in a single organization. Moreover, while some partners, including both public agencies and private firms, will be culturally accustomed to formalized performance management, the same will not be true of other partners, especially ‘community’ partners. There are, therefore, limits to the extent to which partnerships can be ‘performance managed’.

The Governance and Accountability of Partnerships

Linked to these issues about the leadership and management of partnerships are complex governance and accountability issues. These concern, in the first place, relationships of accountability between a partnership and its partners. These are in both directions. How is a partnership accountable to its partners—and how are partner organizations and interests accountable to the partnership? These are partly practical questions: what protocols and practices, for example, does a partnership have to govern such relationships within the partnership and how effectively do they work? Some research suggests that, even in those countries where LRD partnership is most established, such accountability relationships are distinguished more often by their absence or ineffectiveness (ODPM 2006). Behind these pragmatic issues though are wider ones. Some of these relate to the ways in which partnership membership is constructed. In some sectors—local public agencies for example—it should be relatively straightforward, in principle if not in practice—for the individuals who are the members of the partnership to be made accountable within their organizations. But this is far from straightforward in the case of the business and community sectors, where individual members of a partnership may have no lines of accountability to their wider sector, and indeed may not see themselves as representatives of the sector. Thus, while partnerships may be more formally inclusive in terms of the interests representedon them compared to the traditional

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organizations of local government, that inclusivity may not have much substance behind it (Davies 2006; Geddes 2006*a*). Moreover, partnership may also complicate established forms of democratic accountability. The remits and responsibilities of partnerships cut across those of elected councillors, and while some (mostly senior) councillors are often members of partnerships, they not infrequently voice concern at the challenge which they see from partnerships to their own democratic roles, while councillors who are not able to participate in partnership structures understandably have even greater concerns. Thus, while the limitations of local representative democratic accountability are all too obvious and well known, it is by no means clear whether 'local partnership governance' improves the position, or indeed creates a new form of democratic deficit (Southern 2002; Sterling 2005). Unless these accountability and governance issues can be resolved, the danger is that partnerships will generate elite rather than accountable and democratic local governance.

Identifying the Added Value of Partnership

The final key issue to consider is that of the added value of partnership (see Chapter 26, Provan and Sydow). Here we confront a paradox, in that while most policy-makers and practitioners seem committed to partnership, there is relatively little hard evidence of the added value which partnership brings to urban and regional development and to subnational governance processes. Exhaustive value for money exercises are sometimes used to try to demonstrate the added value of LRD partnerships (ODPM 2005) but these are often based on methodologies and data of questionable robustness. Formal 'partnership assessment tools' have also been developed, but again these are subject to significant limitations (Halliday *et al.* 2004). This is, partly, because identifying the added value of partnership is a difficult issue (Monnier 1997). There are, in the first place, always difficulties in identifying and evaluating the outcomes of public policy—but in partnership contexts this is considerably more difficult than is the case if policy is delivered by a single organization. It is not merely, in those cases where a partnership is delivering a specific regeneration programme, a question of whether the outputs and outcomes envisaged have been achieved. Even if this is the case, it is necessary to ask whether all or some of those outcomes could equally have been achieved through other delivery arrangements. If it is considered that the framework of partnership has added value to outcomes, can that be demonstrated—what are the links between partnership arrangements and strategies, actions, and specific outcomes? Second, when practitioners are asked to identify what they consider to be

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the added value of partnership working, the answers are frequently in terms of what can be called ‘process outcomes’—developing more trust among partners, for example, or sharing the costs of an intervention (ODPM 2006). But such‘process outcomes’ are, in the final analysis, only means towards the ends of better outcomes in terms of improvements in, say, economic prosperity or social cohesion. One recent development has been interest in a ‘theory of change’ approach to the evaluation of local and regional development initiatives, building on the work of a US group associated with the Aspen Institute (Connell and Kubisch 1998). In the UK this approach has been used in a number of policy evaluation studies (see e.g. Sullivan *et al.* 2002) and may help to provide a stronger conceptual framework for identifying added value (Geddes *et al.* 2007). However the application of such principles remains in its infancy, and claims about the added value of partnership working seems often to remain based as much in ideology or ‘gut feeling’ as on substantive and substantial evidence.

Explaining the Rise and Limits of Partnerships

If there is relatively little evidence of the added value of partnership, why has partnership become the standard organizational shell for local and regional development, not only in the advanced world but increasingly elsewhere? At the same time, while for many practitioners partnership is the only game in town, how can we explain its limitations? This section briefly explores contrasting theoretical perspectives which are helpful in understanding both the rise and limits of partnership. Perhaps the most influential perspective on partnership is that associated with the view that traditional patterns of government based around fixed hierarchies —organizational and spatial—have been challenged by new patterns of networked governance (Castells 1996; Rhodes 1997) in which cross-cutting relationships and Inter-organizational networks constitute a more effective and pluralist approach to policy-making and implementation in a more challenging and sophisticated policy environment. Based on the liberatory force of the information and communications revolution, vertical hierarchies are being overlain by horizontal networks; centralized systems are being counterbalanced by devolved and decentralized patterns of working. These more flexible processes are more able to respond to the diversity and changes in needs among different groups of the population, and to the cross-cutting problems (crime and community safety, ageing, social exclusion) which now face citizens and communities and do not fit easily within traditional frameworks of government based upon departmental, disciplinary, and professional ‘silos’ (Benington 2001; Perri 6 *et al.* 2002). More broadly,

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networked governance patterns may be able to respond more effectively to the ‘legitimation crisis’ of the state (Offe 1984) in the wake of the breakdown of the consensusaround the Keynesian welfare state and the need for a new accommodation between the state and the market. Similarly, ideas such as those of ‘associational democracy’ (Hirst 1994) as a reformulation of democratic principles in the context of a need for more sophisticated forms of interest representation than that provided by representative democracy, represent a theorization of a new accommodation between state and civil society. The notion of a ‘third way’ in politics and policy (Giddens 1998) develops a conception of a ‘radical centrism’ distinct from the New Right and traditional social democracy which attempts to flesh out just such a policy agenda, and which has been influential not only in the UK but in countries like Australia and New Zealand and now increasingly within the European Union.

LRD partnerships can be seen as a classic institutional form of networked, third way governance. So, on the one hand, a powerful driver of the trend towards partnership has been a critique of the ‘silo’ approach. As was noted earlier, in the traditional model of LRD, collaboration tended to be limited to specific inputs, rather than the core task being undertaken collaboratively. The primary practical critique of this model has been that it has proved unable to tackle effectively complex (‘wicked’) policy issues and problems. In different analyses, the state has become overloaded, hollowed out, or congested (Sullivan and Skelcher 2002: 16), but the common implication is that the state can no longer solve such problems unilaterally—solutions demand ‘joined up working’ among all relevant actors. Multi faceted problems of urban and regional renewal require a multidimensional policy response. In particular, joint working is seen as the most effective response to a rapidly evolving policy environment which challenges traditional approaches and solutions. Thus, on the one hand, the change in the orientation of economic development policy from Keynesian growth management and redistribution to neoliberal promotion of competitiveness and labour market flexibility, and on the other the shift from ‘welfare dependence’ to an emphasis on the key role of social capital in promoting social inclusion, both demand different ways of working between the state and actors and institutions from the market and civil society. These new challenges require a reorientation of the traditional roles of state bureaucrats to function as change agents and social entrepreneurs (Giguere 2004).

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The rise of networked governance has been associated not only with a wideranging debate on the ‘new governance’, including new governance arrangements at local and regional levels (Stoker 2004) but also with a revival of interest in institutions at the meso-level of public policy, and so-called ‘new institutionalist’ analyses have been important in contributing to understanding of the strengths and limits of networked governance and its institutions such as partnerships. However, while many new institutionalist analyses emphasize the positive elements of partnership and networked governance, they also identify the complexity and fragility of the institutional arrangements which are part of the shift from government to governance. Thus Lowndes and Wilson (2003), commenting on local governmentmodernization in the UK, stress the complexity of institutional arrangements ‘within, between and around particular organizations’, the interaction of formal and informal rules, in the ‘increasingly fragmented and differentiated world of local governance’, which is, moreover, a highly contested arena in which ‘purposive attempts at change are hard to achieve … new institutions are likely to be resisted … *or* … adapted in ways that suit locally-specific institutional environments’ (p. 280). Sørenson and Torfing (2004) seek to recognize but at the same time challenge the contention that ‘governance networks are to an increasing extent seen as an effective and legitimate form of societal governance’ (2004: 6). They suggest that network governance arrangements can on the one hand result in a positive set of outcomes: promoting wider participation in governance arrangements and thus improving governance efficiency and outcome legitimacy, but on the other hand, identifying potential dangers inherent in network governance, which may make political and policy processes less transparent. There are mounting concerns about the difficulties encountered in the attempt to ‘join up’ government, on the basis of cross-national evidence (Ling 2002); and in relation to local governance (Cowell and Martin 2003). Criticisms of the deficiencies of ‘autonomous, performance-managed executive agencies’ (Pollitt 2004) mirror in important respects some of the problems of local partnerships identified here, including the difficult balance between control and autonomy within the complex institutional environment of the new governance, and the difficulties of performance management in a politicized environment. Governance and institutionalist perspectives are increasingly questioning assumptions about the potential of the new governance arrangements, including LRD partnerships themselves (Bailey 2003; Davies 2004; Johnson 2005).

Characteristically, however, much of the governance and new institutionalist literatures, especially those dealing with local governance and development

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(see e.g. Goss 2001; Stoker 2004) tend to avoid any strong association with a specific policy or political *content.* This is in marked contrast to a second literature in which the shift ‘from government to governance’ is indeed closely associated with a particular political content—neoliberalism. In this perspective, the increasingly hegemonic position of neoliberal policy agendas, which have sought to reconfigure the role of the state towards a greater emphasis on global economic competitiveness, reorientation of the welfare state towards an ‘opportunity state’, deregulation of markets including labour markets and privatization policies, and the introduction of the new public management, is intimately associated with the move to governance (Jessop 2002; Peck and Tickell 2002; Cerny 2004). The shift from government to governance is a process of replacing old institutions—imbued with other, preexisting ideological principles—with new structures and practices consistent with neoliberalism. Thus for Larner and Butler (2005), the ‘partnering state’ (in New Zealand) is a neoliberal state. Hall (2003) differentiates New Labour's reforms of the state in the UK from the anti-statist neoliberalism of the USA, but insists onthe neoliberalism of New Labour's re-invention of active government, in which, he argues,

> government has been restructured in the name of an economising logic. ‘Entrepreneurial governance’, its advocates advise, promotes competition between service providers, …redefines clients as consumers, and prefers market mechanisms to administrative ones. Its neoliberal origins are hard to disguise.
>
> (pp. 14–15)

Brenner and Theodore (2002), analysing the introduction (in the USA) of local policies of competitiveness, fiscal austerity and privatization, and the thoroughgoing reconfiguration of the local state apparatus, term this restructuring the ‘neolib-eralisation of urban space’, presenting the process of ‘neoliberal localisation’ as one of destructive creation in which the old local state apparatus is replaced by new forms: an attack on the old bureaucratic ‘silos’ and the local politicians associated with them, and creation of managerialist and networked institutions; elimination of public monopoly local services and their replacement by competitive contracting and privatized provision; dismantling of traditional compensatory regional policies and their replacement by localized, competitive entrepreneurial strategies. In this analysis, therefore, the question of the ‘effectiveness’ of the new Inter-organizational relationships within new institutional forms

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such as local partnerships cannot be divorced from a wider reflection on the neoliberal agendas of which they are a part.

Conclusions

What conclusions can be drawn from this overview? In the first place, partnership is closely associated with neoliberal political economy, and especially with the antipathy of (neo)liberalism to social democratic principles according to which the state (with a large and strong public sector) determined public policy—in consultation of course with business and social interests. In contrast, partnership reflects a different set of Inter-organizational relationships. One way of putting this is to see partnership in terms of a more limited role for the state—as only one interest, albeit often the dominant one—in the development and delivery of public policy. It may well be more insightful, though, to focus more on the way in which new interests—local community organizations for example, are drawn into a 'new statism', and especially the enhanced power of business within the public policy domain. But in any case, it is important, given the focus of much of the partnership debate on what happens and 'what works' within partnerships, to keep in mind the wider policy environment which establishes the parameters within which partnerships operate.

Secondly, whatever the differences in the manner and extent to which partnerships have developed (and we have argued that context does indeed matter), it must be concluded that, at the beginning of the 21st century, partnership is becoming the global norm as the institutional framework for local and regional development. However, our understanding of the global picture is still limited, and too much of our thinking is dominated by experience and theorizing in the advanced world. We need to know more about Inter-organizational relationships in partnerships in the developing world, and give more prominence to what we do know in our thinking.

Thirdly, it is necessary to confront the paradox of the pervasiveness of partnership in urban and regional development and the strictly limited evidence of what it delivers. This surely implies that we need better ways of measuring and evaluating the benefits of partnership, and that public policy-makers and practitioners should give more priority to the evidence base of policy. But the limited evidence of the benefits of partnership may reflect increasing evidence of the limitations of the new, networked governance, and the limited capacity of the 'weak ties' (Granovetter 1973) which bind partnerships and networks to modify the effects of the strong

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ties which continue to function in the major organizations of government. As things stand, and unless more evidence emerges of the added value of partnership working, it is possible that the rapid rise of partnerships as the dominant arena for Inter-organizational relationships in urban and regional development will soon be followed by their equally precipitous decline. Will it be a case of the old empires striking back?

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Temporary Inter-organizational Projects

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Abstract and Keywords

Inter-organizational projects (IOPs), in which multiple organizations work jointly on a shared activity for a limited period of time, are increasingly used to coordinate complex products/services in uncertain and competitive environments. For some time, project management researchers have examined the structures and processes within intra-organizational projects that lead to their success, and recently some outlines of a 'theory' of organizational projects have been offered. This article begins by defining IOPs. It then describes how temporal embeddedness and social embeddedness provide specific mechanisms for managing uncertainty associated with these projects, and facilitating collaboration amongst project actors. Next, it illustrates the insights by combining these two dimensions and exploring them across four contexts within which IOPs are the dominant form of coordination among organizations, including film, architecture, crisis response, and large-scale engineering infrastructure. Finally, it offers suggestions for future research and conclusions.

inter-organizational projects, intra-organizational projects, film, architecture, crisis response, large-scale engineering infrastructure

Introduction

Inter-organizational projects, in which multiple organizations work jointly on a shared activity for a limited period of time, are increasingly used

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to coordinatecomplex products/services in uncertain and competitive environments. This type of joint collaboration and coordination among two or more organizations has been observed in a wide range of industries such as advertising (Grabher 2002*a*), construction (Eccles 1981; Winch 1989), biotechnology (Powell *et al.* 1996), computers (Gomes-Casseres 1994), film (Jones 1996; Faulkner and Anderson 1987; Bechky 2006), financial services (Eccles and Crane 1988; Podolny 1993, 1994) and fashion (Uzzi 1996, 1997), among others. In addition to the private sector, Inter-organizational projects are common in the public sector, being the primary mechanism for initiating and completing significant public infrastructure projects (Altshuler and Luberoff 2003) and urgent responses to natural disasters and social crises (Moynihan 2005*a*, 2005*b*, 2005*c*).

Although Inter-organizational projects are widely used across diverse industry and country settings, we have few frameworks for understanding the various types of Inter-organizational projects (henceforth IO projects) and *how* these various types of IO projects facilitate coordinated activities among two or more organizations under conditions of uncertainty. In many cases, these projects involve multiple organizational actors with disparate goals, overlapping areas of responsibility, and differing levels of expertise. Moreover in the public sector Inter-organizational projects are often carried out in crisis situations where there is a lack of central authority or even a formal hierarchy (Moynihan 2005*b*). In light of such high levels of uncertainty and interdependence in multiorganizational collaborative activities, we ask: What are the types of IO project used, and how do organizational actors coordinate their activities and contributions within these IO projects under conditions of uncertainty?

For some time project management researchers have examined the structures and processes within intra-organizational projects that lead to their success, and recently some outlines of a ‘theory’ of organizational projects have been offered (Lundin and Soderholm 1995; Packendorf 1995; Soderlund 2005). However, these scholars rarely address how multiple actors coordinate their collaborative efforts in a range of Inter-organizational projects, nor do they assess how the expectation of limited duration shapes and modifies their interactions.

A key distinction of IO projects, in contrast to the more commonly studied forms of Inter-organizational coordination such as joint ventures and alliances, is that projects by definition are *temporary.* IO projects exist for a limited period of time designated by a pre-established end point in order to

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carry out pre-specified goals; when these goals are completed, the project organization literally dissolves. Thus, temporality is a crucial quality of all IO projects. In contrast, joint ventures and alliances, at least in the literature on them, rarely specify an expected end date. Joint ventures and alliances are established with an expectation of ongoing and open-ended interactions, even in the face of high failure and exit rates of 50–70 per cent (Barringer and Harrison 2000). Within IO projects, temporality can vary widely from the short duration expected in a music video of two days (Bechky 2006) tofilm production of six to eighteen weeks (Jones and DeFillippi 1996) to years of collaboration among firms in biotechnology (twelve years in pharmaceuticals to take a drug from discovery to commercialization—Gunz *et al.* 2000) to decades for large-scale infrastructure projects like the 'Big Dig' in Boston, an endeavour started in the 1970s that is *still* not finished.

The expected duration of organizations and collaborations are an under-studied phenomenon in management and organizations, even though there has been a recent emphasis on time and temporality in management studies (see Albert 1995; Ancona and Chong 1996 for reviews). As early as 1970, Palisi (1970) called for scholars to examine the transitoriness of organizing as an independent variable; however, to date there are no studies that explicitly address how the duration of Inter-organizational projects influences the coordination of collaborative contributions among multiple organizational actors—whether in Inter-organizational networks draped around projects (e.g. Powell *et al.* 1996) or in project-based organizing directed and coordinated by one key organization (e.g. DeFillippi and Arthur 1998).

We propose the term 'temporal embeddedness' to capture how the variance in the duration of projects influences what kinds of coordination techniques are used to manage uncertainty when multiple organizations collaborate to create a joint product/service. Specifically, temporal embeddedness refers to the expected duration of an IO project and how this expected duration creates mechanisms that shape the coordination of collaborative activities between organizations. With temporal embeddedness we examine techniques that organizations use for managing the pacing and mutual adjustment of their collaborative activities under different conditions of expected durations.

At the same time, Inter-organizational projects are not only temporally embedded; they are also socially embedded. Social embeddedness refers to 'the frequency, duration and pattern of dyadic interactions for an individual

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or organization' (Granovetter 1985). We focus on how the pattern of Inter-organizational interactions shapes whether understandings among social actors, called macroculture, are widely shared among organizations, how behaviour is enacted, and the propensity for Inter-organizational tie formation, all of which guide exchanges within a project (Abrahamson and Fombrun 1994; Phillips 1994; Jones *et al.* 1997; Kenis and Knoke 2002). When exchanges evolve from one-off, single interactions to repeated and durable long-term relationships among many organizations, understandings become widely shared in a market or field and a rich project ecology emerges that facilitates coordination and guides collaborative activities among organizational actors (Grabher 2002*a*).

We begin our chapter by defining Inter-organizational projects. We then describe how temporal embeddedness and social embeddedness provide specific mechanisms for managing uncertainty associated with projects, and facilitating collaboration amongst project actors. Next, we illustrate our insights by combining these two dimensions and exploring them across four contexts withinwhich Inter-organizational projects are the dominant form of coordination among organizations, including film, architecture, crisis response, and large-scale engineering infrastructure. Finally we offer suggestions for future research and conclusions.

What is an Inter-organizational Project?

Inter-organizational projects involve two or more organizational actors from distinct organizations working jointly to create a tangible product/service in a limited period of time. For our purposes these actors minimally refer to a client and a contractor—what Soderlund (2005) calls 'business projects'. In some cases the contractor is a coordinator of multiple independent entities, as for example a construction contractor working with dozens of individual subcontractors in 'quasi-firms' (Eccles 1981), or large engineering firms that may employ hundreds of subcontracting companies in 'mega-projects' (Berggren *et al.* 2001). In a similar sense the client may represent multiple actors. In complex cases, multiple clients work with multiple contractors in large-scale infrastructure projects (Morris and Hough 1987).

Our focus and unit of analysis is the *project*—a nexus of activity that allows multiple organizations to collaborate to achieve their individual and collective goals. By focusing on the project we are free to pull from a larger range of relevant literature for our review, including some of the project management literature which provides unique insights into the core processes that are often unexplored in the traditional management literature. Much of the

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literature on industries that use Inter-organizational projects has explored techniques for coordinating interdependent activities such as schedules, routines, mutual adjustment, and deadlines. Most of these techniques were described by organizational luminaries such as March and Simon (1958) and Thompson (1967) and have been integrated into organizational research for the last fifty years. Yet, few scholars have focused on IO projects specifically as a domain within which we can explore how temporal and social embeddedness influence coordination among organizational actors which are both interdependent and independent.

We distinguish Inter-organizational projects from project-based organizations and project management within firms, and from projects that are internal to a single firm such as development or change projects (Bowen *et al.* 1994; Eisenhardt and Tabrizi 1995), even though all these may share certain management techniques such as schedules and deadlines or the use of projects as devices for coordinatingcontributions from various actors (employees or organizations). Inter-organizational projects coordinate activities only for the lifespan of the project, which may extend five days or twenty years, whereas project-based organizing focuses on a durable organizational entity that uses projects to create its services and/or products (Packendorf 1995; DeFillippi and Arthur 1998). On the other hand, we will refer to insights generated in the study of single-organization projects, for example temporal pacing (Gersick 1994) and structuring (Brown and Eisenhardt 1994), and explore how they might apply to in the context of IO projects.

Most scholars who study project-based organizing (DeFillippi and Arthur, 1998; Hobday 2000) or Inter-organizational collaboration in networks (e.g. Powell *et al.* 1996) ignore how the temporal dynamics of projects influence the collaborative activities among independent organizations. They also focus either on the organization or the network rather than the project. We believe that a deeper understanding of Inter-organizational collaboration and networks can be gained by examining the project itself as a unit of analysis. A project can be construed as a sequence of events, the dynamics of which depend on certain qualities of temporality that are embedded in the process itself and the characteristics of the relationship such as the frequency, duration, and density of interaction between and among organizations. The resulting sequence of events is highly influenced by both the structure of relations and mutually shared rules of collaboration (Sewell 1992) that provide the resources for IO projects. Projects as events shape the network of collaborative activities among organizations in a field (Kenis and Knoke

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2002) and how the network of collaborative activities evolve (Doreian 2002). By focusing on the two dimensions of temporal and social embeddedness, we are better able to distinguish among types of Inter-organizational projects and how they are coordinated differently.

How Temporal and Social Embeddedness Manage Uncertainty

Inter-organizational projects are means by which organizational actors resolve pressing problems of uncertainty in demand and in transactions. *Demand uncertainty* accrues in markets with rapid shifts in customer tastes and preferences, as in the fashion (Mariotti and Cainarca 1986), music (Peterson and Berger 1971) and movie (Faulkner and Anderson 1987) businesses. Demand uncertainty occurs when competitors leapfrog one another with technological advances or new products which make obsolete existing products and services (Balakrishnan and Wernerfelt 1986), or when seasonality constraints make it hard to sustain production (Acheson1985). These forms of uncertainty in demand spark the need for more flexible and adaptive organizational structures, which Inter-organizational projects provide. Organizations that experience uncertainty in demand for products and services need *decoupling* (Aldrich 1979: 325–6) to enhance flexibility to start up, alter, or shut down joint activities. Inter-organizational projects provide this flexibility more so than in-house projects (Jones *et al.* 1997).

Transactional uncertainty is the uncertainty associated with the interdependent and interactive nature of co-producing products and services (Clark 1985; Glückler and Armbrüster 2003). Transactional uncertainty is due to specialized and complex knowledge arenas which drive the need for Inter-organizational collaboration to innovate, such as biotechnology (Powell *et al.* 1996), or construction which involves a myriad professions such as engineering, architecture, interior design, and quasi-professions such as electricians, plumbers, carpenters (Eccles 1981; Thornton *et al.* 2005). To reduce transactional uncertainty, exchange parties come to know one another's preferences and procedures through repeated interaction (Eccles 1981; Levinthal and Fichman 1988). The degree to which multiple organizational actors repeat their interactions over projects defines their collaborative stability and change, ranging from promiscuous to polygamous (Powell 1990; Gomes-Cassenes 1996; Jones *et al.* 1998). We also suggest that transactional uncertainty with knowledge-intensive and ambiguous activities is attenuated through social embeddedness, i.e. the shared understandings and relations that facilitate knowing what and how interactions are most effectively coordinated among participating members.

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Demand uncertainty and transactional uncertainty also require techniques by which multiple organizations coordinate their interactions to manage this uncertainty and to achieve effective collaboration. We suggest that the temporal and social embeddedness of projects provide techniques for managing uncertainty while enhancing adaptability for collaboration.

Temporal Embeddedness: Pacing Techniques for Coordination and Uncertainty Management in Collaborative Activities

The temporal embeddedness of organizations (Clark 1985) refers to the time-oriented markers that organizational decision-makers use to demarcate and organize their activities. Both Clark (1985) and Gersick (1994) identified primary types of temporal markers: *chronological pacing*—based on the passage of clock-time or calendar time, *event-based pacing*—which is based on attaining key milestones toward a goal, and *entrainment-based pacing*—wherein organizations synchronize their activities through calendar or environmental influences.

Chronological pacing includes such techniques as deadlines, contracts, and timelines that mark off and coordinate who does what when. Deadlines are a toolused by the project coordinator—whether the ad manager, the director, or the lead contractor—to maintain the expected duration of a project. An externally set deadline is a way of focusing attention and coordinating contributions, often creating a productive sense of urgency in the project. Especially in highly creative industries the deadline is not a problem; instead it provides a strict temporal benchmark that coordinates the team and helps control the process (Grabher 2002*b*).

Event-based pacing coordinates activities by setting milestones, which reduces environmental and transactional uncertainty by demonstrating—through each completed event—that the project is on track and appropriate to its market context. Event-based pacing demarcates a developmental cycle, e.g. completing a design phase, or achieving an expected outcome such as gaining the Federal Drug Administration's (FDA) approval for drug development or completing an initial public offering (IPO) (Gersick 1994). In order to reach final deadlines, predefined milestones are a common coordination mechanism that involves a specific target date by which a certain amount of work on the project must be accomplished. Milestones represent one kind of event-based pacing (Gersick 1994) in that once the project has completed a certain stage of work (i.e. an event), the project moves forward to the next stage (Cooper 1990; Davies and Hobday 2005).

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Chronological and event-based pacing may be combined in rapidly changing and highly competitive industries because new information about market needs and technical opportunities is likely to arise *after* a particular product concept is supposed to be frozen, thus requiring product development to occur *before* the initial concept is fully specified (MacCormack *et al.* 2001). At the limit, event-based and time-based pacing become fully intertwined (e.g. Lindkvist *et al.* 1998) such that what was sequential pooling becomes reciprocal pooling of tasks (Thompson 1967). In such high-uncertainty demand markets as semiconductors, computers, construction, film and fashion, the combination of task complexity with time pressure induces team coordination, where 'diversely skilled members work in a parallel fashion through mutual adjustment to reduce the time to complete complex tasks' (Jones *et al*. 1997).

In addition to chronological and event-based pacing, IO projects are often affected by *entrainment-based pacing*, which occurs when joint activities of projects are coordinated to match the temporal dynamics of their environment, thus synchronizing collaborative activities. For example, organizational actors often align their contributions and activities based on external markers such as seasons (e.g. Christmas, summer travel) or field configuring events such as conferences, trade-shows, or award ceremonies. Moreover, place-specific industry networks may operate at a different pace than the broader industry network in other geographic regions. Grabher's (2002*a*: 254) analysis of the advertising project networks in London provides an excellent example:

> Soho is associated with a certain pace of action and a certain attitude towards work practices that are driven by extraordinary time pressures. An agency owner-manager illustrates: …'Here when we are busy, there is an atmosphere, there is an urgency about it …and people will work to get the job done.' And a film director [said], 'The pace; …there is a certain pace here, things move incredibly fast.'

Such entrainment-based pacing affects all actors in a project network—clients, project specialists, and the team leader or manager—although not necessarily equally. For example, to the degree that project networks in other industries operate at a faster pace in London or New York than they do in other cities, the city itself will be known as a magnet for a certain kind of individual, thus shaping the labor pool of multiple industries within those locales. In addition, the temporal embeddedness of a region's pace may

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become the basis for decisions that affect the social embeddedness of those within and outside of the region, which we discuss next.

Social Embeddedness: Coordination Through the Pattern and Structure of Relations

Social embeddedness refers to the *relational embeddedness* and the *structural em-beddedness* of organizational actors, which generates the likelihood of shared understandings between and among organizations. Variance in structures and patterns of relations tends to facilitate or impede the flow of communication and knowledge-sharing among organizations (see also Kenis and Oerlemans, Chapter 11 this volume). For example, a dense market or field in which all organizations interact with one another is more likely to have widely shared assumptions than a market or field within which only certain groups of organizations interact with one another.

We draw from Granovetter (1992: 33), who defined embeddedness in terms of: ‘inter-actor ties and how economic action and outcomes … are affected by actors' dyadic (pairwise) relations—typically referred to as relational embeddedness—*and* by the structure of the overall network of relations, referred to as structural em-beddedness’. Social embeddedness incorporates relational and structural patterns of Inter-organizational ties that facilitate or impede shared understandings.

Relational embeddedness captures the quality of dyadic exchanges—the degree to which exchange parties know of and consider one another's needs and goals (Gra-novetter 1992) and the behaviours exchange parties exhibit such as trust, confiding, and information-sharing (Uzzi 1997). To create shared relational understandings, organizational actors must have clarity about their roles—who does what—as well as repeated collaborations with those other actors, either through multiple projects of shorter duration or through sustained interactions in a project of longer duration. Process models of Inter-organizational collaboration also focus on dyadic interactions or relational embeddedness (Ring and Van de Ven 1994; Doz 1996).Empirical studies show that relational embeddedness attenuates transactional uncertainty as parties playing particular roles come to know and understand each other's preferences through repeated interactions in, for example, client-provider relations (Levinthal and Fichman 1988), biotechnology collaborations (Pisano 1989), client–agency interactions (Grabher 2002*a*), and supplier–designer exchanges (Uzzi 1996).

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Structural embeddedness is the extent to which a ‘dyad's mutual contacts are connected to one another’ (Granovetter 1992: 35). When IO projects involve complex tasks that require many parties to interact to complete a product or service, this enhances the likelihood of structural embeddedness (Jones *et al.* 1997). Because projects are temporary, social actors must move among collaborative partners. Markets or fields with projects of shorter duration are more likely to enhance movement among a greater portion of organizational participants, increasing the density of a field or market. Thus, organizational actors not only have direct relations but also are linked indirectly by third parties, who are likely to have future interactions and talk about their interactions with one another. Since these collaborative choices are being enacted and discussed among industry participants, repeated interactions among players permit exchange partners to learn each other's systems (Eccles 1981; Faulkner and Anderson 1987: 892), to develop communication protocols, and to establish routines for working together (Bryman *et al*. 1987: 280), all of which enhance coordination. Whether these shared understanding become institutionalized and taken for granted among organizational actors (Berger and Luckmann 1967) depends to some degree on the age of the market or field. We should expect to see differences among fields with different durations such as construction— which came out of guilds established in the medieval period, architecture—which became a profession distinct from building trades in the mid-nineteenth century, and biotechnology—which is a new and evolving field established in the late 1900s.

Structural embeddedness facilitates shared understandings and rules for collaboration that distinct organizations bring to their joint activities, reducing trans-actional uncertainty and facilitating coordination. These shared rules and understandings provide a macroculture, which is a ‘toolkit’ (Swidler 1986) that actors use when coordinating their collaborative activities (Abrahamson and Fombrun 1994; Jones *et al.* 1997). These institutionalized understandings which evolve out of prior interactions between and among organizations create ‘trust’, whereby organizational actors know that they rely upon institutional mechanisms to ensure that exchanges and interdependent activities will be carried out as expected (Zucker 1986) (see also Bachmann and Zaheer, Chapter 20, this volume).

Given that such ‘trust’ evolves out of prior relations, it is unclear how its development can be ‘swift’ (Meyerson *et al.* 1996). Participants in the temporary system who do not know one another are most likely operating according toshared collaborative rules contained in the industry

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macroculture, rules which have evolved over long periods of time. Since shared understandings are taken for granted as the obligatory way of behaving and interacting with others, they coordinate actors engaged in collaborative activities (Berger and Luckmann 1967).

The holistic outcome of these patterns of relational and structural embeddedness within a specific market context has also been referred to as a ‘project ecology’ (Grabher 2002*a*, 2002*b*). That is, when relations are recurring across projects and there are several potential partners with whom one interacts, a rich or dense project ecology develops among organizations that interrelate to produce complex products or services (Grabher 2002*a*). The depth of a network's project ecology reflects the degree of social embeddedness within it.

Next we provide empirical examples of four prototypical IO projects focusing on the mechanisms of temporal embeddedness—chronological, event-based, and entrainment-based pacing, as well as on the mechanisms of social embeddedness—relational and structural embeddedness—and how all of these combine to facilitate coordination of project activities between and among organizations.

Using Temporal and Social Embeddedness to Explain Four Prototypical Inter-organizational Projects

These two dimensions, temporal embeddedness and social embeddedness, can be used to define how multiple organizational actors coordinate their joint activities, and the degree to which these actors are embedded in shared relations and understandings that evolve over time. Specifically, temporal embeddedness—defined by the expected duration of a project—shapes what kind of pacing mechanisms may be effective, whereas social embeddedness—defined by the frequency, duration, and structure of relations—shapes whether market or field organizational actors share understandings and how they coordinate their collaborative activities within IO projects. By examining the interaction of temporal and social embed-dedness, we identify four general types of Inter-organizational projects, exemplified by film projects, architecture/construction projects, crisis response, and large-scale infrastructure projects (see Table 9.1). Each of these utilizes specific mechanisms to manage demand and transactional uncertainty.

Table 9.1 Four types of Inter-organizational projects

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Social embeddedness	**Temporal embeddedness**	
	Shorter project duration	**Longer project duration**
Relations unlikely to recur and endure across projects	**Single project organizing** Exemplar: Film **Who coordinates:** ❖ Specific role: e.g. director, gen. contractor **How they coordinate:** Temporal embeddedness ❖ Temporal pacing with deadlines encoded into contracts (e.g. pay or play) ❖ Event-based pacing: sequences of project (pre, production, post) Social embeddedness ❖ Relational embeddedness: low for industry; high for a few key players ❖ Structural embeddedness: Dense but fleeting relations for most organizations due to people	**Multi-party organizing** Exemplar: Crisis Response **Who coordinates:** ❖ Multiple 3rd party organizations: e.g. Red Cross, national and local authorities **How they coordinate:** Temporal embeddedness ❖ Entrainment pacing: timed to crisis needs ❖ Event-based pacing: phases of crisis efforts Social embeddedness ❖ Relational embeddedness: low for key emergency organizations; low for country agency and emergency NGOs ❖ Structural embeddedness: higher overlap for key NGOs; hierarchical-key NGOs and govt

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	working across projects ❖ Use of hierarchical roles	
Relations recur and endure across projects	**Network Alliances** Exemplar: Architecture and construction **Who coordinates:** Lead firm: provides product/services **How they coordinate:** Temporal embeddedness ❖ Temporal pacing: deadlines and roles encoded into contracts (penalties) ❖ Event-based pacing: sequences of project (programme, design, build) **Social embeddedness** ❖ Relational embeddedness: recurring relations between some partners across projects ❖ Structural embeddedness intermediate	**Constellations** Exemplar: Large-scale engineering design and construction **Who coordinates:** Lead firm or government agency **How they coordinate:** Temporal embeddedness ❖ Event base-project phases ❖ Temporal pacing: milestones **Social embeddedness** ❖ Relational embeddedness among large firms; low with government clients and local firms ❖ Structural embeddedness: fragmented-constellations of key organizations, little repetition among those in market or field

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density due to repeated relations among groups of partners

Single Project Organizing: Film Projects

At one end of the projects spectrum are one-time projects that are relatively shortlived, enacted by organizations or self-employed freelancers who have rarely interacted before and who are unlikely to interact again. The film industry is an exemplar of this type of project, which assembles a remarkably rich set of resources to accomplish a complex and meaningful one-time task. In film these projects are very short—typically six to twelve weeks for feature films and as short as two days for music videos (Jones and DeFillippi 1996; Bechky 2006). This combination of short duration and temporariness of the project leads to challenges in Inter-organizational coordination. Bechky (2006: 3) provides a wonderful example of this in her introductory story about a film shoot for a commercial:

> It is 6 a.m. when I arrive in Rittenhouse Square for the first scene of the shoot …A day later they have finished filming the commercial, and I comment to the location manager, 'Yesterday morning seemed amazingly orderly for the first day of shooting.' 'We only have two days to do it,' she replied, 'We need to get things done right away.'

The location manager's quote insightfully reveals the importance of temporal and social embeddedness in achieving the goals of this project, and by extension, all film-related endeavours. With only two days to accomplish the on-site filming, temporal embeddedness provides several mechanisms for coordinating activities under tight timelines. For example, chronological pacing is used to demarcate strict and specific timelines for each aspect of the shoot; most of this has been designated beforehand through planning and scheduling processes directed by the production manager. In addition, industry participants agree contractually to work exclusively on that project for its duration, which imposes chronological pacing on participants to minimize coordination problems. When one project goes over its time allocation, it disrupts other projects in which participants are scheduled to participate. When a project goes over its scheduled time, the production company and director are sanctioned with enormous fines to provide strong

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incentives to adhere to project schedules and minimize such disruption in the industry. At the same time event-based pacing is crucial to each scene, which must be done at a high level of quality designated by the director; project actors cannot substitute speed for accuracy since the film requires that each component must be completed before moving to the next. These two mechanisms give rise to an overall entrainment pacing, through which the entire group begins to operate at a collective rate that reduces the transactional uncertainty inherent in one-time projects.

Event-based pacing is also used to manage transactional uncertainty by coordinating who should interact with whom when. A film project is demarcated into three well-defined sequences of activities, each involving distinct organizational actors. In pre-production, a film studio and a production company negotiate key components for the project including the script, funding, the distributionagreement, and talent for key roles. Once funding is secured and a production timetable set, the project is ‘green lighted’ which initiates the production phase. During this six to twelve week period (or the two-day period in the commercial example) the physical filming occurs, involving an array of organizations including special effects, catering, costumes, and cinematography, and whose activities are coordinated and controlled by the director and various heads of units. Finally, the post-production phase involves the editing, marketing, and distribution of the film. Since each phase requires a different set of key actors, the number of interactions within each phase is dramatically reduced through event-based pacing.

More important than temporal embeddedness in the film industry is social embeddedness, because the vast majority of personnel in key roles such as director, producer, screenwriter or music, composer, have rarely worked together. For example, from 1965 to 1980, 57 per cent of directors and 64 per cent of producers made only one film, whereas just 7 per cent of directors made 40 per cent of the industry's films (Faulkner and Anderson 1987). Moreover, although films are onetime, short-duration events, they require a high degree of in-depth coordination across multiple organizations and individual contractors. Given that these organizational actors have rarely if ever worked together, they likely exhibit very low levels of relational embeddedness. How then can the location manager ‘get things done right away’, and at such a high pace, with people who have neither formal basis for trust nor knowledge of each other's working styles?

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The answer is structural embeddedness. Since many organizational actors have worked with many others over time, they have gained a shared understanding through their prior roles and interactions, which is passed on from one freelancer to another through these interactions (Jones 1996). As one insider said: ‘We are a big industry but a small industry because we talk to one another’ (Jones 1996). In addition, the film industry was established in the early 1900s; thus, specific roles, including what duties constitute these roles and with what other roles and how they interact, have evolved and been defined through an apprenticeship system and through film schools. Each role on a film project, including the ‘gaffers, gofers, and grips’ of Bechky's (2006) film teams, is enacted by individuals who have a clear understanding of their specific duties gained through their socialization into the industry (Faulkner 1987; Jones 1996). Each individual is also well aware of the scope and goals of all the other roles represented on the shoot, through a shared logic-of-action that has evolved within the film industry. These shared understandings include an acceptance of one's place in the formal ‘hierarchy’ of personnel on the project, allowing the director and his/her unit heads (e.g. photography, sets, costumes) to coordinate the activities of the film as a single project organization. Even more than temporal embeddedness, these shared understandings from structural embeddedness coordinate organizational actors in one-time, short-term projects, and in longer-term projects as well (e.g. Winch 1989). These mechanisms, embedded in the macroculture of the industry, provide the basis for trustbetween all project actors, especially those who have never before worked with each other.

Network Alliances: Architecture and Construction Projects

Towards the middle of the projects spectrum are projects that are relatively shortlived, enacted by organizations or self-employed freelancers who interact repeatedly. Architecture and construction industry are exemplars of this type of project, which also assembles a remarkably rich set of resources, including a wide range of diverse professionals and crafts, to accomplish a complex and meaningful project. Architecture and construction projects vary from eighteen months for the design and construction of a building to several years for major urban planning projects (Mintzberg *et al.* 1988; Jones and Lichtenstein 2000). This combination of shorter duration, complex projects requiring multiple organizations, and repeated interactions leads to challenges in Inter-organizational coordination. Often the crews or organizational partners that one desires are engaged in other projects, since most organizations need to enact many projects simultaneously to

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generate a viable revenue stream; this increases the challenges of temporal coordination among multiple organizations with competing projects and demands.

Event-based pacing is used to manage demand by coordinating when and whether a building project should proceed. If market demands such as interest rates or funding shift dramatically, a building that has been programmed may not yet be designed or constructed until a later date. Event-based pacing also manages transactional uncertainty by specifying who should interact with whom when. A building project is demarcated into well-defined sequences of activities that trigger who should provide contributions when. For instance when a new building or renovation is undertaken, architects work with their engineer consultants and clients to specify the needs of the buildings' users. As one example of this interaction, planning an office building typically involves creating a certain physical layout for workflow, as well as infrastructure issues such as heating and ventilation for the number of computers used in a space. This is called the programme phase. Once the user needs and building functionality are identified then the architect focuses on design-integrating functionality, cost, codes, and aesthetic issues into the proposed building. Architects, engineers, and other specialists communicate in a reciprocal and team fashion to iron out how the various space, heating, air conditioning, electrical, and structural issues will be resolved. After the design phase, building construction begins and a host of tradespeople are brought in to erect the building. Throughout all of this, blueprints communicate and record what needs to be done by whom and where for the building project to unfold as planned.

Temporal embeddedness provides several techniques for coordinating these diverse activities under the demands of multiple projects. For example, chronological pacing in the form of schedules is used to demarcate strict and specific timelines foreach aspect of the project—who gets a blueprint when, which tradespeople make their contributions on which days and for how long. This planning and scheduling process is directed by the lead firm—often an architect or sometimes a general contractor in design-build projects.

Social embeddedness comes into play in these complex and highly reciprocal building projects. Relational embeddedness—recurring relations with the same partners—is desired since projects last from eighteen months to several years and require some understanding of one another's contributions and work styles. For example, Eccles (1981) found relational embeddedness in home building construction. General contractors preferred to use the

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same set of subcontractors whose work they knew and could rely upon. Architecture and construction also have structural embeddedness. Because architects and contractors have multiple projects, they must have multiple organizational partners—that is, several potential structural engineering firms they use or several possible plumbers in case their preferred partner is engaged in other projects. The use of multiple partners by a lead firm structurally embeds relations within a market or field—both lead firm and partners have not only repeated relations but dense relations—relations with many others in the market.

In addition, knowledge of practices and roles is well institutionalized. Architectural and consulting engineering professions require intensive training and apprenticeship about who performs which roles and how to coordinate these roles (Gutman 1988; Boyer and Mitgang 1996; Woods 1999). Construction trades are also licensed and based upon a historical legacy inherited from the Middle Ages. Thus, specific roles—what duties constitute these roles and how they interact with other roles—have evolved and been defined through an apprenticeship system. Each individual is also well aware of the scope and goals of all the other roles represented on a building project. These shared understandings provide knowledge of one's place in the formal ‘hierarchy’ and one's decision-making role. For example, the lead firm for building construction in the United States since the mid-1900s has been the architectural firm (Woods 1999). However, these relations are in transition and may be contested, as with the shift to design-build in the building industry which often places the contractor as the lead firm (Boyer and Mitgang 1996; Thornton *et al.* 2005). The designation of a lead firm is critical because it allows that firm to coordinate the activities of the partnering firms. These relations are often encoded into building contracts—specifying who is the lead firm and which firms as partners provide what services, as well as the timeline for a project to unfold.

Multi-party Organizing: Emergency and Crisis Response

The third type of IO project within this continuum, exemplified by crisis management, has a relatively long duration—from many weeks to dozens of months in some cases—yet involves organizations and their representatives who rarely ifever work together repeatedly. Crises have been defined as ‘epochs of profound uncertainty and urgent challenges to the problem-solving capacities of the sociopolitical order in which they occur’ (Brandstrom *et al.* 2004: 191). This lack of social embeddedness is magnified by the temporal urgency of the situation, which further constrains participant

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interactions to only the most critical communications. The disastrous response to the Hurricane Katrina crisis reflects the challenges inherent in this kind of organizing effort.

The key temporal issue in crisis is urgency, the need to move very quickly, sometimes before there are any plans or a project-organization in place. Due to the urgent nature of this kind of IO project, chronological pacing is not based on pre-designed deadlines, but on emergent and often spontaneous short-term situations that must be handled almost immediately. Thus in the initial period of response, entrainment pacing is the primary coordination mechanism: The urgency of saving life, property, and other critical resources can bring people together in unique and meaningful ways, allowing teams to spontaneously emerge and disband as specific issues and needs become known. Below we discuss how this sense of urgent coordination is facilitated by participants' structural embeddedness and the duration of organizations that respond repeatedly to crisis like the Red Cross, which has been in existence for over 125 years, even though they rarely work with the same country or agency partners.

In certain large-scale emergencies, event-based pacing can provide an additional coordination mechanism. As the scope and impact of the situation becomes better understood over time, distinct phases of the effort may arise, creating decision points that can be moments of reorganizing which support the overall project effort (Moynihan 2005*a*). For example, what initially was a more local situation may, due to environmental circumstances, be reframed into issues which are far broader in scope than first thought. These exogenous shifts in perception can trigger decisions that increase resources, as when a governor declares an ‘emergency’ that triggers access to federal funds, or when the initial force of rescue workers is overwhelmed by the previously unknown extent of damage. These decisions produce an event-based temporal marker which organizes the next stage of the project. The last of these temporal markers is a final internal milestone, reflecting the shift from crisis organizing to activities that can be managed by local, pre-existing organizations. This leads to the decommissioning of the temporary Inter-organizational team, whose members revert back to the original network (Moynihan 2005*b*).

The existence of this network reflects a measure of social and structural embed-dedness that supports the coordination efforts of organizations in the field. First, although the contingencies of a crisis make it impossible to define ahead of time who will participate in its response, the key players

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tend to be already connected in a web of loosely overlapping networks (Moynihan 2005*a*), engendering structural embeddedness. Moreover, for certain natural disasters there are models in place that help guide the project effort, for example, the National Incident ManagementSystem (Department of Homeland Security 2004). These networks and models provide social structures and shared understandings which are important for the coordination of the responders. Further, in cases where the crisis response project extends to dozens of organizations across multiple levels of government (i.e. local, county, state, and federal), organizing hierarchies emerge that can formally coordinate physical resources and communication networks (Moynihan 2005*a*). Finally, as mentioned above, many people share an innate drive to help people during a crisis; this shared concern, in addition to the emergency-response training that key personnel often bring to a crisis, provides additional coordination during the event.

In an unexpected way, the entrainment pacing required in crisis response directly affects the social embeddedness of project actors. On the one hand, any large-scale crisis dominates the work of all of the organizations involved; however, this does not usually reduce the ongoing, day-to-day responsibilities those organizations have to their home agencies (Moynihan 2005*a*). This is especially true if the crisis requires key managerial personnel to be away from their family, performing difficult and stressful tasks for weeks on end. The result can be a rapid turnover of key staff in a crisis unit, thus decreasing the overall effectiveness of the response, while at the same time creating an increasing pressure to deal with the ongoing operational issues whose importance is far less dominant. Thus, as the duration of the crisis response extends, new sets of problems emerge that themselves must be dealt with. The flip side of this problem is that greater learning is often the result of greater duration projects, this increasing the efficiency and effectiveness of crisis teams as they do their work in the field (Moynihan 2005*c*).

Constellations: Large-scale Engineering and Construction Projects

Perhaps the most studied type of project involves a single client—often a public agency responsible for solving a social challenge—who contracts a large engineering firm to manage the resulting design and construction effort. We include in this category the large infrastructure projects in industries like energy, aerospace, and telecommunications. The first formal study of such ‘mega-projects’, an in-depth analysis of the NASA Apollo missions (Murphy *et al.* 1974), catalyzed the field of project management

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(Wideman 1985); recent studies have shown that up to 80 per cent of these major capital-intensive projects are neither completed on time nor within budget (e.g. Morris and Hough 1987; Altshuler and Luberoff 2003).[1] Since 'time = money' to a large degree in these endeavours, we concentrate first on how organizational actors utilize the mechanisms of temporal embeddedness to effectively (or ineffectively in many cases) coordinate activity in these large-scale projects.

In some measure the entire field of project management is designed around a series of mechanisms for improving chronological and event-based pacing (Wideman 1985; Cleland and King 1988). The complexity of large-scale endeavours is reflected in their poor success rates; although 'improved' methods and models continue to appear (e.g. Shenhar 1994; Davies and Hobday 2005), the use of temporal embed-dedness mechanisms to coordinate multiple actors across multiple scales of work has not been consistently successful.

Event-based pacing through sequences or 'life-cycles' of episodes has been used extensively in the shaping of public infrastructure projects (Miller and Olleros 2000), and the project-management implementation of engineering projects (Davies and Hobday 2005). Specifically, Miller and his colleagues have shown that large-scale social infrastructure projects are organized in two very distinct temporal regimes (Miller and Hobbs 2002). In the first phase of public 'mega-projects' when neither the problem nor its solution is well defined, temporal embeddedness occurs through event-based pacing. That is, as the nature of the problem and its possible solution become worked out —sometimes over more than a decade—the institutional field for the project is itself created through a series of accomplishments: the endorsement of key participants, the creation of a political coalition, the passage of specific legislation, and the contractual agreements made by anchoring institutions (Miller and Hobbs 2005). With the completion of this phase, the temporal embeddedness of the project shifts dramatically to incorporate the well-known dynamics of large-scale engineering projects. Miller and Hobbs (2005: 45) describe this important juncture:

> In most major projects, a time can be identified when most of, if not all, the pieces come into place, and when significant and irreversible commitments are made. …This point marks the end of the strategic structuring phase and the beginning of the design and execution phase. From this point, the management

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> of the project is [based on] conventional project management theory and practice ...

Once this second phase begins, the internal dynamics of the mega-project are designed around engineering milestones within a contracted deadline (which itself may evolve over time). This endogenous shift from event-based pacing to temporal pacing reflects a difference between the cultural, political, and institutional frameworks that got the project off the ground and the specific engineering-based project network that is retained to construct and commission the project.

On the surface, social embeddedness should also provide mechanisms for coordinating transactional uncertainty in large-scale projects. For example, these construction-based endeavours tend to operate within large firms (e.g. Bechtel), and are directed by project managers who are usually accorded high degrees of formal power to direct planning efforts and allocate and manage resources across organizational actors. Numerous studies on determinants of project management success (Pinto and Slevin 1988) have shown the importance of relationalembeddedness, for example in the quantity and quality of communication in the project (Allen *et al.* 1980; Katz and Allen 1982) and in the type of project management structure used (e.g. Larson and Gobeli 1989). However, these studies do not differentiate between intra-organizational projects and IO projects.

Since large well-established firms dominate in mega-projects these firms repeatedly interact with one another, with different government agencies and also with smaller, local firms. Thus, relational embeddedness tends to be high between the client and firms (e.g. repeated interaction over years) as well as fragmented into cliques because of the concentrated effort of firms and agencies on a few mega-projects. Duration of the project restricts how many players can feasibly interact with one another, reducing structural embeddedness or density in the overall field or market and creating cliques or sub-groups of firms formed around key rival organizations. In addition, in our view, coordination in IO projects can become muddled due to relational overlap that generates conflicts between individuals' relationship to the firm (as their employer) versus their relational embeddedness within the field or industry (i.e. as a member of a profession or industry). In some cases these two types of embeddedness may be based on differing logics-of-action, and thus may result in very different expectations (Thornton *et al.* 2005). Unfortunately, there is no research we could find that examines this issue.

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Discussion and Conclusion

Our research and exploration shows that relations and understandings evolve over time to create macrocultures that function as resources and rules for participants. Thus, we see ‘swift trust’ in projects of very short duration and strict deadlines (Meyerson *et al*. 1996) as evolving out of established social structures and longer processes. We suggest that swift trust is possible only because transactional uncertainty has been reduced through shared understandings that clarify knowledge content, roles, and role behaviours needed for effective coordination. These shared understandings result not only from the history and duration of the market or field, but also from the pattern of interactions—the structural embeddedness—of organizational actors within the market or field. We also suggest that trans-actional uncertainty is attenuated through social embeddedness—shared understandings and relations that facilitate knowing what and how interactions are most effectively coordinated among participating members. This set of temporal and social embeddedness mechanisms provides shared understandings about the pace, process, and potential range of interactions in an IO project. Since interdependence and collaboration are central to IO projects, trust may not be based primarilyon interpersonal attraction (e.g. swift trust), but rather reflects Zucker's (1986) notion of institutionalized trust. Due to the importance of institutional trust in these highly interdependent collaborative activities, we question whether such a formidable quality is built on the spot, i.e. ‘swiftly’. Instead, these mechanisms are not swift as much as they are embedded in the collective experience of market or field participants who carry them from one project to another, using these shared understandings to coordinate their joint activities in projects.

Overall, we have tried to show that chronological pacing, event-based pacing, and entrainment pacing are each useful mechanisms for coordinating action in IO projects. We extend our analysis to suggest that there are regularities between the duration of a project and the temporal pacing mechanism that is most useful for coordination. Specifically, the shortest duration projects—in film, advertising, and so on—often rely on chronological pacing that is guided by the external needs of the deliverable. As projects extend in length, event-based pacing becomes increasingly important as a coordination mechanism. At the far end of the continuum—for example, in large-scale infrastructure projects—event-based pacing is ubiquitous, while chronological pacing itself has virtually no effect given the need to complete every intervening aspect of a project. Finally, when projects are

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surrounded by great urgency, as occurs in the first moments of crisis relief, and in extremely short duration projects like the commercial shoot described earlier, entrainment-based pacing provides an additional measure of coordination, as organizational actors match their energy and contributions with external markers.

A similar regularity may be found in the ways that social embeddedness reduces transactional uncertainty in joint activities. Specifically, shorter duration projects facilitate movement among organizations by opening up the possibility of new tie formation, creating a dense network of weak ties (e.g. many actors gain relations across a wider group of partners with few repeated ties). This influences coordination in important ways. For example, projects where relational embeddedness is low, including film and emergency response, are also more likely to use hierarchy to facilitate coordination. In contrast, projects of longer duration, with repeated ties but more fragmented structural embeddedness, are more likely to rely on team or reciprocal processes among partners, because the shared understandings of the industry macroculture can substitute for formal control mechanisms like hierarchy. That is, when structural embeddedness and thus density of relations is higher, shared knowledge about how to perform roles and who should coordinate with whom is more widely dispersed among field or industry organizations, obviating the need to formalize these relations.

IO projects are a critical and important arena for research. IO projects enhance an organization's ability to initiate or eliminate projects, providing the organization with flexibility to respond to demand uncertainty. They also facilitate learning that allows organizations to leapfrog competitors in the speed to market. Temporal and social embeddedness provide techniques for managing transactional uncertaintywithin a fluid and dynamic environment. Yet few comparative studies exist on IO projects across industries or fields. Our insights are a first step at trying to provide a comparative analysis. These insights need to be tested empirically across domains to assess how temporal and social embeddedness provide mechanisms for coordinating exchanges under demand uncertainty and reducing transactional uncertainty.

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Notes:

(1.) Our own ‘big dig’ in Boston started as an innovative idea in the 1970s to open up green space through downtown Boston; the original US$2.6 billion estimate has ballooned into a US$14.6 billion project which was finally completed this winter (2008), five years behind schedule, and is now embroiled in nearly 100 lawsuits between two-dozen key contractors and subcontractors hired by Bechtel-Brinkerhoff joint venture.

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The Oxford Handbook of Inter-Organizational Relations
Steve Cropper, Chris Huxham, Mark Ebers, and Peter Smith Ring

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Technology Service Inter-organizational Relationships

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Abstract and Keywords

This article identifies four dimensions that set technology services fundamentally apart from the commodities-like products theorized and studied in the literature on firm boundaries. Specifically, it argues that: technology services often require capabilities that are specialized and heterogeneously distributed across organizational boundaries; technology services are highly uncertain by nature; the value of a technology service cannot be evaluated by the tangible assets acquired; and the feasibility of a technology service depends on the technology and related capabilities in place in an organization. Different technology services vary along these four dimensions, but they are all substantially different from other products and services on all four dimensions. This article illustrates how inadequate consideration of one or more of these features of technology services contributes to the equivocal character of research.

technology services, commodities-like products, organizational boundaries, assets, research

Technology Service IORs: An Agenda for Information Technology Service Sourcing Research

Over the past few decades, the business environment has become so increasingly complex and the knowledge involved so progressively specialized, that itis no longer efficient or even feasible for individual organizations to employ all the experts needed within their boundaries

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(Huber 2003). As a result, for many knowledge-intensive activities in general and technology services in particular, such as back office business processing, call centre services, and information systems services, Inter-organizational collaboration has become both necessary and common for firms aiming to achieve competitive parity or advantage in their industries (Liebeskind *et al.* 1994; Powell *et al.* 1996; Dyer and Singh 1998; Matusik and Hill 1998; Barney 1999; Quinn 1999; Baum *et al.* 2000; Dyer 2000). Despite a large amount of research related to Inter-organizational relationships (IORs), unanswered questions with regard to the management of service-exchange relationships abound.

Such gaps are especially evident in the area of technology service IORs, defined here as the exchange of services in which technology is a critical enabling resource, tool, or platform for service production. In fact, many such IORs have ended up in disappointment (e.g. project cost overruns, poor service) or even disasters (e.g. the demise of the pharmaceutical giant, FoxMeyer, attributed to failures by its technology consultants) when theories would possibly predict and expectations apparently indicate otherwise. We contend that the inadequacy of Inter-organizational relations (IOR) research in addressing the management of technology service IORs stems largely from the lack of adaptation of theories and research foci to adequately reflect the nature of IORs involving services, particularly those in which service production depends on technology resources or capability. Many theories about firm boundary decisions and IOR management were formulated and tested in contexts in which a large volume of relatively standardized products were exchanged. However, technology service IORs are often transactions of services rather than products. These services are often customized rather than standardized. Often, the technology involved would shape the development of an exchange and the delivery of the service, among other key activities, during the IOR.

In this chapter, we identify four dimensions that set technology services fundamentally apart from the commodities-like products theorized and studied in the literature on firm boundaries. Specifically, we argue that: (1) technology services often require capabilities that are specialized and heterogeneously distributed across organizational boundaries; (2) technology services are highly uncertain by nature; (3) the value of a technology service cannot be evaluated by the tangible assets acquired; and (4) the feasibility of a technology service depends on the technology and related capabilities in place in an organization. Different technology services would vary along these four dimensions, but they are all substantially different from other

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products and services on all four dimensions. Due to these characteristics, IORs formed to enable the exchanges of technology services are essentially different from other IORs. By considering technology services as mere context for IORs, research may unwittingly misconstrue the explanatory power of some theories and omit alternative explanations.

We illustrate how inadequate consideration of one or more of these features of technology services contributes to the equivocality of research by examining the substantial body of research on one specific and increasingly popular type of technology service IOR, information technology service sourcing (ITSS) initiatives. IORs for these services include exchanges of mainframe services, web server hosting, application development or integration, desk-top support services, and so forth. Building on a recent review of ITSS research (Hui *et al.* 2006), we highlight seven key research gaps and suggest potential future directions to advance ITSS research. Extending our findings to technology service IORs in general, we conclude that researchers can theorize and explain them with more precision by paying attention to how the nature of the technology services in question change the meanings of theoretical constructs commonly used in studying other kinds of IORs.

The Nature of Technology Services

While technology service IORs and other types of IORs share some similarity, the exchange of technology service and other knowledge-intensive work is fundamentally different in that only occasionally are there repeated exchanges of identical services between any firm dyad (Mayer and Nickerson 2005). This is, essentially, a different contracting situation from that originally theorized by many commonly used theories, such as transaction cost economics. In fact, the exchange of technology service is further differentiated from the other IORs because of the very nature of the technology service being exchanged. We identify four basic dimensions that set technology services, and consequently, technology service IORs apart. Although different technology services would differ along each of the dimensions, collectively they are substantially different from other products and services on all four dimensions. Therefore, while acknowledging differences among technology services, we proceed with our discussion on technology services by treating them as a set of services distinct from other products and services due to the similarities they share along these four dimensions.

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First, the knowledge required in acquiring, maintaining, and using a technology is highly specialized and thus usually heterogeneously distributed across organizations. Keeping all this expertise in-house is sometimes infeasible, sometimes ineffective, and usually too risky to make economic sense, even if the expertise is critical to the performance of the organization (Barney 1999). Thus, firms are increasingly trying to segment and distribute their work across organizational boundaries. However, technology services are often not very well-bounded and tend to be highly interdependent with each other—tremendous effort is requiredto integrate the dispersed knowledge. This implies that an organization's ability to segment, identify, locate, evaluate, distribute, communicate, and share across various sources of knowledge is a key success factor for technology service IORs. Recent research on the situated nature of knowledge and cross-boundary collaboration, however, highlights numerous challenges associated with cross-boundary collaboration, particularly when there is a high degree of novelty between the two parties (e.g. differences between management styles and objectives) (Orlikowski 2002; Carlile 2004; Levina and Vaast 2005). Furthermore, when technical knowledge is dispersed across organizational boundaries, organizations seeking to acquire technical capabilities via IORs may not know enough about the technology services to assess or even absorb them (cf. Cohen and Levinthal 1990). For example, during the Internet boom, many companies, racing to capture business opportunities, turned to consulting firms for help in developing or hosting web applications, even though they found it difficult to articulate their needs or assess the quality of service they received. Many of these web initiatives were not valuable in the end. The more dispersed and asymmetric the knowledge, the greater the challenges to the integration of knowledge. Therefore, the problem for organizations is often not whether to engage with technology service IORs, but how to manage the challenging integration of technical capabilities obtained from IORs.

Second, technology services strongly rely on technology as a key resource — a resource that may be inherently unstable as the dominant design is constantly being challenged. As a result, technology services are constantly changing too, in at least two different ways. First, joint design of a business process and its enabling technology is often necessary. For example, workers providing help-desk support typically use a software application that guides their work activities, embedding both practices and policies; neither application nor process can be independently designed. Second, the technology service workers' knowledge base is likely to be skewed towards the particular technologies they are using or supporting. As a

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result of changes in either enabling or supported technologies, services that are technology-enabled often face periodic technological shocks. This high velocity condition makes developing and maintaining the technical capabilities in-house desirable according to the transaction cost perspective, but infeasible or undesirable due to the aforementioned dispersion of technical capabilities. Moreover, the highly uncertain nature of technology services also reduces the attractiveness of long-term investment in any technology service or specific relationship, as firms try to avoid being locked into an outdated technology and related services. Short-term relationships, however, make the investing of resources in facilitating infrastructure or capabilities not worthwhile, limiting the value creation potential of the technology services. Furthermore, it is not even easy to assess the level of uncertainty. As a result, organizations engaging in technology service IORs have to deal with two layers of uncertainty—the uncertainty induced by the exchange relationship andthe uncertainty inherent in the service being exchanged. This makes the assessment of the desirability of a technology service IOR exceptionally difficult and organizations may often need to make less-than-informed decisions.

Third, the value of a technology service does not depend on just the physical artefacts that an organization receives from an IOR. The outputs of technology services must be complemented by other organizational capabilities to be valuable. It is the combination of technology services with complementary business processes, organizational structure, culture, or policies that matters (Bharadwaj 2000). As such, the value derived from the technology service can be very difficult to assess. An application brilliantly developed by a service provider must be complemented with user training, modifications to internal business processes, policies and incentives that enable and oblige appropriate use, and a competitive context in which the application creates value. Without any one of these elements, the brilliant application may be unused or worthless. In addition, a large part of a technology service's value depends on how the related technologies are maintained and leveraged in the long run. As time passes, new and unanticipated uses of technology, specific to the particular contextual circumstances of the relationship, may emerge and other uses may stabilize and become routine. Together with the dynamic and uncertain aspects of technological artefacts, these difficulties complicate decisions related to investments in the development or maintenance of relationship-specific assets and technology-related capabilities on either side of the firm boundary.

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Fourth, the performance of technology services is highly path-dependent. The costs and benefits of a technology service depend strongly on whether related capabilities, such as technological infrastructure and human capital, are in place. Prior commitments, including those in existing technical capabilities, may constrain the range of choices that an organization can make. The set of technology service IORs a firm can choose from is dependent on the technology it has or the set of technology service IORs in which it has previously engaged. A firm using IBM mainframes or that has long purchased IBM-mainframe processing services from a third party (whether from IBM or from the myriad vendors who offer these industry standard services) will find many opportunities to buy services or switch vendors. A firm dependent on a less widely adopted mainframe technology will face far fewer opportunities to buy services, and they may find themselves locked in to their existing supplier if they do so. Thus, these technologies and relationships can be core competencies and core rigidities at the same time (cf. Leonard-Barton 1992). On one hand, organizations need sufficient technological infrastructure in place or available to them for further development of a technology; on the other hand, this infrastructure will limit the choice set of technology to be developed (Ross 2003). In other words, contracts and relationships are intertwined. Consequently, analysing technology service IORs as stand-alone engagements tends to provide inaccurate assessments.

ITSS Research: A Survey and an Agenda

As information and communication technology develops and as businesses attempt to take advantage of the Internet, information technology service sourcing (ITSS) has become perhaps the most common type of technology service that organizations seek from IORs. Since Kodak's ITSS attempt (Applegate and Montealegre 1991), the use of ITSS as a form of technology service IOR has evolved from a solution to incompetent IT management to a key competence of IT management (Feeny and Willcocks 1998; Sambamurthy and Zmud 2000). IT service vendors too have evolved, moving from positioning themselves as providers of cheap commodity services to selling themselves as providers of strategic business resources. Like many other technology service IORs, due to the nature of technology service, ITSS arrangements do not always yield satisfactory outcomes (Lacity and Hirschheim 1993; Lacity and Willcocks 1998). Both clients and vendors have encountered various difficulties along the way. This is despite the existence of a substantial body of ITSS research.

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Juxtaposing current research and a meta-framework informed by theories (see Fig. 10.1 for the meta-framework), a recent review of the ITSS literature reveals that even though there is a large body of ITSS research, equivocal results and research gaps abound (Hui *et al.* 2006). This is, to a large extent, due to the lack of consideration of how the nature of technology services may have changed the way we should look at the key theoretical perspectives and constructs applied. In light of the abovementioned characteristics of technology services, we identify seven related research gaps and suggest future research directions (for a more detailed analysis of these gaps, please see Hui *et al.* 2006).

Transaction Cost Theory Revisited

Production costs and transaction costs have often been in the forefront when researchers investigate why an organization sets its firm boundaries where they are— and research on ITSS decisions is no different. The transaction cost perspective (see, Hennart, Chapter 13 this volume) posits that when transactions for technology services are uncertain or when seller-specific investments would need to be made, both very common in the ITSS context, opportunistic behaviours from the transacting partners are likely, and firms would consequently tend to take the services in-house (Williamson 1975, 1981; Pisano 1990).

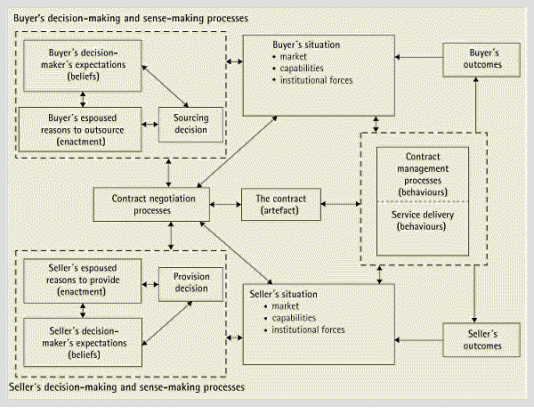

Fig. 10.1 The ITSS Processes

Source: Adapted from Hui *et al.* (2006).

Indeed, researchers have focused heavily on transaction costs in explaining ITSS decisions. However, the effects of transaction cost drivers are inconsistent. On one hand, researchers have found that, in some settings,

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low asset specificity (Saarinen and Vepsalainen 1994; Aubert *et al.* 1996, 2003; Nelson *et al.* 1996; Poppo and Zenger 1998; Hancox and Hackney 2000), low uncertainty (Saarinen and Vepsalainen 1994; Aubert *et al.* 1996, 2003; Nam *et al.* 1996; Poppo and Zenger 1998), infrequent transactions (Aubert *et al.* 1996, 2003), and other indications of low transaction costs (Lacity and Willcocks 1995; Ang and Straub 1998; Kern *et al.* 2002; Jayatilaka *et al.* 2003) do predict a buyer's decision to outsource IT services, confirming the transaction cost arguments. On the other hand, several studies have discovered the opposite—that buyers sometimes tend to in-source IT services even when transaction costs would be expected to be low (Willcocks and Fitzgerald 1993; Saarinen and Vepsalainen 1994; Lacity and Willcocks 1995; Slaughter and Ang 1996; Hancox and Hackney 2000; Aubert *et al.* 2003). The equivocality of findings is particularly evident for specific assets and uncertainty. Due to the special nature of IT services, specific assets and uncertainty are not reliable predictors of transaction costs.

That IT services find their value in their being tailored to other business processes and that the knowledge required to set up these tailored services is dispersed causes some of this shift. The need to make large transaction-specific asset investments is generally found to discourage outsourcing outside the IT setting (David and Han 2004). This is not so clear in the ITSS context. One reason is that in the ITSS context, specific asset investments are often bilateral and often lead to mutual hostagetaking (Williamson 1983). Due to the dispersion of requisite knowledge needed to initiate the delivery of tailored services, both buyers and sellers must often make large investments in bilateral knowledge exchange activities, such as due diligence for operations, requirement analyses for systems, and relationship creation for complex exchanges. With both sides making large specific asset investments, the hold-up effects may be neutralized and the threats of opportunism concomitantly reduced. Therefore, in the ITSS context, it is essential to consider the specific asset investments required by both buyers and sellers when making predictions about transaction costs.

Furthermore, in an information-intensive setting such as ITSS, constructs such as asset specificity capture more than just transaction costs—they reflect trade-offs between production and transaction costs. For example, while relationship-specific investments might increase vulnerability to opportunism, these same investments might also lower coordination costs and, more importantly, production costs for a particular buyer-seller pair and may thereby lead to higher probability of sourcing (Dyer 2000). It is,

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therefore, possible that the amount of specific asset investments is reflecting both production costs and transaction costs in a potential sourcing situation.

Uncertainty in the ITSS setting may also have a different meaning from how uncertainty is originally conceived in the transaction cost perspective. Investing in an activity's underlying resources (e.g. to upgrade quality of employees or other resources in order to improve efficiency) can be straightforward if an activity is well-bounded, no more than loosely coupled with other processes in a value system, not subject to technological change, and routine or professionally certified, as is the casewith many business processes that firms presently source (e.g. payroll processing, cleaning services, or maintenance of the corporate jet). Unfortunately, many IT services tend to be the opposite case. As a result, potential buyers of IT services often do not have all the knowledge they need to make decisions about investments in the resources that enable their IT services. In other words, rather than being uncertain about the value or quality of the IT services *per se*, the potential buyer encounters an even more fundamental form of uncertainty—uncertainty about how best to bound and minimize the cost of producing such services and when or how to invest in the human capabilities and technical resources that enable them. Under such a condition, the buyer is likely to defer its IT investment decisions to the experts, entailing a tendency to source its IT services. Much like specific asset investments, uncertainty in the ITSS setting is more than a transaction cost driver— it also contributes to production cost risks.

In light of the different meanings of asset specificity and uncertainty in the ITSS setting from other settings, especially due to the dispersion of required knowledge, the uncertain and not well-bounded nature of IT services, and their intertwined relationships with other business processes of the buyers, future research would add much by:

(1) focusing on the gap of specific asset investments between potential buyers and sellers of ITSS;
(2) identifying the types of specific asset investments in question and specifying whether they would affect production costs; and
(3) identifying different sources of uncertainty and specifying how they contribute to either production risks and/or transaction risks.

Capabilities for Obtaining Capabilities

Sourcing has long been viewed as a way to get access to esoteric but necessary capabilities (Gordon and Thal-Larsen 1969; Abraham 1988;

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Harrison and Kelley 1993; Kochan *et al.* 1994). IT services are increasingly becoming core and integral to how organizations function. However, many firms struggle to build and maintain in-house the capabilities to provide IT services efficiently and effectively and consider sourcing their IT activities to achieve, at the minimum, competitive parity (Judenberg 1994; Mata *et al.* 1995; Palvia 1995). In fact, Hopper (1990) argues that what buyers need to cultivate is the capability of applying IT, and not that of building IT, and that sourcing the building of IT allows firms to focus on its application. Effective application of IT does not only allow a firm to cut coordination costs along its value chain; more importantly, it also facilitates the absorption of externally sourced activities, making markets and networks increasingly more feasible and attractive than hierarchies as governance choices along the value chain (Malone *et al.* 1987).

However, effective application of IT involves the capability to ensure that IT services are complementary to and tightly integrated with other business processes (Ross *et al.* 1996; Bharadwaj 2000). Furthermore, it demands the oft-neglected abilities to identify the capabilities the firm needs and the suppliers who can provide them, to manage relationships effectively, and to maintain a good understanding of their own and their supplier's sourcing situations (Van de Ven 2005).

Getting the contract right is one such ability (see, Ring, Chapter 19 this volume). It has long been asserted in the IT literature as something that is critical to the success of an outsourcing deal (Lacity and Hirschheim 1993; Saunders *et al.* 1997; Willcocks and Kern 1998). To adequately make decisions on and negotiate a contract, firms must maintain a stock of business and legal knowledge. They also need to obtain a stock of knowledge that is specifically related to the IT service in question. This includes the knowledge of the value of the IT service, expected changes in the cost and features of underlying human and technological resources on which the service depends, as well as expected changes in supply and demand in the markets for those resources. Similarly, savvy management of ITSS contracts demands that buyers know at least enough about the IT service to know how to assess IT service performance and how to integrate the externally sourced IT service with other business processes. However, the capabilities to make ITSS decisions and manage these contracts are probably the hardest to come by precisely when the technical capability they so rely on is lacking.

Due to the dispersion of technical capability required for IT services, such a dilemma should loom large as a factor influencing sourcing decisions.

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Interestingly, while a large amount of ITSS research has reported that firms tend to focus on the technical capability that they lack and which a seller could provide in order to achieve their desired strategies (e.g. Loh and Venkatraman 1992*a*; DeLooff 1995; Teng *et al.* 1995; Aubert *et al.* 1996, 2003; Nam *et al.* 1996; Poppo and Zenger 1998; Silva 2002), only a little research examines the impact of buyers' capability to manage these contracts on ITSS decisions (e.g. Collins and Millen 1995; Sobol and Apte 1995; Nam *et al.* 1996; Khalfan 2004). There is almost no research on the impact of the capability of a buyer to define process boundaries, select partners, and negotiate contracts with them (i.e. contract decision capability) on their sourcing decisions, although Lacity and Willcocks (1998) make the point that deals are more successful if IT experts are involved. Given that a firm's ability to truly absorb and benefit from externally sourced technical capability depends heavily on its capabilities to make good contracting decisions and manage these contracts, which in turn depends on the firm's stock of technical capability, something for which the firm is in the sourcing market in the first place, focusing only on the effects of the desire to acquire technical capability on sourcing decisions gives us a very incomplete view of the relationship between firm capabilities and ITSS decisions.

We know, for instance, very little about whether firms are aware of the seemingly paradoxical relationship between technical capability and the expected gain fromITSS. If they are aware that their chance of gaining technical capability through ITSS may be limited by their lack of that capability, we may be seeing some self-selection in the ITSS market, from which firms with very little technical capability are likely to shy away; if not, we may expect to see a large number of ITSS projects with disappointing results. Over time, firms that are extremely weak technically, i.e. those that need to acquire technical capability the most, would realize that they are not likely to gain much from ITSS and subsequently opt out of the ITSS market. As a result, over time firms with a moderate amount of technical capability are more likely to source IT services.

A related issue that sets technology service IORs apart from other IORs and that ITSS research has failed to address is that buyers and sellers of IT services tend not to be able to accurately assess either their own capabilities or those of others—and this is especially probable if knowledge is heterogeneously distributed and the services are uncertain by nature. The resource-based perspective explains how capabilities lead to certain firm performance *ex post*. When this theory is used in the ITSS decision context, most theorists and researchers tend to assume that managers anticipate

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the capability-outcome link *ex ante*. Thus, they argue that firms assess their expected advantages and disadvantages of sourcing externally for or providing IT services based on their assessments of their relative advantages or disadvantages in IT capabilities. However, it seems difficult enough for a firm to estimate the value of a capability within its own boundaries, let alone estimating the value of a capability of another firm.

In light of these observations, it would be fruitful for future research to:

(1) examine the influence of technical capability on ITSS decisions in conjunction with that of contract decision and contract management capabilities;
(2) explore whether these different types of capabilities interact with each other to affect the evolution of the ITSS market; and
(3) investigate the possibility that firms do not estimate their or others' capability accurately and the implications of this possibility on how firms make ITSS decisions.

Towards the Institutional Construction of Informed Decisions

In circumstances of high uncertainty, where organizations do not have adequate knowledge to make truly informed decisions, institutional forces tend to be quite potent (DiMaggio and Powell 1983; Davis 1991; Haunschild 1993). This is particularly the case when a new phenomenon is involved (Leblebici *et al.* 1991; Swanson and Ramiller 1997). ITSS decisions tend to belong to this class of decisions. Due to the distribution of the technical knowledge necessary for the identification andassessment of the value of IT services, and due to the uncertain and intangible nature of the IT services themselves, organizations tend not to be in the position to make truly informed decisions. Instead, decision-makers try their best to gather cues from the environment and other organizations and make sense of the problems at hand (Weick 1995; Daft and Weick 1984; Barr 1998). In other words, organizations try to socially construct decisions as rationally as possible in the absence of full and free information of their and their potential transaction partners' situations.

Even though a handful of ITSS studies do consider the influence of institutional forces when investigating determinants of ITSS decisions (e.g. Loh and Venkatraman 1992*b*; Grover *et al.* 1994; Ang and Cummings 1997; Hu *et al.* 1997; Lee and Kim 1997), the majority of the research has implicitly assumed that ITSS decision-making processes are well-informed calculations and analyses. Only a handful of studies specifically look into

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how sourcing decisions are made as well as who is involved in the decision-making process. These studies also seek to understand the link between the nature of the sourcing decision-making process and the sourcing decision made. While many ITSS initiatives involve vigilant calculus of costs and benefits (Willcocks and Fitzgerald 1993; Palvia 1995; Currie and Seltsikas 2001; Hirschheim and Lacity 2000), others reveal a retrospective sense-making approach (DeLooff 1995; Hirschheim and Lacity 2000). Although there is no clear pattern that links the decision processes to ITSS decisions, it appears some decision conditions lend themselves to more rational decisions than others. The literature has shown that institutional forces do matter in ITSS decisions but we know very little about when they matter and how they interact with other factors that go into an ITSS decision.

As a result, some natural paths forward would be to:

(1) explicitly examine the ITSS decision-making processes rather than merely assuming a vigilant calculus of costs and benefits;
(2) systematically identify conditions under which institutional forces would dominate the ITSS decision processes; and
(3) explore how institutional forces interact with other factors, such as transaction costs and capabilities, to influence ITSS decisions.

Negotiation as a Key Step between ITSS Decisions and Contracts

ITSS researchers often study sourcing decisions from either the buyer's or the seller's point of view. However, all contracts between parties with significant information asymmetry are end results of negotiation processes (see Ring, Chapter 19, this volume). ITSS contracts tend to involve a great deal of negotiation and re-negotiation in part because of the asymmetry of knowledge about the IT services, the exchangepartners' capabilities and trustworthiness, as well as unforeseen conditions that make the delivery of IT services difficult to value, such as user preparedness to adapt business routines to the externally sourced service. In fact, in many ITSS deals, there is a tremendous amount of uncertainty surrounding the technology and the services. As argued above, under such a condition, institutional construction of the rationales behind ITSS decisions is likely. Such institutional construction is likely to resemble only a small part of the reality if the firms involved have very little technical capability. Negotiation processes, then, provide a natural avenue for these firms to gather information and adjust their expectations. Different parties in a deal will also have different levels of negotiation skills and bargaining power. And

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it is during the negotiation processes that these attributes materialize in terms of the distribution of the benefits of the deals.

Considering the lynchpin role of the negotiation processes in an ITSS initiative, research seeking to explain differences in the negotiation stage is surprisingly nonexistent. Some theoretical work based on game theory considers the interests of all the negotiating parties simultaneously but has assumed identical deciding factors for buyers and sellers in their sourcing decisions (cf. Dibbern *et al.* 2004). Most studies on ITSS generally conflate a buyer's internal decision to source (and a seller's decision to offer) an IT service with the buyer—seller negotiation process, empirically equating sourcing decisions with post-negotiation outcomes, i.e. contracts. This may well be the reason why many studies on ITSS sourcing decisions report results with very little explanatory power (e.g. Nam *et al.* 1996; Poppo and Zenger 1998; Aubert *et al.* 2003). Furthermore, less than rational sourcing decisions may be rectified or weeded out during negotiation. Equating post-negotiation agreement with sourcing decisions would bias results towards exhibiting more rational decision-making processes than occur in reality. Essentially, by collapsing the negotiation processes, ITSS research has been studying sourcing decisions using a potentially inaccurate proxy for those decisions; the more information asymmetry between the buyer and the seller, the larger the gap between the sourcing decisions and the contract, and the more likely the contract is to be an inappropriate proxy for the buyer's or seller's sourcing decisions.

Recognizing the importance of the negotiation processes would allow future research to:

(1) revisit the research on ITSS decisions and address the discrepancies between theoretical expectations and findings by considering factors that may influence negotiation outcomes, such as the relative negotiation ability of firms;
(2) explore how factors affecting sourcing decisions may become stronger or weaker drivers of the ultimate deal as the negotiation processes proceed; and
(3) examine whether the interactions between the buyer and the seller during negotiation may have a bearing on the management of their relationship later on in the project.

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The Buyers' Role in the Contract Fulfillment Stage

In general, after an ITSS contract is signed, the contract fulfillment stage begins (see, Ring, Chapter 19, this volume). There are two main categories of activities in this stage—contract management activities and service delivery activities. Contract management activities refer to the control and coordination of the provision of IT services whereas service delivery activities refer to the actual performing of the IT services. In addition to effecting appropriate control of the project, a firm's ability to manage a contract well allows it to work effectively with its partner in coordinating and integrating the IT service with its business processes to create value—this kind of process integration often entails high interdependence and challenging coordination (cf. Thompson 1967). Considering the criticality of the integration of some complementary business processes and IT services in value creation, the delivery of IT services usually requires active involvement of all parties. In these cases, buyers must actively seek to understand how to make use of the technology services; sellers must also actively seek to understand the buyers' business processes enough to provide services that can be integrated. Hence, we can say that the nature of IT services usually requires active buyer involvement in the contract fulfilment stage beyond simple contract management in order to yield valuable outcomes.

Despite this apparently significant role buyers have in the contract fulfilment stage of ITSS projects, research has hitherto tended to portray buyers as principals whose major role in the contract fulfilment phase is to control the work provided by outsourcers (e.g. Palvia 1995; Sabherwal 1999; Kern and Willcocks 2000; Choudhury and Sabherwal 2003). Even so, without adequately considering the potential severe knowledge asymmetry in the ITSS setting, our portrait of buyers as controllers is limited at best. While it is helpful to know that firms pursue multiple forms of control mechanisms and employ different combinations of control mechanisms under different conditions, we know little about how contract management capability affects the effectiveness of different types of control mechanisms, or whether the inherent uncertainty and knowledge asymmetry of IT services limit the effectiveness of outcome and behaviour control mechanisms altogether. Mismatches of buyers' contract management capability and the types of control mechanisms utilized may well explain why disappointing ITSS endeavours are common, as Kirsch (1996), 1997 has shown to be the case with internal application development projects.

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In view of the interdependence between IT services and a buyer's business processes in value creation, research on coordination—let alone the buyer's role in it—in the ITSS setting is conspicuously absent (but see Sabherwal 2003, for an exception). While coordination is related to behaviour control, they are two distinct constructs. Coordination is often closely linked to behaviour control because firms usually rely on similar mechanisms, such as meetings, exchanges of information,and occasions for mutual adjustments, to achieve both. Nonetheless, there is no principal—agent distinction in coordination. In fact, effective coordination often coexists with effective social control, as the former provides an opportunity to build trust, share norms, and build commitment (Uzzi 1997, Dyer 2000). Conversely, ineffective behaviour control may sour the relationship between the buyer and the seller, negatively affecting the quality of Inter-organizational communication and coordination. When the activities involved are highly interdependent, the buyer is not just a principal in the sourcing relationship, it also is an active partner in taking measures (e.g. bounding activities, planning, communicating) to ensure that critical information is shared. Some of these measures may be viewed primarily as behaviour controls. The lack of studies on coordination during service execution specifically means that researchers have inadvertently diverted our attention from the crucial problem of how firms can deal with the high task interdependence between IT services and the buyers' business processes—a problem that plagues many ITSS engagements.

The lack of research on service delivery is a similar, if not more, glaring gap in the ITSS literature (for an exception, see Susarla *et al.* 2003). For all the interdependence between IT services and buyers' business processes, we know little about what buyers do, beyond contract management, during service execution. There is no research studying how, why, or whether contract management activities by buyers or sellers influence or shape service delivery activities. Contract management may lead to timely delivery of good quality IT services, but it can also eat into the resources allocated to service execution. When buyers' and sellers' activities are as interdependent as they are in IT services, contract management is resource-consuming, and the risk of contract management taking up far too many resources is very real. Without explicitly recognizing this trade-off, research has unwittingly over-emphasized the power of contract management and underestimated the role of buyers beyond managing contracts, i.e. their role as active partners in the provision of the IT services *per se*.

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Without explicitly taking into account the extremely intertwined nature of IT services and buyers' business processes, and the plausible condition that knowledge for IT services and buyers' business processes is dispersed simultaneously, ITSS research has failed to address many questions with regards to contract fulfilment. In particular, future research can contribute much by:

(1) considering how, directly and interactively, the nature of the IT services, the conditions surrounding the ITSS deals, and the buyers' capabilities would influence the effectiveness of buyers as controllers;

(2) focusing on the problem of work coordination as a way to integrate interdependent tasks rather than merely a way to achieve control or build trust; and

(3) recognizing the trade-off between contract management and service delivery.

The Interdependence between ITSS Decision Drivers and Outcomes

In general, there are two classes of outcomes in an ITSS project. The first class of outcomes is the most immediate and the most obvious—whether the specified service is delivered on time, at the expected cost to the seller, at the contracted price to the buyer, and with user satisfaction. There is a reasonable body of research showing that, as a rule, under the expected circumstances, buyers and sellers both realize expected contract outcomes (Grover *et al.* 1996; Lacity and Willcocks 1998; Poppo and Zenger 1998; Gopal *et al.* 2002, 2003; Levina and Ross 2003; Susarla *et al.* 2003). The second class of outcomes is more long-term than the first class of outcomes. Ultimately, the objective of a buyer's decision to source IT services is to gain access to needed capabilities, to change its competitive positions or dependence on others. Similarly, sellers decide to offer IT services to a market of buyers in order to bolster their own competitive positions and capabilities or reduce dependence on others. And it is this second class of outcomes that eventually will influence the buyer's and the seller's future actions in the ITSS market. This interdependence between the outcomes of one contract and the situation in which decisions for another contract are made accentuates the highly path-dependent nature of IT services, and the high level of path-dependency of IT services makes the consideration of such interdependence among contracts critical.

Such interdependence is lost, however, in most ITSS research. Considering that firms go into a sourcing deal to alter their market positions, capability

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sets, and their dependence on others, studies have paid scant attention to these outcomes, possibly due to the challenge in observing these outcomes. Only a handful of studies have traced the effects of ITSS deals thus far, and then many report unexpected or negative results, such as loss of important capability or weakening of competitive position, for both buyers and sellers (Sabherwal and Elam 1995; Kern *et al.* 2002; Levina and Ross 2003). The disproportionate focus on immediate contract outcomes, especially from the buyers' perspective, may have distracted us from considering the long-term repercussions of ITSS and biased our assessments of the merit of ITSS as a strategic move. As many IT services tend to be long-term investments yielding returns over a long period of time, paying attention only to immediate contract outcomes does not allow us to assess the true impact of an ITSS decision and/or initiative. For instance, if as the resource-based view argues, firms engage in ITSS to obtain technical capability that is a source of sustainable competitive advantage (Barney 1991, 1999; Mata *et al.* 1995), to see whether and/or how they can do so by sourcing rare or unique IT services economically would require us to take a long-term perspective. Similarly, we must observe the long-term outcomes of ITSS in order to understand whether buyers can absorb and deploy the externally sourced IT capability for their businesses to create value, or whether they will become dependent on IT service providers in the long run. Insum, research seems to have lost sight of the link between initial rationales behind ITSS and the ITSS outcomes that we should use to benchmark the success or failure of the decisions and/or deals.

Another area where we can observe clearly the degree of path-dependency of IT services is through the extent to which one ITSS deal enables or constrains future ITSS deals and other contracts in general—a phenomenon that is known as governance inseparability (Argyres and Liebeskind 1999). ITSS research has, by and large, treated each sourcing decision as if it were an independent commitment. However, each ITSS decision is a market choice as well as a market constraint in future sourcing situations. For example, specific asset investments made to support one ITSS deal stand to enable new deals between previous sourcing partners and discourage changes. In addition, enterprise IT architecture and IT infrastructure pieced together by firms as they seek to enable distinct processes ranging from customer relationship management to human resource management to desk-top management will constrain and influence the trajectory of subsequent applications development (Chae and Poole 2005). Commitments to specific enterprise-wide IT strategies, standards, and IT governance structures also contribute to a path along which (DeLooff 1995; Lorence and

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Spink 2004) or against which (Baldwin *et al.* 2001) future service sourcing decisions are made. All these could explain why organizations do not make governance choices as predicted. While researchers appear to be aware of the role of governance inseparability in ITSS decision-making, virtually no one has explored this constraint or the facilitation of future IT development as an outcome of ITSS deals. Once again, the link between the rationales behind ITSS decisions and the outcomes we use to determine the success of ITSS engagements in meeting these rationales is lost.

Henceforth, it seems that, by bringing to the forefront the degree of path-dependency of the IT services in question, ITSS research can:

(1) assess the true impact of ITSS decisions and/or projects through the observation of long-term outcomes, such as changes to buyers' technical capability after ITSS engagements, indicators of technology-enabled productivity improvement, or mitigation of institutional pressures;

(2) examine the extent to which governance inseparability is constraining or facilitating the long-term development of IT capability for a firm; and

(3) evaluate dependency between firms as a key ITSS outcome and explore how firms deal with the possibility of such dependency or its consequences, when it emerges.

Sellers as a Critical and Distinct Party in the Exchange

Sourcing is fundamentally a relationship between a buyer and a seller, and outcomes are inevitably conditioned by, if not dependent on, the interaction of both parties.In the ITSS setting, the seller is a critical part of any exchange precisely because the buyer tends not to have the technical knowledge that the seller has. As discussed above, without adequate technical capability, buyers may not be able to make realistic judgements about the ITSS market. Moreover, a buyer's sourcing decision means little unless it is accepted by a seller, who has its own business objectives to achieve and faces a different business environment. Buyers and sellers go through negotiation processes, and the eventual agreement may not be the initial sourcing decision made by either party. Clearly, the relative bargaining power and negotiation skills of the players also matter. The seller is also critical in the ITSS setting because sellers often create value through synergistic integration of IT services and their clients' business processes. Therefore, the interaction between buyers and sellers during contract fulfilment, in addition to actions taken unilaterally by either party, will affect project outcomes to a large

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extent. The fact that buyers and sellers have very different skill sets and targets means that we cannot consider ITSS situations symmetrically.

For the most part, though, ITSS research has ignored the suppliers, implicitly assuming that they do not make much of a difference in sourcing decisions or outcomes. Ignoring sellers as a distinct and active party in an ITSS project may have contributed to many of the inconsistent findings the literature has yielded. In fact, we have already discussed above how the conceptualization and measurement of asset specificity should consider the fact that both buyers and sellers make specific asset investments. We have also suggested that the asymmetry of capabilities between a buyer and a seller will have implications for their ability to assess the value of an ITSS deal and the significance of negotiation approaches. Presumably, this capability asymmetry will also influence the coordination and delivery of the IT services. After all, task interdependence (cf. Thompson 1967) and absorptive capacity (cf. Cohen and Levinthal 1990) are relationship-level concepts that deal with parties that are, to a large extent, asymmetric. This asymmetry necessitates that ITSS research take the seller's perspective alongside the buyer's perspective.

Extensions for Research on Technology Service IORs

In this chapter, we have presented a survey and future research agenda for ITSS. ITSS is only one specific type of technology service IOR. It would be a gross generalization to claim that all technology service IOR research suffers from the same research limitations. However, much ITSS research finds its home in information systems research, in which technology often is a focal point. If these studieshave paid insufficient attention to the implications of the underlying nature of technology and technology services, studies that use technology services as mere research contexts are even less likely to consider these implications. Indeed, much management research dealing with technology defines technology rather broadly (Scott 2003), leaving technology as a black box much of the time (Orlikowski and Iacono 2001). Hence, we are confident that many of the points raised above can be translated and applied in the research of other technology service IORs.

That being said, two points are noteworthy for future attempts to extend our observations to other technology service IORs. First, technology services of different kinds have different levels of knowledge dispersion, uncertainty, interdependence with other business processes, and path-dependency, as noted earlier. Even different IT services vary along those four dimensions. Therefore, the research issues raised above will be applicable to different

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technology services differentially. Although our discussion tends to lump all IT services or even all technology services together, it serves as a good starting point for an attempt to direct our attention to the central role of technology and technology services in changing how we conduct IOR research. Second, we have mostly discussed ITSS at the dyadic level. As technology services become increasingly complex, knowledge will become even more dispersed, such that one seller may not be able to provide all the technical needs of a buyer, and technology service IORs will involve more than two parties. In fact, many ITSS deals already occur at the network level rather at the dyadic level. We believe, however, that moving from a dyadic level to a network level analysis only exacerbates the research gaps we have raised and heightens the need to consider the characteristics of technology services in our theorizing and analysing of technology service IORs.

Concluding Comments

Technology has gone through immense transformation since researchers began theorizing about IORs. While relationships between firms do not change drastically every time production technology changes, there are points where discontinuity of theorizing occurs. The fact that the world has become so complex that organizations can no longer keep all the critical technical knowledge in-house represents one of these breaking points. We are no longer talking about repeated exchanges of commodities; instead, we are witnessing the rise of exchanges of customized technology services that are part and parcel of a firm's core production processes. These exchanges involve services that are inherently uncertain, not well-bounded, intangible, may affect the future of a firm significantly, and which the principals are highly unlikely to identify and assess adequately. An IOR formed for the exchangeof a technology service is qualitatively different from an IOR formed for the transaction of the proverbial widget—all the aforementioned features of technology services imply a fundamental shift of the way IORs are formed and managed. With this fundamental shift, an adaptation or even a shift of the theories, constructs, and underlying assumptions that we use in explaining IORs is warranted.

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The Oxford Handbook of Inter-Organizational Relations
Steve Cropper, Chris Huxham, Mark Ebers, and Peter Smith Ring

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Introduction

Introduction

The nine chapters that make up Part III present key theories and disciplinary perspectives that have sought to describe and explain Inter-organizational relations and their effects. Each offers a distinctive lens, or frame, through which the study of IORs may be undertaken. As we noted in the Introduction to this Handbook, we have chosen to concentrate primarily on theoretical contributions from organization science. Research on IORs has both grown out of, and has mainly drawn on, the theoretical base of organization science and this is treated in some detail. This part thus contains chapters on (in order of appearance), the social network perspective, evolutionary theory, transaction cost theory, critical perspectives, and the management perspective. However, other disciplines have made significant contributions to our understanding of IORs, or have the clear potential to do so even if they have not yet been fully acknowledged in organization science research. We included chapters on the social psychological, the political, economic geographic, and legal perspectives in this category. Like organization science, these neighbouring disciplines are finely differentiated and so the authors covering them have had to be especially judicious in their selection of materials and to treat the individual perspectives and research contributions of their respective discipline in a more abbreviated manner.

How did we select the theoretical and disciplinary perspectives represented in this section? In their bibliometric analysis of IOR research, Oliver and Ebers (1998) surveyed research published in four leading journals between 1980 and 1996 and identified seventeen theoretical perspectives within organizational science alone. While for reasons of space we could not

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accommodate all these perspectives, we have sought to include those that have generated significant research interest and output recently. But we also wanted to incorporate theoretical perspectives that would represent the range of perspectives that exists in IOR research and that can be described on the basis of criteria such as epistemological and ontological assumptions, explanatory goals and mechanisms, and level of analysis (Burrell and Morgan 1979; Van de Ven and Poole 1995; Borgatti and Foster 2003). We pored over the main organization theory journals, textbooks, and other handbooks in organization science to build a list of candidate theoretical perspectives. We then applied the two just-mentioned criteria in order to select the entries for this Handbook.

While the social network perspective, evolutionary theory, transaction cost theory, critical perspectives, and the management perspective clearly figure prominently in research on IOR, other theoretical perspectives could equally have beenincluded yet were not. Let us address up-front a glaring omission. This Handbook contains no chapter on institutional theory from a sociological perspective (Powell and DiMaggio 1991; Scott 2001; Strang and Sine 2002), although throughout this Handbook readers will find many references underlining the significance of this theoretical perspective for the study of IOR and of organizations in general. The reason that this Handbook does not contain a chapter on the sociological institutional theory perspective on IOR is simple: the author was unable to deliver on a timely basis leaving us without time to find a substitute.

Readers might perhaps regard it as an equally troubling omission, at least at first sight, that this section of the Handbook also lacks a separate chapter on resource dependence theory (Pfeffer and Salancik 2003), as this perspective arguably is one of the most cited and most central perspectives in IOR research (see Oliver and Ebers 1998). However, while resource dependency theory is much cited, in recent times it has rarely been applied to the study of organizations or IORs. As Pfeffer (2005) himself notes, the theory nowadays is often used as a metaphor or general theoretical orientation, rather than as an object for empirical testing and theoretical refinement (for exceptions see e.g. Beckman *et al.* 2004; Casciaro and Piskorski 2005). Moreover, many resource dependence arguments have been absorbed or taken up by other approaches, such as transaction cost economics, institutional theory, the network perspective, or perspectives on power (Pfeffer 2005). This observation is empirically underscored by Oliver and Ebers's (1998) finding that in the space of IOR research, resource dependence theory is closely associated with the just-noted research foci.

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Thus, although resource dependence theory itself does not have its own entry in this Handbook, its core ideas are nevertheless represented and taken up in various chapters, for example in those by Kenis and Oerlemans, Huxham and Beech, Lomi, Negro, and Fonti, as well as Knoke and Chen.

A further seeming omission concerns the strategy perspective. Three theoretical streams of strategy research seem particularly relevant for the study of IORs. One, associated with the resource-based theory of the firm (Barney 1991), focuses on the relational capabilities as a source of competitive advantage for firms (Dyer and Singh 1998); another, associated with the industrial organization perspective (Porter 1985), stresses how non-interactive relations between firms and complementors can produce competitive advantage (Yoffie and Kwak 2006); a third, the industrial marketing and purchasing approach (Håkansson 1982; Håkansson and Snehota 1989, 1995), regards buyer—seller transactions as episodes in often long-standing and complex Inter-organizational relationships and stresses how pre-existing social relations among individuals, strategic intent, and task characteristics foster and support the development of IORs among organizations. We decided against a separate chapter on strategy in this part, though, mainly because much of the pertinent research is already covered in chapters in Part II of the Handbook, as most of the strategy research on IORs has tended to focus on particular manifestations of IORs, specifically on alliances and joint ventures, supply chains, and industrial districts.In order to avoid overkill on overlap, and because we feel that the strategy literature on IORs has relatively more to offer with regard to understanding manifestations than to IOR theory development, we refrained from including a strategy chapter in this part. Finally, some readers may miss a chapter on actor network theory (Callon and Latour 1981; Law and Hassard 1999). While this theory certainly represents an original contribution, so far it has not been applied to IOR research as frequently as the other entries in this part.

Four of the chapters in this part present and assess the contributions to IOR studies that have been made by disciplines that have not been so thoroughly assimilated within organizational studies. Why might research into IORs be interested in, and profit from, reading about the lenses other disciplines bring to bear, not least given the already strongly multidisciplinary base of organizational studies reflected in the five chapters that represent that field? And more specifically, why these perspectives?

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Organization science is a still-emerging field (McKelvey 2003) with IOR gradually becoming a more distinct focus for work. But several other disciplines have also taken IOR as an object of interest and have bodies both of concept and of evidence that could be a source of fruitful insight both in themselves (for understanding of IORs) and for organization science. For example, IOR research employing a sociological or a managerial perspective, prevalent in research based in organization science, has tended not to acknowledge the embeddedness of IORs in legal frameworks, political structures, or the impact that groups and individuals exert on IORs. Disciplines are more than simply a bundle of available theoretical resources; they also carry expected ways of proceeding in research, a body of accumulated evidence, and questions/contests to be addressed. As the chapters on the legal, political, social psychological perspectives, and economic geograph suggest, these have much to offer in complementing or deepening organization science frames of inquiry, and for reasons it is important to consider, have generated different amounts of empirical research. Ring, reviewing the legal perspective, notes that findings from early studies in law effectively closed down, across disciplines, what are now recognized to be interesting and important questions about the status and form of contract in IORs. Knoke and Chen highlight questions about power that are central to the political perspective, and the continuing questions about the politics of IORs—including, for example, issues of democratic governance—that are of great contemporary importance in the study of public policy networks (see also Klijn's chapter in Part II of this volume). Schruijer's review of the literature on IORs from a psychological perspective reveals relatively, and perhaps surprisingly, little engagement. The theoretical resources and the empirical findings she highlights could provoke important lines of inquiry into IOR—Schruijer's assessment that the sticking points are as much methodological as conceptual is worth further reflection. The chapter on economic geography illustrates a contrasting storyline. Yeung notes that economic geography has incorporated insights from organizationstudies and from disciplines, especially sociology and economics. And although he also highlights some epistemological and methodological questions to be addressed, in his account of the ‘relational turn’ and in his conclusions, Yeung notes the extent of interpenetration of problematiques, concepts, and methods of inquiry and suggests that the boundary line between organization studies and economic geography could continue to be explored and to ‘blur’ to mutual advantage.

A number of disciplines, some clearly very central to the study of IORs, are not represented in this section. There is no chapter on sociology,

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as we argued that the theoretical base of sociology is well-covered by perspectives we have claimed for organization science—social network theory, evolutionary theory, and critical theory. Economics (with extensive theoretical work on, for example, contracting, industrial organization, game theory) was an obvious candidate for inclusion. How can we justify that we do not have a separate chapter on this large body of research? Economic theories are represented in the Handbook, including in the treatment of contracting (Ring), evolutionary economics (Lomi, Negro, and Fonti), transaction cost economics (Hennart), and economic geography (Yeung). By implication, we also decided against including a chapter on economic sociology (Guillen, Collius, England, and Meyer 2002; Swedberg 2003). Finally, the discipline of history, with its empirical preoccupation with trade, commerce, and guilds (e.g. Kieser 1989) might also have been a candidate for inclusion, if only to indicate resources available to researchers interested in more definitely historical, contextualized, and multilevel analyses of emergence and change in IORs including markets, populations, and networks. Yet at this point, too few researchers outside evolutionary perspectives on IOR (which is represented here) have utilized the potential of historical analyses of IORs for us to justify a separate chapter on the historical perspective.

What did we ask the chapter authors to do? Each individual chapter presents and critically assesses the specific set of assumptions, core concepts, and questions that the respective perspective applies to the study of IORs, and the insights it generates. We encouraged authors to assess the body of work representing the perspective in their own terms and to highlight its achievements, challenges, and the prospects for future research. They were also invited to provide brief descriptions of the history of the perspective, the research context in which it has developed, and research methods in use. The contributions were thus intended to set up the reader to ‘know’ the ways in which the topic has been framed and understood, the state of knowledge about the topic, and to provide a basis on which to relate the topic to research emanating from other research perspectives.

The various perspectives provide alternative conceptualizations, interpretations, and explanations of IORs, and so can neither fully subsume, nor substitute for, one another. Rather, the perspectives can be seen as complementing one another: each highlights particular aspects of IORs and may provide commensurate insights into the same phenomenon. This part of the Handbook is, then, both an invitation to extend our ways of seeing

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as IOR researchers and an invitation to connect orto distinguish theoretical resources that represent clearly different ways of understanding IORs.

Lomi, Negro, and Fonti, for example, point out how institutional and evolutionary theories converge in their analyses of social legitimation processes, and that variants of the ecological approach are beginning to incorporate network-based processes of internal differentiation within organizational populations. In a similar vein, the social network perspective has inspired a number of other perspectives in IOR research, for instance on social capital, in economic geography, and political science. Likewise, a social psychology perspective may enrich our understanding of the factors and processes that lead to the formation of networks and impact the management of IORs. At the same time, only by recognizing other perspectives can scholars understand the specific boundaries that a particular perspective draws and the limitations it entails.

Rather than ignoring or seeking to disprove other perspectives, therefore, scholars can also embrace their variety (see Weick (2007) for an argument for richness of theory). That challenge, to 'work theory' for IOR research, demands a careful and critical response. The disciplines and theories we have included offer lenses with different levels of resolution—macro to micro—and a different ontology—state and process views of IORs for example—and different foci and interests. Linkage between theories may be profitable, but there are equally questions of theoretical integrity and coherence and avoidance of an ad hoc eclecticism. We hope that this part of the Handbook at least provokes further debate about these matters and encourages researchers judiciously to assess how and when linked theories might enrich descriptions, understanding, and explanations of IORs in powerful and valid ways.

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The Social Network Perspective

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Abstract and Keywords

The social network perspective refers to a tradition in social science which focuses on the joint activities of, and continual exchanges between, participants in a social system. This perspective is characterized by an interest in the recurrent relationship patterns that connect the actors that make up a system's social structure. This article considers that the social network approach is the relationship among actors, be they individuals or groups such as whole organizations or parts of organizations. Rather than examining actors in isolation, the social network perspective sees actors as embedded within networks of interconnected relationships that provide opportunities for, as well as constraints on, behaviour. This article focuses on the interaction between actors rather than on the attributes of particular actors, their size for example.

social network perspective, social science, social system, system's social structure, organizations

The Origins and Use of the Social Network Perspective

The social network perspective refers to a tradition in social science which focuses on the joint activities of, and continual exchanges between, participants in a social system. This perspective is characterized by an interest in the recurrent relationship patterns that connect the actors that make up a system's social structure (see Wellman 1988 and Freeman 2004

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for detailed explanations of the origins of this perspective). What we now consider the social network approach is a combination of ideas drawn from the structuralist network tradition (Berkowitz 1982; Wellmanand Berkowitz 1988) and more recent thinking, particularly the *embeddedness* (Granovetter 1985) and *social capital* perspectives (Burt 2005).

Probably the single most important concept in a social network approach is the relationship among actors, be they individuals or in groups such as whole organizations or parts of organizations. Rather than examining actors in isolation, the social network perspective sees actors as embedded within networks of interconnected relationships that provide opportunities for, as well as constraints on, behaviour. The focus is on the interaction between actors rather than on the attributes of particular actors, their size for example. Thus the social network perspective represents a move 'away from individualist, essentialist and atomistic explanations toward more relational, contextual and systematic understanding' (Borgatti and Foster 2003: 991).

A considerable number of ideas, concepts, and research questions which we will introduce below have unfolded from this essential notion. We look briefly at some of them. (For more comprehensive overviews, see Baker and Faulkner 2002; Borgatti and Foster 2003; Kilduff and Tsai 2003; Brass *et al*. 2004; Kilduff *et al.* 2006.)

As we have said, it is the relationships between actors and not their attributes which is important. This is the 'core belief that underlies modern social network analysis', as Freeman (2004: 16) has put it. As a result, considerable work has gone into characterizing and specifying these relationships. The key components of a social network approach are: actors, ties and dyads, egocentric network, complete network, positional properties of actors in networks, and structural properties of networks. These elements will be central to our discussion. Let us provide a short introduction to these concepts for those who are not familiar with the social network approach.

Actors in networks, also called *nodes* or *vertices*, can be persons or teams, organizations, countries, regions, and so on. In the field of Inter-organizational relations we focus, by definition, on relationships between organizations. Inter-organizational relationships will, however, often be measured at a different level, for instance at that of individuals in the case of an interlocking directorate, when a person affiliated with one organization also sits on the board of directors of another organization (Mizruchi 1996).

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Another salient issue in a social network approach is the identification of actors, that is who is a part of a network, and who is not, the so-called issue of boundary specification. The answer to this question can influence considerably the structural properties of the network. For instance, including only companies of a certain minimum size in an innovation network runs the risk of excluding the most central player, say a small company that recently introduced a radical innovation, thus producing an unreliable picture of the structure of the innovation network.

Two strategies are commonly used to specify the boundary of networks, a nominalist strategy and a realist strategy, though the two can be combined (see Knoke and Laumann 1982). A nominalist strategy defines the boundaries in terms of theinterest of a researcher or of a policy-maker, for example who is the central player in a certain industry or among Fortune 500 companies. A realist strategy defines the boundaries in terms of what network participants in a specific situation themselves think are the boundaries of the network in a specific situation, for example a network of those who believe that they influence the decision whether a given drug is approved.

We said earlier that relationships among actors are probably the central concept in a social network approach. These ties are also called *relations*, *lines*, or *edges*. Dyadic ties connect pairs of actors and define the substantive relationships that exist between ego (the focal organization) and the alters (those related to ego). They can range from friendships and social contacts to formal contracts, working relationships, giving and/or receiving advice, interlocking directorates, etc. In contrast to arm's-length market relationships, which can also be considered ties, the relationships in a network approach are relatively stable, although less so than in a hierarchy. It is clear that any dyad or network is constituted of multiple types of relationships. What is important, however, is what the researcher expects to find useful for understanding important actor and system behaviour. For instance, if a researcher is interested in the degree of cohesion in a knowledge network, he will collect data on the degree to which actors know what somebody else in the network knows and not on the formal relationships. Not only the type of relationship is important but also whether they are directed, for example advice-giving, or undirected, informal communication for instance, and what the extent of the tie is. For the most part, the magnitude of the tie is, however, measured dichotomously, that is by the presence or absence of a tie. Tie strength can also be potentially measured in a more detailed way by assigning scalar values to each existing

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dyad to reflect the relative strength or weakness of a tie. Granovetter's (1973) classic article, ‘The Strength of Weak Ties’, in which he demonstrates that weak ties actually provide the strongest pathways to finding a job, provides a good example. Tie strength being defined as the combination of time, emotional intensity, the intimacy, and the reciprocal services which characterize the tie (Granovetter 1973).

The notable strength of the social network approach is that it goes beyond the sole consideration of dyads to that of the sum of the dyads. The social network approach's particular strength is that it has developed a considerable number of measures of system connectedness which describe the structural properties of networks. According to Emirbayer and Goodwin the principal achievement of network analysis ‘has been to transform a merely metaphorical understanding of the embed-dedness of actors in networks of social relationships into a more precise and usable tool for social analysis’ (1994: 1446). It is now possible to operationalize and measure the relational and structural properties of social and organizational systems and the encompassing units by collecting data on virtually any social relation between units. A consequence of all this is that a network has become a variable. Rather than using the network concept metaphorically, we are now able to distinguish differenttypes of networks and network structures, based on the presence and absence of relationships, and we can thus demonstrate that different outcomes can be expected given the configuration of the network.

The structure of relations among actors in the network has consequences both for individual units in the network and for the system as a whole. Many measures are available to describe the structural position of actors within networks, such as centrality, distance, structural equivalence, etc., as well as the structural properties of the network as a whole, including volume, density, centralization, cliques, and so forth (see Wasserman and Faust 1994).

Even more importantly, we now have a vast number of studies that demonstrate the significance of the positional properties of actors in networks and structural properties of the whole network on a myriad of outcomes. (For reviews of the organizational literature on this topic see Borgatti and Foster 2003; Brass *et al*. 2004; Kilduff and Tsai 2003; Baker and Faulkner 2002; Oliver and Ebers 1998; Freeman 2004; and Kilduff *et al.* 2006). In addition, the descriptive structuralist network approach has been

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further validated by important theoretical developments, especially social capital and embeddedness theories (see e.g. Burt 2005).

As observed by Borgatti and Foster (2003), the social capital concept helped to fuel interest in social networks. Social capital is, in the most general sense, a measure for an actor of the value of his social connections (see also, Nahapiet, Chapter 22 this volume). Although it is clear that the concept underlies the importance of relations between actors, mainly from a resource perspective, social capital itself can also be considered from a more genuine social network perspective. Both Burt (1992) and Coleman (1990) have introduced a topological view of social capital that emphasizes the importance of the interconnections among the members of a whole network. While Burt focuses traditionally on the absence and presence of links among the alters of a specific ego in the network (the so-called brokerage perspective), Coleman concentrates on the absence and presence of links among all network participants (the so-called closure perspective). From a brokerage perspective (Burt), an actor or a dyad in a network can derive control benefits from being situated between two other organizational entities, for example, a dyad that links two previously unconnected parts of a network. Actors or Inter-organizational relations (IOR) in this role can generate benefits for themselves which can translate into favourable conditions in their exchanges with other actors (Burt 1992). Furthermore, having a central position in the network can produce a favourable reputation which in turn can lead to advantages in tie formation. For example, the fact that several scholars find support for processes of homophily wherein more centrally positioned organizations are more likely to form ties with organizations of similar status (Amburgey and Al-Laham 2006). From a closure perspective (Coleman) third parties create social capital by improving information flow, making it possible to detect and punish bad behaviour (Burt 2005). Recently, Burt suggested that the tension between these two perspectives can be solved by integrating both mechanisms (e.g. brokerage andclosure) in a broader model (Burt 2005). He suggests that bridging a structural hole can create value if there is a closed network of a cohesive team around the bridge. Structural holes are the empty spaces in a social structure which implies that actors on either side of a structural hole circulate in different flows of information. Value is thus created in the case where a structurally autonomous group consists of people strongly connected to one another, with extensive bridge relations beyond the group.

The theory of embeddedness, as originally formulated by Granovetter (1985), emphasizes that economic exchanges are embedded in social

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networks (see also Jones and Lichtenstein, Chapter 9, this volume). They are neither purely role-based, oversocialized behaviour, nor are they strictly instrumental rational, undersocial-ized behaviour. Embeddedness refers to (1) that actors prefer to interact with family members, friends, and acquaintances rather than with persons they do not know; (2) that social ties are nested in other ties; and (3) that previous ties influence the development of future ones (see Granovetter 1985, 1992, 2005; Powell and Smith-Doerr 1994; Swedberg 1994).

For example, the embeddedness argument emphasizes mechanisms through which informational advantages are produced. Relational embeddedness, which essentially refers to the quality and depth of a single dyadic tie, stresses the importance of direct cohesive ties as a mechanism for obtaining fine-grained information (Uzzi 1996). Actors that share direct connections are likely to possess comparable knowledge and information, leading to shared understandings which influence behaviours, imitation for example. Relational embeddedness can also be regarded as the capacity for ties to carry information that decreases uncertainty levels and produces trust between entities (Burt and Knez 1995). To summarize, relational embeddedness can generate unique information on the capabilities and reliability of other actors which are part of the network.

Structural embeddedness, on the other hand, stresses the informational value of the structural positions that actors have in networks. Structural embeddedness refers to the fact that organizations do not just have relationships with each other but also with the same third parties. A consequence of which is that actors are linked indirectly by third parties. The more structural embeddedness there is in a network, the more information about each actor is known to all other actors. Moreover, actors situated between distinct groupings can derive advantages from their positions for themselves and can broker relationships among other players. As such, benefits are created for the networks as a whole, by improving interim coordination and information flow.

It is from the latter perspective that we will analyse the contribution of a network approach to the study of Inter-organizational relations. Through a comprehensive review of the academic literature using Web of Science, we identified research on Inter-organizational relations in which a network perspective is prevalent. While the phenomenon of formation of Inter-organizational relations is addressed in thatliterature, other aspects of Inter-organizational relations, such as their effectiveness, have received very little

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attention. Consequently, this review only reflects what is available in the literature and not what could be done. We will come back to that later.

Tie Formation as a Consequence of Networks

Tie formation is the most commonly studied phenomenon within a network approach. This is understandable as scholars who have affinity with the network perspective see the presence or absence of relationships as one of the main characteristics of networks. The literature has identified a considerable number of factors pertaining to why organizations form ties (see Oliver 1990; Ebers 1999). We concentrate here specifically on the factors associated with the network approach. How do networks influence whether a firm forms a link? In the literature two distinct network approaches could be identified which explain why ties are formed: embedded tie formation and non-local tie formation. We address these approaches subsequently.

Embedded or Local Tie Formation

The idea of the embedded tie formation approach is that the characteristics of a particular network (also called local network) influence the likelihood of organizations forming ties as well as the likelihood that two specific actors within that network will form a relationship (Gulati 1995; Powell *et al.* 1996; Gulati and Gargulio 1999).

For example, Walker, Kogut, and Shan (1997) demonstrate that the study of interfirm cooperative agreements in the biotechnology industry requires an analysis of the network as a whole because network formation is a result of two opposite forces: the reproduction of the network structure as a general social capital source for members of the network and the alteration of the network structure by entrepreneurs for their own benefit. They show that it is the amount of social capital, itself a function of the firm's position in the network, that explains the formation of new relationships among biotechnology start-ups. It turns out that biotechnology startups choose to increase firm relationships in order to increase their social capital rather than to exploit structural holes for self-interest. The underlying rationale for this strategy is that social capital is more valuable than maximizing entrepreneurial opportunities. In other words, structural stability and mutual dependence in suchnetworks is viewed as more important and would be jeopardized by self-interested behaviour.

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Other studies have found that the network structure is a repository of information and therefore is used in deciding with whom to build a new tie in that risk and uncertainty are fundamental to partner selection (Williamson 1975; Pfeffer and Salançik 1978; Kogut 1988; Podolny 1994; Gulati 1995; Gulati and Gargiulo 1999). Organizations tend to select partners with whom they are familiar and on whom they are likely to have rich information. A useful source of such information seems to be the network in which the organizations are mutually embedded. Consequently, organizations will choose relationships with partners within their own network.

In the literature it is argued that an organization can derive information from the network in which it is embedded. The network embodies different sources of information. Organizations can use information based on their direct relations in the network, about the structure of the network or about the position of actors within the network.

First, organizations have information on partners with whom they have, or have had, a relationship, what has been called *relational embeddedness* (Gulati and Gargiulo 1999). Repeated ties provide information on the capabilities, reliability, and interests of potential partners and therefore what can be expected in future interactions (Axelrod 1984; Larson 1992; Podolny 1994; Gulati 1995; Uzzi 1997; Walker *et al.* 1997). Although the network effect seems limited here as information is mainly based on previous bilateral experiences, one could also argue that the more experience an organization has had with existing network partners the more likely it is that a new relationship will develop within the same network. Ahuja (2000*a*) presents a convincing rationale for how different forms of capital, technical, commercial, or social, explain linkage formation. He demonstrates that all of these forms of capital are *inducements* to linkage formation.

Second, organizations tend to select their partner's partner (Baker 1990; Burt and Knez 1995; Uzzi 1996), what has been called structural embeddedness (Gulati and Gargiulo 1999). In contrast to the previous case, here a genuine network effect exists. The frame of reference shifts from direct contacts to indirect channels of information, reputation, and referral. Such information can only result from a network structure. When organizations A and B share a common partner C, then A and B are more likely to form a relationship between themselves as they see the trust placed in each of them by C. In the absence of first-hand experience then, information based on indirect linkages is seen as a good alternative (Podolny 1994; Uzzi 1996; Gulati and Gargiulo 1999).

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The *field-net* approach is a further specification of the structural embeddedness approach. It considers the structural characteristics of a network at time 1 to affect tie formation at time 2 (Kenis and Knoke 2002). In this context, a field-net is defined as the configuration of present and absent IORs among all the organizations that are members of an organizational field. The field-net concept is a network applicationof the organizational field concept as developed by DiMaggio and Powell, who stated that an organizational field comprises 'those organizations that, in the aggregate, constitute a recognized area of institutional life: key suppliers, producers, regulatory agencies, and other organizations that produce similar services or products' (1983: 148). Primarily on the basis of theoretical insights and empirical studies from the field of network analysis, they formulate propositions on how density, reciprocity, confirmation of ties, connectivity, centralization, multiplexity, cohesion, and network hierarchy affect tie formation within the field-net. The field-net approach assumes that the macro-level configuration of Inter-organizational ties among field members serves as an opportunity structure that both constrains and facilitates the potential actions of member organizations. Kenis and Knoke (2002) emphasize how aggregate relations within a field-net can erect substantial barriers to collective action, for example, that more centralized networks provide fewer opportunities for peripheral participants to locate potential partners with whom to forge new collaborative ties.

A third available source of information for partner selection is the network position of potential partners, the so-called *positional embeddedness* (Gulati and Gargiulo 1999). Positional embeddedness refers to the fact that the position of an organization in a network influences its ability to access information about potential partners as well as its visibility and its attractiveness to other organizations. In the absence of first-hand experience or recommendations by third parties, organizations can make inferences about the quality of a potential partner (Podolny 1994; Podolny and Phillips 1996). Gulati and Gargiulo (1999) have demonstrated that the network position plays an important role in partner selection. The more central an actor's network position, the more likely that it will have better information about a larger pool of potential partners, and hence that it will select a partner. At the same time, central actors are themselves more attractive to potential partners as their central position signals their willingness, experience, and ability to enter into partnerships. This signalling property is found in research to be particularly important in uncertain environments, because it presents reputational differences among organizations that extend beyond their immediate circle of direct (as described by relational

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embeddedness) and indirect ties (as described by structural embeddedness). Consequently, one can expect that organizations which have a similar central position are more likely to build a new relationship among themselves.

In summary, being embedded in a network encourages an organization to cooperate more with other member organizations as opposed to with those outside. Hence networks are considered as a repository of information on the availability, competencies, and reliability of prospective partners (Burt 1992; Kogut *et al.* 1992; Gulati 1995; Powell *et al.* 1996).

Ahuja (2000*a*) has, however, emphasized that embeddedness exerts two contradictory influences on a firm's incentives to form linkages. On the one hand, a history of dense linkages provides a firm with expertise in managing such linkages,but on the other, there could be saturation. Every linkage that embeds a firm more deeply in the network also places a strain on its management and absorptive capacity. Consequently Ahuja proposes a curvilinear relationship between the level of embeddedness and tie formation.

Non-local Tie Formation

A second context in which ties form within a network approach is what we call nonlocal ties. Non-local ties are ties with actors outside the network in order to expand the network (Pfeffer and Salançik 1978) by incorporating new actors (see also Burt 1983; Gargiulo 1993), for example, to learn about new practices and technologies (Kogut 1988; Powell *et al*. 1996). This perspective is somewhat in contrast to an embeddedness perspective in which past interactions or the characteristics of the local network play an important role.

This perspective can throw light on how firms that have not previously formed relationships with other organizations, for example new entrants into an industry, gain first entry into networks, a topic which has also been outside the purview of extant empirical embeddedness studies. For example, Ozcan and Eisenhardt (2006) find evidence for the fact that ties can form between firms with no prior connection. In particular, firms with limited resources can form ties with prominent partners if the latter can be approached in the early stages of an industry. Early tie formation gives low-power firms the opportunity to collaborate with prominent players in the co-creation of the market. In contrast, newcomers who approach prominent

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firms later often find them too busy to pay any attention to them. This research shows the importance of strategy, and particularly of timing, as important variables in explaining tie formation (Ozcan and Eisenhardt 2006).

In a study of the 300 largest US firms, Beckman, Haunschild, and Philips (2004) have also empirically demonstrated the importance of non-local relationships, or what they call relationships with strangers. At the same time they also identified local relationships, or as they put it, relationships with friends. They demonstrate in their analysis that firms form new relationships with new partners to explore and that they form additional relationships with existing partners to exploit (March 1991). Whether exploration or exploitation is chosen depends on the uncertainty that a firm is facing. This study relates to another variant of the non-local tie formation perspective, the *Small World tie formation* perspective. This perspective also points towards the phenomenon that previously unrelated actors form ties. It is, however, more specific with regard to the type of non-local ties formed and the reason why such ties are formed. The ties central in the small world tie formation perspective are those formed between locally clustered networks. These are called ‘small world structures’ and refer to densely interconnected local substructureslinked by a few intermediaries (Nohria and Garcia-Pont 1991; Kogut and Walker 2001; Baum *et al.* 2003; Davis *et al.* 2003; Burt 2005; Powell *et al*. 2005). The reasons why ties are formed between such substructures is not accidentally or merely related to instrumental considerations but is also related to social reasons. For example, the reason why two actors (who are part of different substructures) are participating in the same event and learn that the two have a mutual friend (‘Isn't it a small world?’) describes the often observed tendency for actors at geographically removed locations to be connected through intermediaries.

Also the literature on interlocking directories has demonstrated the importance of key intermediaries and the small world of companies in specific economies. An interlocking directorate occurs when a person connected to one organization is a member of the board of directors of another organization. Such intermediaries facilitate collusion (Pennings 1980), deal with interfirm resource dependencies (Boyd 1990), and are used to monitor Inter-organizational behaviours and to exert power. For example, a bank might stipulate that one of its own board members be put on the board of a client with a high debt ratio for monitoring reasons. Finally, interlocks with important organizations are formed to signal to other stakeholders, for example investors, that the firm is a legitimate enterprise worthy of financial support.

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Ties between small worlds thus create channels for information exchange across local clusters (Baum *et al*. 2005). They can transform a locally clustered network into a small world in which any two members have short connecting paths (Watts 1999). These networks enable efficient access to diverse information across locally clustered networks while maintaining the benefits of embedded ties within local clusters.

There is little research that explains the small world characteristic of Inter-organizational networks. Baum *et al*. (2005) suggest that the effects of performance feedback might explain such partnering strategy. In contrast to the classic embedded relationship, this type of relationship is characterized by risk and uncertainty. They demonstrate that organizations performing far from historical and social aspirations are more willing to accept the uncertainty and risk of such non-local ties with relative strangers. Inconsistent performance feedback triggers the greatest risk in selecting partners. This conclusion cannot be considered as evidence in favour of a network approach since in the first place it is attribute variables that explain whether actors form ties or not. Nonetheless, the study is still important in this context as it demonstrates that the characteristics of the local network are not necessarily the dominant explanation for forming ties. The study is also relevant because it explains that IORs result from forming ties between networks, the rationale being that non-redundant ties can provide unique information and can create opportunities to broker resource and information flows across previously unconnected (clusters of) partners (Burt 1992, 2005; Ahuja 2000*a*; Rowley *et al.* 2000; Soda *et al.* 2004).

The research presented above has mainly addressed the question of with whom within their existing network an actor will form a relationship. It thus complements the literature which explains the actual formation of networks by exogenous factors such as the distribution of technological resources or the structure of resource dependence (Pfeffer and Salançik 1978; Burt 1983). A network approach actually challenges this literature since it provides an alternative explanation for tie formation. Gulati (1999) introduced the concept of *firm network resource*. This is an information resource which firms obtain from the inter-firm networks in which they are located. The number of such resources available to firms can influence their strategic behaviour because it alters their opportunity sets. In general, it is argued that the richer the information, the larger the opportunity set available. Consequently, one can show empirically that the extent to which firms enter into new relationships is influenced by these resources. Gulati (1999) also has shown

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that these network resources, measured by firms' location in the inter-firm network of prior ties in which they are embedded, are more important than other factors such as the length of time since a firm had last entered into an alliance and the diversity of their alliance portfolio in terms of governance structures used and nationalities of partners involved. This might point to the fact that once firms have developed the administrative control procedures for creating new alliances, they are able to use that knowledge in any kind of alliance.

Tie Termination

Tie termination is as interesting as tie formation, and yet it has prompted very little research from a social network perspective (Gulati 1998). Just as there is in the network literature an analytical bias towards the presence of relationships to the detriment of the absence of relationships, there also seems to be a bias towards the formation of ties compared to their termination. Nevertheless, the termination of ties is as important as their formation, especially since both are affected by the performance of organizations. Tie termination is also important for understanding partnering behaviour and network dynamics (Podolny and Page 1988; Uzzi 1996). From a theoretical point of view, whether the theories that explain the formation of ties can also explain their termination is also of interest.

There are several reasons why tie termination has received less attention from scholars in the field. First, there is a construct validity problem: tie failure and tie termination are often not distinguished. However, there is a difference between natural and untimely tie terminations. Many successful IORs are terminated because partners have planned to do so from the very start. Moreover, an IOR might beused as a transitional organizational arrangement that is terminated as soon as its goals are accomplished or when the participating partners have new information that makes an acquisition feasible (Balakrishnan and Koza 1993). Furthermore, not all ongoing IORs are successful. Some may be continuing because of inertia or high exit costs associated with tie termination (Kim *et al.* 2006).

Second, there is an internal validity problem that results from the dyadic nature of IORs. Several scholars argue that the developmental process of dyadic Inter-organizational relationships impact on how these relationships emerge, evolve, and dissolve. More specifically, they propose that imbalances in this process impact on the probability of tie termination. Ring and Van de Ven (1994) state that tie termination is a result of imbalances between actors, for example due to alternations in organizational

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commitment. However, Chen and Chen (2002) show that in IORs between organizations located in developed and emerging economies, imbalances in the actual distribution of outcomes are regarded as part of the deal due to the different motives the partners have when entering an IOR and thus do not increase the probability of tie termination.

Despite these difficulties, several scholars have studied the termination of IORs from a network perspective. There is some evidence that IORs with more embedded ties may perform better or last longer than those without. Kogut (1989) found that IORs between partners with a prior history of ties are less likely to terminate. Levinthal and Fichman (1988) and Seabright, Levinthal, and Fichman (1992) found that IOR duration is not only influenced by changes in resources dependencies but also by higher levels of relational embeddedness in the network. This embeddedness leads to tie persistence because actors have a shared history of collaboration. However, the few studies that have addressed tie termination from a network perspective focus predominantly on the effects of relational embeddedness. Therefore, we know little about the impact of structural embeddeness on termination.

One study that looks at the relationship between structural embeddedness and tie termination is that of Amburgey and Al-Laham (2006). They specify different types of tie failure, namely the failure of a tie that is (*a*) a bridging tie, which is a tie that connects two components in a network; (*b*) a pendant tie, one which is between a firm and a firm with high centrality not in the network; (*c*) an intra-component tie, which is a tie in a component of a network; and (*d*) a dyad. Moreover, they distinguish network components, which are parts of a network in which actors are actually connected. Next, they relate these different types of tie failure to the structural cohesion or density of a network component and formulate a number of hypotheses which can be summarized as follows: The higher the density level of a network component, that is the higher the ratio of actual ties to the number of possible ties, the higher the likelihood of tie termination of (*a*) a bridging tie; (*b*) a dyad; (*c*) a pendant tie. However, the likelihood of so-called component-thinning terminations, for example, terminations within a network component, increases with the number of intra-component ties. These hypotheses were tested with alongitudinal research design including biotechnology R&D alliances in the USA and Germany. With the exception of the hypothesis on the termination of pendant ties, all hypotheses were empirically confirmed. These findings highlight the notion that changes in the structure of networks clearly have an impact on tie termination rates.

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Tie Functioning and Network Effects

The functioning of IORs has also been rarely studied from a network perspective. By functioning we mean the management, monitoring, and control of ties (see also Hibbert *et al*., Chapter 15, this volume). The major assumption is that the factors that have a positive influence on tie formation will also have a positive effect on their functioning. Repeated ties also contribute to the development of a common language and common routines that facilitate the joint planning, rich information exchange, and conflict resolution skills required for successful partnerships (Mohr and Spekman 1996; Simonin 1997; Inkpen and Dinur 1998; Zollo *et al*. 2002). Repeated ties also facilitate the collective monitoring and sanctioning of deviant behaviour among partners, which fosters a concern for local reputation (Burt and Knez 1995; Rowley 1997; Walker *et al*. 1997).

It is clear that this is an unsatisfactory situation. The simple fact that the majority of ties which emerge are terminated after some time because they are dysfunctional shows that the factors that positively influence the formation of ties must be different from those that explain their functioning.

As suggested by Gulati (1999: 415), it could be the case that ‘network resources resulting from the network of prior alliances not only provide powerful enabling conditions for firms to enter new alliances, it can also have consequences for the relative success of individual alliances the firm enters’. It would indeed be interesting to compare IORs which result from an embeddedness rationale with IORs which have been formed on the basis of another rationale in order to see whether these vary in functioning and effectiveness.

Ozcan and Eisenhardt (2006) have demonstrated that strong portfolios, for example a diversified egocentric network of alliances, are those which have redundant ties. Entrepreneurial firms in a nascent market are more likely to build a strong portfolio if they manage ties with several firms of each type. These help to provide information and maintain alternative courses of action. Basically, this finding relates to the discussion in the literature on trade-offs between the number and the strength of ties. Hansen (1999) suggested that a unit can have either a high number of weak ties or a low number of strong ties. Ozcan and Eisenhardt found that firms with strong tie portfolios only work intensively with their mostactive partners while creating through frequent communication the appearance of interest with their other partners. They call this the sequential-attention approach. Another factor mentioned here is that a strong portfolio is related to avoiding ties with competitors.

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Such ties are inherently unstable and if the relationships are terminated, the negative effect of the relationship on the rest of the portfolio is often not easily undone.

Another issue which has received attention in this context is tie depth, which refers to the level of interaction taking place within ties. There are only a few studies which consider tie depth and how it evolves over time. Larson (1992) and Doz (1996) show that tie depth grows over time as partners build mutual trust. Ozcan and Eisenhardt (2006) confirm this finding but also observe that deep ties can become shallow over time. When a tie becomes insignificant to one of the partners, that partner may decide to decrease the level of interaction rather than discontinue the relationship altogether. The tie can be revitalized at a later stage. Another finding of Ozcan and Eisenhardt (2006) confirming the network approach is that ties do not only become deep due to the improvements in the relationship between partners, but also because they evolve along with other ties in the network. Ties of different types evolve along with other ties based on the interdependence between them. Ozcan and Eisenhardt show that low-power firms are able to maintain strong portfolios, for instance portfolios with deep ties to many prominent members, which help them to overcome their disadvantages, attract other prominent partners, and increase their sales. As a result, they are able to improve their structural position in the network, that is, they become more central.

The above relates to the more general issue of the effects of networks on their member organizations. Participating in a network provides members of IORs with opportunities for sharing a variety of resources. As network ties are conduits of information transmission, they give organizations trusted information that affects their behaviours. This information could lead to imitation of practices (Henisz and Delios 2001), the speeding-up of, even widely known, practices (Gibbons 2004). Adoption by network members is amplified by similarity of characteristics of organizations in networks as similar organizations are evaluated as more relevant and easier to learn from.

Networks can be seen as collective knowledge and information sources (Gulati *et al*. 2002). These sources can be utilized by IOR members to increase their innovation and learning capabilities (Ingram and Baum 1997; Dyer and Nobeoka 2000), or their innovative performance by participating in dense networks that give access to tacit knowledge (Ahuja 2000*b*) or by making use of structural holes in networks which provide novel information (Baum *et al.* 2000) (see also, Nooteboom, Chapter 23, this volume). Empirical

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evidence indicates that the innovative performance of firms is further strengthened if they are part of networks, which are spatially clustered (Saxenian 1994; Oerlemans and Meeus 2005) (see also, Yeung, Chapter 18, this volume).

As is evidenced by research, network membership impacts on firm survival rates (see also Lomi *et al.*, Chapter 12, this volume). Hager, Galaskiewicz, and Larson (2004) show, for example, that ties have a positive influence on the probabilities of survival of newly founded firms and on firms implementing radical change (Miner *et al.* 1990). Being related to network members with high status affects organizational survival in a positive way (Baum and Oliver 1991) as it increases legitimacy levels. Uzzi's research (1996) showed that firms with a high proportion of embedded ties experienced lower failure rates as compared to firms with mixtures of arm's-length and embedded ties.

There are also indications that relational and structural embeddedness affect firm performance in a positive way. As network ties can be interpreted as signals of quality that confer status on a firm, strong ties could result in higher product (Podolny 1994) or stock prices (Stuart *et al*. 1999). Moreover, ties established as informal financial arrangements give IOR members access to financial resources which enables them to increase financial performance and productivity (Keister 1998). As far as indicators of structural embeddedness are concerned, the research by Powell, Koput and Smith-Doerr (1996) shows that network centrality and alliance experience increased the growth rate of biotechnology start-ups, whereas organizations generate higher returns when they have a broker position between disconnected others (Bae and Gargiulo 2004).

It has to be noted that the majority of the literature is biased towards studying the positive organizational effects of networks. However, networks may also constrain participants and have negative performance effects. Being part of a network might lead to lock-in effects, lowering the informational value of the network (Gomes-Casseres 1994) or increasing inertia and resistance to change (Kim *et al.* 2006). Moreover, network ties also can be conduits for the unintended transfer of valuable knowledge and intellectual capital to other network members (Sampson 2004).

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Tie Dynamics and Feedback

One of the most important and interesting discussions in which the IOR phenomenon is closely intertwined with a network approach centres on the fact that the formation or termination will lead at the same time to a change of the overall network. The reason for this is that the structural configuration of a network is defined by the presence and absence of IORs. Consequently, a network approach not only allows, but actually requires, a dynamic perspective. IORs follow a cyclical pattern—network change leads to IOR change, which in turn leads to network change, and so on. Consequently, we expect network dynamics to exert a powerfulinfluence on IORs and to be an object of study in its own right (see also Cropper and Palmer, Chapter 24, this volume).

Most studies taking a network approach to IORs consider network dynamics to be an important phenomenon, although they do not look at it in a systematic way. For example, Gulati and Gargiulo (1999) propose a model in which the formation of Inter-organizational networks is the evolutionary outcome of socially embedded organizational action. Their model provides a systematic link between the social structure of an organizational field—understood in network terms—and the behaviour of organizations within the field. They show the link to be bidirectional. On one hand, the emerging social structure progressively shapes organizational decisions about whether and with whom to create new ties. On the other hand, this social structure is produced by the decisions of individual organizations to establish relations with one another. Gulati and Gargiulo convincingly show that IORs not only result from exogenous drivers such as interdependence but also from exogenous evolutionary dynamics triggered by the very way in which organizations select potential partners. The dialectic between action and structure is at the core of this social process. The propositions formulated by Kenis and Knoke (2002) also show that they expect endogenous dynamics to play an important role. For example, when the density of a field-net is low, so is the tie formation rate. As density increases, the tie formation rate accelerates in response to increased opportunities for collaboration. Finally, as the network reaches saturation, the tie formation rate declines and eventually declines to zero.

Ozcan and Eisenhardt (2006) pointed to the dynamics of clusters in networks. They demonstrated that co-evolution of complementary ties, as a result of simultaneously negotiating with complementary partners and the competition of similar ties, contributes to the structural evolution of

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the network through the formation and change of clusters. Both forces are opposing because the co-evolution of complementary ties creates a cluster around large and complementary nodes in the network while the competition of similar ties selects out the small nodes and pushes them towards the periphery. This constant push and pull around the large nodes gives the network momentum.

A Critical Evaluation of the Contribution of Network Analysis to the Analysis of IORs

We have seen that while the network perspective is alive in the literature on IORs, only a limited number of issues and phenomena have been addressed. Formationof ties is the issue that has received the most attention and alliance formation is the phenomenon most studied. This can be good news as it leaves room for unrealized potential, but it could also be bad news because it might be an indication of the limitation of what can be studied with this perspective.

Nevertheless, on the basis of what has been studied so far, we can comfortably say that a network approach has the potential of being important to the study and analysis of IORs. This being said, it is also clear that we are far from having a general network theory of IORs. Although network embeddedness often seems to play a role, almost every study introduces different and new independent variables or introduces intermediary or moderator variables. What we can say with certainty is that the network approach carries us beyond the observation that relationships between actors are simply a result of market rationales, of the interdependence between actors, or of some other actor attribute such as size, age, scope, or resource endowment.

The strength of the network approach is that it cannot only provide an alternative explanation for why actors form ties but also explain with whom actors form ties. Whereas other approaches such as transaction cost economics or resource dependence theory emphasize the fact that organizations create ties to manage environmental uncertainty and to satisfy their resource needs, a network approach is particularly useful in explaining with whom organizations enter such ties and how these actions are related to informational and control benefits.

Another interesting finding is that there is no doubt that actors are always embedded in networks of some kind. Consequently, what must be addressed with a network approach is the type of networks that is most likely to lead

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to tie formation and tie selection. This implies that the network must be considered as a variable and not only as an alternative governance form. Discussions often revolve around networks, markets, and hierarchies as distinct governance structures, but it is more important to consider the network as a variable, given that they come in all kinds of forms (see Grandori and Soda 1995; Provan and Kenis 2005). Second, besides the presence of actors in networks of a certain form, other conditions seem to determine whether the network variable has an influence or not. Several moderator variables have been identified which determine whether the network in which actors are embedded affects their relational behaviour. For example Beckman, Haunschild, and Philips (2004) have demonstrated that it does make a difference whether an actor forms a new relationship for exploitation or exploration. Actors seem to acknowledge differences between arm's length and embedded ties (Uzzi 1997).

It also becomes clear, however, that the development of a network approach to IOR has to cope with a number of limitations. It seems that empirical studies are biased to such cases where it is easy to operationalize whether an alliance is present or not and whether a given tie occurs or not. For example, this seems to be the main reason why studies of these dependent variables are so prominent in the literature. The question is, of course, to what extent the findings from the alliance literaturecan be generalized to other forms of cooperation and coordination between organizations.

Another issue complicating the development of a network approach is that distinguishing between the attributes of organizations and their relational characteristics is a complicating factor in assessing the explanatory strength of such an approach. For example, technological prestige is a network variable because it is engendered by flows of deterrence between firms, and so it has relational foundations (Podolny *et al.* 1996). But the reason for these flows of deterrence is, at least in part, that an organization has contributed an ongoing stream of notable innovations. Hence, the positional variable ‘prestige’ and the attribute variable ‘capability’ are closely related.

Another complicating factor might be that the relationship between characteristics of the network and IORs need not be linear, although this is the assumption in most studies. Earlier research has pointed to the possibility of overembeddedness (Burt 1982; Uzzi 1997; Gargiulo and Benassi 2000), which refers to a situation where all firms in a network are connected through strong or embedded ties.

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One of the other problems with the explanatory power of a network approach is that it is not always clear where the network starts and where the network ends. For example, is the formation of non-local ties a confirmation or a refutation of the network approach? On one hand one could argue that the simple fact that the relation does not develop within the network disproves the network approach. On the other hand, one could argue that whether an actor is considered to be non-local or not is completely contingent on the definition of the boundaries of the network. It is here where the difference between an embeddedness approach and a network approach becomes clear. An embeddedness perspective is broadly concerned with how social and economic structures govern economic exchanges (Granovetter 1985), whereas a network approach, although based on the same starting point, is at the same time more specific and more general. It is more specific in that it points towards the importance of networks of relationships, which, once formed, shape the establishment of relationships in future periods. It is more general in that it can surpass the embeddedness perspective by including previously non-existing, nonlocal, or brokerage ties.

In order to continue to formulate a network theory of IORs (e.g., one where specific characteristics of IORs are the result of network characteristics) we must specify how, why, and when we would expect a relationship between attributes of embeddedness and networks and attributes of IORs (Whetten 1989). To conclude we will present some future directions which could be instrumental in such an endeavour. The variation in operationalizations of the independent variable, the network, could be reduced by concentrating on the portfolio of relationships rather than on a single or even a couple of specific relationships. Studies tend to choose different ties in the operationalization of the networks and this reduces comparability between the studies. Portfolios of relationships would be more comparable.Moreover, Ozcan and Eisenhardt (2006) suggest that the portfolio of relationships has more explanatory power than the individual relationship.

Our review has also shown that the network context which influences the formation, termination, and functioning of IORs can be described along classical network dimensions, in terms of relational, structural, or positional embeddedness or potentially also using the distinction between structural, cognitive, political, and cultural embeddedness proposed by Zukin and DiMaggio (1990). An interesting question then becomes how these different forms of embeddedness are related to each other and whether they have a different explanatory power for the study of IORs. Moreover, Hagedoorn (2006) suggested ordering forms of embeddedness on a vertical

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dimension. He distinguishes between environmental, network, and dyadic embeddedness and points out that in particular the interactions between these different levels can explain the prevalence of IORs.

Last but not least, a network approach to IORs not only increases our understanding of IORs but also contributes to strengthening the network approach itself. Network research suffers from the conspicuous deficiency that the process of network formation and transformation are underspecified (Emirbayer and Goodwin 1994; Madhavan *et al.* 1998; Gulati and Gargiulo 1999; Kenis and Knoke 2002). Studies tend to apply network-theoretic arguments at the level of the network to explain the generation of future networks. A logical step is to expand these arguments to include the broader set of factors that are likely to influence network formation and to explicitly recognize the motivations and ability of actors in the network (Eisenhardt and Schoonhoven 1996). It is especially at the level of the IOR that these motivations and abilities can be observed and studied.

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Evolutionary Perspectives on Inter-organizational Relations

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Abstract and Keywords

This article briefly discusses the background and the intellectual context in which evolutionary thinking about organizations and institutions has been growing and developing. It emphasizes the mechanisms through which inter-organizational evolution is assumed to operate and provides examples of how they might be working across levels of organizational analysis. Any characterization of inter-organizational evolution is highly dependent on the principles behind the definition of these aggregate entities. For this reason, this article links this general discussion about the origins of evolutionary thinking in the study of organizations to conceptions of organizational environments. Building on the insight of ecological approaches to the study of organizations, this article presents ways in which inter-organizational relations (IORs) have been examined among members of organizational populations and communities. This article examines studies of IORs that have built more explicitly on network representations, models, and imagery, with reference to organizational fields rather than populations and communities.

evolutionary thinking, inter-organizational evolution, ecological approaches, inter-organizational relations, network representations

Introduction

We define the evolution of Inter-organizational relations as a process of cumulative change involving organizations that are somehow related.

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As this definition makes clear, we think that processes of boundary emergence, maintenance, shift, and erosion around organizations are what an evolutionary approach to Inter-organizational relations must explain (Hannan and Freeman 1986; Fontana and Buss 1996).

Inter-organizational relations bound evolutionary processes and define exactly what organizations are affected by a given process of change. Relations amongorganizations can be direct, diffuse, or perhaps more often a combination of the two (Hannan and Freeman 1987; Rao 2002; Barnett and Pontikes 2005). Relations are direct when they involve some element of mutual awareness among the actors involved (Burt 1992). When this happens, individual organizations tend to think of their environments as composed of identifiable alters with and over whom they may have projects of cooperation, competition, or control. For this reason, direct relations can only involve a relatively small number of organizations (White 1988, 1992, 2002). As an example of this way of thinking about Inter-organizational relations, consider the notion of markets as roles structures (White 1981, 1988; Leifer and White 1987). Here, producers select their market 'position' not on the basis of aggregate information about demand, but rather on the basis of their assessment of the volume—revenue relation that characterizes other producers that are perceived as comparable. In this perspective, Inter-organizational relations are the outcomes of frames of comparability established by individual organizations through their production decision and competitive strategies (Odorici and Lomi 2001).

If relations are diffuse, then organizations perceive their environment 'parametrically', that is, as an estimate of the joint effect of a variety of external influences. Almost by definition diffuse relations are linked to evolutionary processes affecting entire organizational populations and communities (Barnett and Carroll 1987). While it is analytically convenient to think of relations bounding the evolutionary processes as being exclusively direct or diffuse, this is rarely plausible. It is perhaps more realistic to acknowledge that different types of direct, 'local' relations may interlock to generate a variety of network *motifs*, eventually generating structures that are highly differentiated internally, but that exhibit recognizable global 'organizational' properties (Lomi and Larsen 1996, 1999; Robins *et al*. 2005; Lomi and Pattison 2006). The relational substratum created by processes that are both local and global induces evolutionary change that occurs across multiple levels of analysis. For this reason, some might object that choosing Inter-organizational relations as the level of analysis is at the same time too 'micro' and too 'macro'. After all, there are possible levels of evolutionary

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analysis both below it, such as those of single organizations (Langton 1984) and of individual decision routines and learning processes (Cohen and Bacdayan 1994), and above it, such as those defined by the evolution of industries, policy domains, and organizational communities (Malerba *et al.* 1999; Freeman and Audia 2006). This continuing tension has made the study of Inter-organizational evolution a fertile middle ground (or a battleground, as some may say) to test the implications of managerial, economic, and sociological theories of organizations.

Examples of topics that are recurrently addressed in studies of Inter-organizational relations inspired by general evolutionary ideas include the dynamics of Inter-organizational collaboration (Gulati and Gargiulo 1999; Powell *et al.* 2005), the maintenance of status ordering in markets (Podolny 1994), the relation between networks and niches within organizational populations (Podolny*et al.* 1996), the effect of niche overlap on organizational vital rates (Baum and Singh 1994*a*, 1994*b*), processes of industry concentration and differentiation (Carroll and Swaminathan 2000), change in governance structures (Davis and Greve 1997), the long-term implications of state intervention on the structure of Inter-organizational fields and policy domains (Dobbin 1994), the emergence and organizational implications of spatial structures (Lomi and Larsen 1996, 2001), technological change (Podolny and Stuart 1995), the organization and coordination of illegal activities (Baker and Faulkner 1993), the origins of markets (White 1981), and processes of sense-making and meaning construction in Inter-organizational fields (Sutton and Dobbin 1996). While this list does not begin to exhaust the topics that are of interest to students of Inter-organizational evolution, it does give the sense of the wide landscape that a review of 'Inter-organizational evolution' has to cover. Despite their apparent eclecticism, studies taking an evolutionary view on Inter-organizational relations have at least one element in common: they all are about how changes in social, market, cultural, and organizational systems happen over time.

In an evolutionary perspective, organizational change is analysed through the generic conceptual scheme of variation, selection, and retention (Campbell 1969; Aldrich 1999). Examples of variations affecting Inter-organizational relations include technological innovation (Dosi 1988) and the appearance of new organizational forms (Stark 1996; Padgett and McLean 2006). In an evolutionary perspective variation may be blind or purposeful. This apparent indifference toward the origins of variation does not mean that organizations cannot (and do not) invest consciously in their

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capacity to ‘absorb’ or even amplify potentially profitable variations. In fact organizations may do so in many interesting ways (Cohen and Levinthal 1994). In either case, blind or deliberate as it might be, variation provides the raw material for selection. Selection implies change in the relative frequency of observed behaviour, in the incidence of organizational forms in a society, or in the distribution of particular organizational traits in a population. The typical processes through which selection manifests itself are organizational mortality (Hannan and Freeman 1989), growth (Barron 1999), and the extinction of organizational forms (Aldrich and Wiedenmayer 1993; Ruef 2004). In its most general sense, retention implies some form of maintenance, routinization, or the construction of some other form of action repertoire (Cyert and March 1963; Nelson and Winter 1982). Retention is associated with processes of learning and adaptation, as well as with their apparent opposite—organizational inertia (Hannan and Freeman 1984; Levinthal 1991). One of the distinctive features of evolutionary theories of organization is their attempt to resolve the inherent tension between innovation (variation, or exploration) and maintenance (retention, or exploitation) by specifying mechanisms of selection behind observed organizational outcomes (March 1991).

After this general introduction, we organize our chapter as follows. In the next section we briefly discuss the background and the intellectual context in whichevolutionary thinking about organizations and institutions has been growing and developing. We emphasize the mechanisms through which Inter-organizational evolution is assumed to operate and provide examples of how they might be working across levels of organizational analysis. In his recent commentary Greve observes that ‘Inter-organizational evolution takes place at the level of the Inter-organizational field, population, or community’ (2002: 557). Hence, any characterization of Inter-organizational evolution is highly dependent on the principles behind the definition of these aggregate entities. For this reason, in the third section we link this general discussion about the origins of evolutionary thinking in the study of organizations to conceptions of organizational environments. Building on the insight of ecological approaches to the study of organizations, in the fourth section we present ways in which Inter-organizational relations have been examined among members of organizational populations and communities. The fifth section examines studies of Inter-organizational relations that have built more explicitly on network representations, models, and imagery, with reference to organizational fields rather than populations and communities. We conclude the chapter with an overview of a wide range of emergent research themes suggested by evolutionary perspectives

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on Inter-organizational relations and a discussion of the promises that evolutionary approaches hold for our understanding of Inter-organizational relations.

Evolutionary Thinking in the Study of Organizations

In their recent assessment of the state of evolutionary thinking in economics, Nelson and Winter (2002) remind us that evolutionary ideas have been present in economics throughout the modern history of the discipline. Yet it is only with the work of these authors (Nelson and Winter 1982) that the constitutive elements of an evolutionary approach to individual organizations became explicitly codified. The part of Nelson and Winter's evolutionary theory of economic change with more direct organizational implications owes much to the earlier behavioural tradition of Simon (1945), March and Simon (1958), and Cyert and March (1963). Thus, we can directly extend to organization theory Nelson and Winter's argument about the role that evolutionary thinking has played in economics: evolutionary ideas have been present in organization theory throughout much of its modern history.

There is at least one more element of similarity between the development of evolutionary thinking in economics and organization theory. As Nelson and Winter (2002) clearly explain in the context of economics, early evolutionary ideas recognizable in the works of Koopmans, Marshall, and Schumpeter progressively lostground to a rival theoretical framework that increasingly emphasized equilibrium and optimality concepts (Samuelson 1947) and deliberately ignored the institutional and organizational details behind the working of markets (Debreu 1959). In organization theory, a younger and epistemologically less mature discipline, complex ideas about the long-term evolution of organizational structures (Stinchcombe 1965) have anticipated, but at the same time been obscured by the emergence and rapid diffusion of a theoretical framework emphasizing concepts of equilibrium and the static alignment, congruence, or ‘fit’ between individual dimensions of organizational structure and environmental constraints determined by exogenous patterns of resource availability (Lawrence and Lorsch 1967; Padgett 1992). While Stinchcombe (1965) portrayed evolutionary processes of organizational emergence, change and, selection as conditional on social structures that were themselves changing both incrementally and abruptly over long periods of times, empirical studies inspired by contingency views painted an essentially static picture of the relation between *organizational change* and *social change*. Studies based on static observation plans found an unsurprising association between measure of ‘fitness’ and dimensions

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of organizational performance and these results provided the basis for the belief in a systematic connection between ‘equilibrium’ configurations and ‘performance’, which became for many years an institutionalized assumption in the study of organizations (March and Olsen 1984).

It is only in the late 1970s that ideas about the dynamics of organizational evolution not directly rooted in earlier behavioural theories of the firm were rediscovered and taken as the basis for the elaboration of a more systematic and complex theoretical narrative on the relation between organizations and their environments (Aldrich and Pfeffer 1976; Hannan and Freeman 1977; Meyer and Rowan 1977; Pfeffer and Salancik 1978). The conceptual framework for studying organizational evolution was made explicit by Aldrich (1979). Building directly on Campbell's model of socio-cultural evolution (Campbell 1969), he defined three basic mechanisms underlying the process of organizational evolution: variation, selection, and retention. According to this view, variation involves the generation of new patterns of action (or new ‘practices’) that, if selected, become permanent operational features of a given organizational system. A background assumption was made that evolutionary processes were possible only in a situation characterized by competition for scarce resources (Lomi *et al.* 2005). Although rarely examined directly, the assumption of resource scarcity can be traced in virtually all subsequent research that built more or less directly on evolutionary ideas (Nelson and Winter 1982; Hannan and Freeman 1989; Carroll and Hannan 2000). The assumption of competition for scarce resources is made explicit by Aldrich and Ruef (2006) who introduce ‘struggle’ as the fourth subprocess of organizational evolution after variation, selection, and retention.

Evolutionary approaches to the study of organizations have themselves evolved considerably since their emergence (March 1994). To be recognized as evolutionary,attempts to understand organizational processes of growth, change, development, and decline must be based on a combination of at least some of the following six claims:

(1) organizational change is a process that may require little or no foresight (March and Levinthal 1993);

(2) organizational change is a consequence of processes of local search (Cyert and March 1963; Dosi 1988; Cohen and Levinthal 1989);

(3) a selection environment exists such that major episodes of change in patterns of resource availability trigger processes of ‘rotation’ at the population and community level, that is, processes

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whereby new organizations and new organizational forms supplant old ones (Aldrich 1999);
(4) organizational fitness criteria are highly contingent on complex competitive, political, and institutional details and on a variety of historical events (March and Olsen 1989; Carroll and Harrison 1994; Malerba *et al.* 1999);
(5) organizations learn by encoding past experiences into routines that guide behaviour (Nelson and Winter 1982);
(6) once an organization has learned to do something well, it may be very difficult to get it to learn something that is significantly different, at least in a useful time (Hannan and Freeman 1984). As a consequence, the determinants of organizational performance and survival are never obvious *ex ante*, that is, before selection processes have produced observable consequences (Hannan and Freeman 1989).

Roughly speaking, the first two statements are related to processes of variation, defined as any change from existing routines, traditions, or established practices. Variation may be intentional or blind, and it usually happens across levels of analysis (Aldrich and Ruef 2006). At the organizational level, variation may be a consequence of search (March and Simon 1958), exploration (March 1991), or chance (March 1981). At the population level, variation may be introduced by the arrival of new organizations (Hannan and Freeman 1989) or by recombining resources and relations into new organizational forms (Stark 1996; Padgett and McLean 2006).

The third and the fourth statements describe mechanisms of selection, that is, forces that eliminate or amplify actually realized variations. Within organizations, processes of selection may be related to the survival of strategic initiatives (Burgelman and Mittman 1994) and administrative rules (March *et al.* 2000). At the population and community level, selection operates through processes of organizational mortality (Hannan and Freeman 1989) and possibly extinction of organizational forms (Ruef 2004).

Finally, the last two statements are about ways in which organizations retain successful variations by canalizing them into stable routines. Replication (Winter and Szulansky 2001), routinization (Nelson and Winter 1982), and learning (Cohenand Levinthal 1989; Greve 1998; Zollo and Winter 2002) are all examples of retention mechanisms operating at the organizational level. At the population and community level, particular features of organizational

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structures are retained and replicated through the proliferation of specific types of organizations (Swaminathan 1995) and through a variety of processes of imitation (Miner and Raghavan 1999) and population-level learning (Miner and Haunschild 1995). The stabilization of boundaries around organizational identities is another powerful process of retention.

Evolutionary approaches attempt to combine these various claims into hypotheses about change in the world of organizations. The view that evolutionary approaches are trying to articulate is of organizations as incomplete entities that acquire inputs from their environments and transform them into outputs through a set of interdependent operational and administrative routines (Nelson and Winter 1982). As this production process unfolds, organizations themselves are changed by the rich variety of competitive, institutional, and learning processes triggered by acts of physical transformation of inputs in outputs (Padgett *et al.* 2003). Understanding how, exactly, these processes interact to build and change institutional, industrial, and corporate structures is the main objective of evolutionary models.

Organizations and Other Organizations

The way in which patterns of resource availability change directly affects processes of variation, selection, and retention within and between organizations. The view of organizations as incomplete entities stressed by evolutionary approaches shifts the focus of attention from individual organizations to links between organizations and their environments, an insight that evolutionary theories share with other approaches to Inter-organizational relations (Aldrich and Whetten 1981; DiMaggio and Powell 1983; Mizruchi and Galaskiewicz 1993). Because environments of organizations are other organizations (Aldrich and Pfeffer 1976; Pfeffer and Salancik 1978; Pfeffer 1987), the link between organizations and their environments is basically synonymous with Inter-organizational relations. As a consequence of this conception of the environment, the identification of exactly what resources are relevant to any given organization cannot be made without reference to structures of local interaction that tie the reference organization to its ‘neighbours’ (Lomi and Larsen 1999, 2001; Robins *et al.* 2005). How are these neighbours chosen? Or, equivalently, what are the principles of ‘bonding’ that organizations follow to forge their own environment (Laumann and Marsden 1982)?

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To address these and related questions, it seems obvious that organizations should not be considered in isolation but as active members of larger sets of organizations. The problem is indeed how to define these larger sets that at the same time bound evolutionary processes and affect how they unfold to shape industrial and corporate structures over time (Doreian and Woodard 1999). Without pretending to offer an exhaustive classification, we can identify two very general orientations, or strategies, to resolve the problem of how organizations are linked to their environments and to other organizations. As we discuss below, these strategies have far-reaching implications for the ways in which we think about Inter-organizational relations.

The first strategy is based on the notion of organizational population. A population is a set of organizations that are characterized by similar external dependencies (Hannan and Freeman 1989). As Polos, Hannan, and Carroll clarify, 'the whole point of defining and identifying populations is to allow analysis of *local* social structures and the interactions they entail. A useful specification of a population should single out a set of entities that are expected to interact strongly both because they fall within the same system boundary and they share a common, highly-specific external identity' (Polos *et al.* 2002: 106, emphasis in the original). Examples of organizations that have been studied as members of populations include American Labor Unions (Hannan and Freeman 1989), American beer producers (Carroll and Swaminathan 2000), various types of financial institutions (Barron *et al.* 1994; Lomi 2000), international automobile manufacturers (Hannan *et al.* 1995), and semiconductor companies (Hannan and Freeman 1989).

An alternative strategy to define meaningful organizational aggregates allowing an analysis of local social structures and the interaction that they entail is based on the notion of Inter-organizational field. According to DiMaggio and Powell, members of organizational fields include organizations that jointly compose 'a recognized area of institutional life: key suppliers, resource and product consumers, regulatory agencies, and other organizations that produce similar services or products' (1983: 148). Examples of organizational fields that fit this definition include the US art museums studied by DiMaggio (1991), organizations that participate in the US biotechnology industry studied by Powell *et al.* (2005), Southern Italian producers of means of transportation studied by Lomi and Pattison (2006), and the college book publishers studied by Thornton (2004). Perhaps the best examples of 'Inter-organizational field' as defined by DiMaggio and Powell are 'civic arenas', Inter-organizational settings in which 'actors

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must forge some sort of common framework for communication and joint action' (Mische and Pattison 2000: 167). Clearly, samples collected and analysed with the idea of Inter-organizational field in mind tend to be more internally heterogeneous than samples selected to study organizational populations (Carroll and Hannan 2000). Hence, choice between populations and fields implies a different theoretical understanding of the sources of variation in processes of Inter-organizational evolution.

While not necessarily mutually exclusive, approaches based on organizational populations and Inter-organizational fields emphasize different aspects of the relation between organizations and their environments. Next, we turn our attention to an assessment of the research literature that has been inspired by these two broad approaches. While they remain clearly distinct, we believe that important elements of convergence towards a common set of themes will progressively become more visible.

Organizational Populations and Communities

One way to think in evolutionary terms about Inter-organizational relations is to consider individual organizations as members of a more general class of similar organizations—an organizational population (Hannan and Freeman 1977, 1989; Carroll and Hannan 2000). Relations then can be identified among organizations belonging to the same population or among organizations belonging to different populations. This latter case defines the community level of analysis (Freeman and Audia 2006).

Organizational populations are typically regarded as context-dependent manifestations of more general blueprints for organizing so-called 'organizational forms'. To what extent different organizations have the same form (and therefore belong to the same population) depends on structural features that they share (Hannan and Freeman 1984) and on the perceptions of external constituencies (or 'audiences') about expected lines of action (Hsu and Hannan 2005). Forms can be defined on the basis of a variety of elements including, but not limited to, common resource dependencies (Hannan and Freeman 1977), institutional or legal constraints (Barnett and Carroll 1993), similarity in network position (DiMaggio 1986; Burt and Talmud 1993), and identities coded in cultural rules (Polos *et al.* 2002), and are usually considered as the basis of the unitary character of organizational populations (McKelvey and Aldrich 1983; Ruef 2000).

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Research on the dynamics of organizational populations and communities has developed several models to explain how Inter-organizational relations affect organizational evolution (Carroll and Hannan 2000). Within this framework, the model of density-dependent organizational evolution represents perhaps the most prominent and best-documented example (Hannan 1986; Hannan and Freeman 1989; Hannan and Carroll 1992). The basic theory of density dependence argues that forces of social legitimation and competition drive changes in vital rates in organizational populations over time. Social legitimation is the process by which socialactors perceive and come to support a certain organizational form as a natural, taken-for-granted way to perform some kind of action (Meyer and Rowan 1977) and indicates the degree of social and institutional acceptance of a certain organizational form. Increasing legitimation implies that more resources are available in the organizational niche, defined as the environmental space in which the population's growth is non-negative. The number of organizations in a population controls the legitimation process. Increasing initial density enhances the legitimation of the form and therefore of the population that embodies the structural characteristics of such form. The organization's ability to mobilize financial and human resources increases when those who control resources take a given form as the default solution to perform certain activities. For this reason, this theory predicts that organizational founding rates are proportional to the level of constitutive legitimation (Carroll and Hannan 2000). In our opinion this argument reveals the implicit relational basis of processes of density dependence that most studies leave unspecified by considering legitimation as a diffuse process. More specifically, one could see the relational basis of density-dependent legitimation as a consequence of the fact that:

> Once the first organization of a particular type has been founded, its members, clients, customers, and staff become potential sources for the further diffusion of information about that organizational form. Presumably, such people are convinced of the usefulness of the organization of which they are a part … Therefore, it is reasonable to suppose that they might act as sources for the propagation of such attitudes, thereby boosting pragmatic, moral, and cognitive legitimacy.
>
> (Barron 1998: 216)

Because all organizations in a niche depend on common, limited resources, density also affects the intensity of competition existing among organizations. For new as well as existing organizations, the returns to

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legitimation decline as density continues to increase, since an environment can only support a limited number of organizations consuming the same limited resources. At high levels of density, additional entries lower life chances for members of the population. As was the case for legitimation, in ecological theories of organizations competition assumes a diffuse connotation (Hannan and Freeman 1977). Diffuse competition increases at increasing rates with density: as the number of organizations increases linearly, the possible competitive relations increase geometrically. As observed when discussing legitimation, considering competition exclusively as diffuse may tend to mask the relational character of competition as a process emerging from and inducing a variety of local configurations among subsets of organizations in a population (Burt 1992). Important steps in documenting and clarifying the local relational charter of competitive processes have been made in the study of organizational niche width and overlap (Baum and Singh 1994*a*, 1994*b*; Podolny *et al.* 1996), organizational positioning (Dobrev and Kim 2006), size-localized competition (Ranger-Moore *et al.* 1995), and in studies that have linked processes of resource partitioningto more general positional concepts such as that of strategic group (Carroll and Swaminathan 1992). While a systematic analysis of the multifaceted results produced by these various strands of research developed within ecological theories of organizations would distract us from the main purpose of this chapter, we are convinced that these studies well illustrate the considerable value of combining elements of the evolutionary approach with networks ideas for our understanding of the dynamics of Inter-organizational relations. In general, we can say that ecological studies that have examined the implications of network-based processes behind the formation of technological niches have significantly advanced our understanding of the relation between industry structure and technology (Podolny and Stuart 1995; Stuart 1998), which is arguably the defining concern of evolutionary economics (Nelson and Winter 1982; Winter 1984; Dosi *et al.* 1997).

We think that the connections between the micro-relational structure of organizational populations and the aggregate regularities that ecological models of organizations take as their point of departure are most clearly visible in studies that have analysed Inter-organizational roles and status ordering within and between organizational populations (Podolny 1993, 1994; Podolny and Stuart 1995). Studies of role-based Inter-organizational ecologies start from the observation of a variety of mechanisms of endogenous structuring that emerge from local processes of interaction (Podolny *et al.* 1996). For example, it is common for organizations to form

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alliances with other organizations, exchange directors and enter into a wide range of collaborative agreements (Baker and Faulkner 2002). These activities of Inter-organizational exchange give rise to complex local structures that induce internal partitions of organizational populations into classes of variable stability. As a consequence of this ‘classification’ process, differences emerge in reputation, status, and prominence among members of organizational populations (Stuart *et al.* 1999; Park and Podolny 2000). Once established, these differences feed back on exchange processes and tend to crystallize into enduring structures (Podolny 1993; Podolny and Stuart 1995). Stable population structures and correspondingly recognizable organizational identities emerge from these network-based processes of differentiation. In some cases, industries can develop structures with distinction between generalist and specialist organizations, while in other cases population structures take the extreme configuration of status, ordering, where organizations occupying higher status positions obtain greater recognition and rewards for performing a given task, while lower-status counterparts receive correspondingly less. In industries such as investment banking and wine production that are characterized by high uncertainty in the determination of quality, consumers tend to rely heavily on signals sent by producers' status, which may represent a relatively poor proxy for real product quality (Podolny 1993). Since high status organizations can produce signals of high quality at lower costs, the returns to high status contribute to reproduce a stable market order over a relatively long period of time. The implication of status differentiation for competition is clearlyillustrated in a study on the worldwide conductor industry (Podolny *et al.* 1996). From a definition of technological niches based on patent citation patterns, Podolny and his colleagues argue that organizational life chances improve with increasing organizational status, calculated as an aggregate deference vector of direct scientific citations from all other organizations. Unlike indirect connections that would reveal common technological antecedents, direct ties (citations) from organization A to organization B constitute an implicit acknowledgement of the importance of B's contribution. Therefore, robust position associated with high status in a market structure provides advantages. Yet, while the status effect is especially influential in sparsely crowded niches, it dissipates when crowding in the niche increases. In fact crowding, calculated as the sum of the overlaps in patent citations, reduces monotonically organizational life chances. These authors find support for these hypotheses of conditional status advantages in an examination of technological competition in the semiconductor industry between 1984 and 1991.

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Status effects generate benefits beyond the individual organization that has built a robust position in the market structure, a kind of ‘basking-in-reflected-glory’ effect (Cialdini *et al.* 1976). For example, the effect of high status extends to organizational affiliations. The position of actors represents a means to claim membership and acceptance in a social community, but also to gain access to resources that incumbents and claimants utilize to pursue their interests. While an obvious reason for structural interactions between interdependent actors has to do with access to resources or markets, this is not the only one. In a study of strategic alliances in the biotech industry, Stuart and his colleagues find that small and young firms obtain better access to capital when they develop strong relationships with prominent organizations, due to the higher reputation of the latter (Stuart *et al.* 1999). High status organizations transfer their reputation to lesser known partners, which in turn are more likely to obtain positive evaluation from external actors and improve their performance despite the lack of experience. This is because the affiliates' characteristics (in this case, high social prominence) provide a reference point for resolving uncertainty about the quality of a young or unknown organization. The more general implication is that actors' reputations and identities are constructed in part from the reputations and identities of their associates. In a related study on the semiconductor industry, Stuart (2000) finds additional evidence of asymmetric positive externalities based on status, with young and small firms benefiting more than old and large ones from their association with large and innovative partners. Concomitantly, his study demonstrates that the effects of status transfer depend on the features of both parties to the association, particularly their resource profiles.

Despite their considerable degree of internal heterogeneity, most of the contributions to the growing literature on the origins and consequences of localized structures within organizational populations hinge crucially on identification and analysis of Inter-organizational roles. Because the sociological notion of role can be reconstructed as a formal relational concept (White *et al.* 1976; Boorman and White1976) there is a clear connection between some of the contemporary studies of organizational populations, communities, and identities, and the analysis of Inter-organizational networks, fields, and role structures (DiMaggio and Powell 1983; DiMaggio 1986; White 1992). In the next section we review some of the evidence in favour of this claim.

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Inter-organizational Networks and Fields

As we have discussed, ecological perspectives on organizations have been progressively moving away from early conceptions of organizational populations as monolithic collective actors and are beginning to recognize the importance of local structures for the evolution of organizational populations. In studies of organizational populations, local Inter-organizational relations are typically reconstructed on the basis of 'pseudo-relations'—connections among nodes established by virtue of differences (or 'distance') in individual attributes such as organizational size or location (Baum and Mezias 1992; Dobrev and Carroll 2003).

However, the positions jointly occupied by organizations in a population (or 'organizational niches') may be represented not only in terms of attribute-based pseudo-relations, but also in terms of directly observable exchange relations (Burt 1992; Burt and Talmud 1993). DiMaggio (1986) has probably been the first to propose that organizational niches be defined in reference to patterns of observable exchange flows taking place within broader organizational fields. During the last twenty years this programmatic statement contributed to increase the interest in the analysis of networks between organizations. These networks are frequently interpreted as 'social' because they involve exchange across settings that are hard to reduce to any individual transaction (Fonti 2002). In other studies the social character of Inter-organizational networks derives from the fact that the relevant relational contents involve direct connections among individuals, or 'dual' relations between individuals and organizations (Breiger 1974, 2002; Breiger and Mohr 2004; Wezel *et al.* forthcoming).

Evolutionary theories of organizations are first and foremost theories of change (Nelson and Winter 1982; Hannan and Freeman 1984; Barnett and Carroll 1995). Studies of Inter-organizational networks have retained the strong static flavour that is typical of studies of intra-organizational relations inspired by network concepts and imagery (see also, Kenis and Oerlemans, Chapter 11, this volume). Analysis of social networks works best in well-bounded contexts, a characteristic that evolving Inter-organizational fields simply do not exhibit (Powell *et al.* 2005). While the needto study change in networks is now widely acknowledged (Doreian and Stokman 2003; Kilduff and Tsai 2003; Kim *et al.* 2006), studies of the network dynamics of Inter-organizational relations have remained rare, with most of the received research based on cross-sectional samples (Ebers 1997). The scarcity of studies that have addressed the dynamic of network change can be in part

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attributed to problems and costs related to the collection of high-quality longitudinal data on complete networks. A second limiting factor is the methodological difficulty of specifying (and estimating) statistical models for network dynamics and change. The relatively few studies based on longitudinal research designs have the important merit of framing processes of formation and change of Inter-organizational networks in explicitly dynamic terms (Gulati 1995; Madhavan *et al.* 1998; Stuart 1998; Gulati and Gargiulo 1999; Ahuja 2000; Owen-Smith and Powell 2004). These studies also share the limitations that are inherent to the independence assumptions that are typically imposed in the analysis of network dyads.

In general terms, it is probably fair to conclude that the development of an evolutionary approach to the study of Inter-organizational networks has remained insufficiently articulated. Studies based on cross-sectional samples face the insurmountable difficulty of discriminating the direction of the causal process. In other words, in a static framework is rarely clear whether observed network structures cause observed behaviour, or are caused by it. Our view is that this state of affairs is the consequence of the fact that the evolution of Inter-organizational networks unfolds through two strictly related processes. While studies of Inter-organizational networks have analysed only specific aspects of these processes, without appreciating their strong co-evolutionary character, research on intra-organizational networks seems to have made faster progress in the adoption of an explicit co-evolutionary framework (see Fonti *et al.* 2006 for an example).

The first is a process of selection that regulates the dynamics of attachment among organizations (Robins *et al.* 2001). Selection has to do with how actors structure their networks. This process of structuration may be more or less conscious (Leenders 1997) and requires the specification of what Laumann and Marsden (1982) called ‘principles of organizational bonding’ in their prescient article on network microstructure. Selection is affected both by characteristics of the actors as well as by endogenous, network-based, forces (Ebers 1997). Examples of selection processes based on characteristics of the actors include partner similarity, or homophily (McPherson *et al.* 2001) and functional complementarity (Ring and Van de Ven 1992). Examples of endogenous forces behind partner selection include transitivity, prominence, and reciprocity (Granovetter 1973; Oliver 1990; Burt 2005). The second is a process of influence that observed network structures exercise on the behaviour of individual organizations (Robins *et al.* 2001). Influence happens when an organization adapts its behaviour to that of its partners, learns from their experience, or emulates their strategies. Influence

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does not necessarily require direct interaction, as it may be induced by joint occupation of networkposition, such as in the case of structural equivalence (Burt 1987). Influence takes on a number of contextual forms: network influence effects might be detectable in measures of organizational performance or in the diffusion of particular types of organizational practices and strategies (Galaskiewicz and Burt 1991; Burt 1992; Uzzi 1996). A good example of 'network effect' on organizational performance is Ingram and Roberts's study of friendship relations among competitors in the Sydney hotel industry, where they estimate that 'each friendship with a competitor contributes approximately $268,000 to the annual revenue of a typical hotel' (2000: 417).

High-quality organizational research is available on each one of the sub-processes into which Inter-organizational network evolution can be decomposed. Inter-organizational partner selection is an extensively researched topic at least since the ground-breaking work of Pfeffer and Salancik (1978) on resource dependence. The studies of Powell, Koput, and Smith-Doerr (1996), Beckman, Haunschild, and Phillips (2004), Baum *et al.* (2005), and Rowley *et al.* (2005) provide more recent examples of research on partner selection. Endogenous network-based processes have been emphasized in studies of alliances where firms have been shown to repeat alliances with previous alliance partners (Gulati 1995) and studies of knowledge diffusion (Chang and Harrington 2005). Gerlach's monograph (1992) on Inter-organizational relations in Japan represents an extensive case study of selection based on individual characteristics of the partners. The topic of network influence on corporate behaviour has also been extensively researched (see also, Kenis and Oerlemans, Chapter 11, this volume). Examples include the effects of similarity in patterns of Inter-organizational endorsement on organizational performance (Stuart *et al.* 1999), the effect of embeddedness on organizational performance (Uzzi 1996), and the effects of network affiliation on a multitude of organizational outcomes such as performance (Lincoln *et al.* 1996), diffusion of corporate practices (Davis 1991), changes in governance structures (Davis and Greve 1997), and adoption of organizational forms (Palmer *et al.* 1993).

To the best of our knowledge, though, no studies of Inter-organizational relations are available that have specified processes of selection and processes of influence in the same model, discussing how network structures emerging from partner selection and behaviors deriving from network influence co-evolve. A notable exception is the study by Powell *et al.* (2005) on Inter-organizational relations in the life sciences. These authors specify

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statistical networks models for testing four alternative hypotheses about the principles of Inter-organizational attachment. The first principle is cumulative advantage—a sort of positive feedback in network ties. The second principle is homophily, according to which new partners are chosen on the basis of their similarity to network partners. The third principle is called ‘follow the trend’ and assumes that partner selection choices are driven by a sort of herdlike behaviour whereby organizations match their choice to the dominant choice of others. Finally, multiconnectivity implies that partner choice is driven by the main organizational goals to increase the reach and the diversity of Inter-organizationalnetworks. In our language, these mechanisms of Inter-organizational attachments represent alternative selection principles or principles of ‘organizational bonding’ (Laumann and Marsden 1982). Powell and his co-authors also explore the possible consequence of these principles for the choices and opportunities available to the members of the Inter-organizational field, or in our language, patterns of network influence. These authors find that ‘organizations with diverse portfolios of well connected collaborators are found in the most cohesive, central positions and have the largest hand in shaping the evolution of the field’ (Powell *et al.* 2005: 1187). They also find that that no single logic of attachment dominates over the course of the period covered by their study (1988–99).

Open Questions and Directions for Future Research

During the last quarter of a century, evolutionary interpretations have made available new concepts and solutions, but have also posed new theoretical questions and empirical challenges to students of organizations. As a consequence, virtually all the dominant theoretical paradigms that inspire contemporary organizational research can be viewed as confronting more or less explicitly problems that admit evolutionary explanations and have evolutionary implications (March 1994; Greve 2002; Nelson and Winter 2002; Aldrich and Ruef 2006). In the present commentary we have restricted the focus of our attention to the application of evolutionary ideas to the study of Inter-organizational relations. We have acknowledged only in passing the fact that evolutionary processes involve change across multiple levels of analysis. Yet, the Chinese box-like character of intra- and Inter-organizational hierarchies implies that evolutionary change is essentially a multi-level process: what happens at one level is difficult to understand without reference to what is happening simultaneously at lower and higher levels of aggregation (Breiger 2002). For this reason, many questions remain open about the appropriate level and unit of evolution in organizational

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research. For a general framing of these problems we refer interested readers to the recent discussions contained in Lomi and Larsen (1999), Baker and Faulkner (2002), Warglien (2002), Monge and Contractor (2003), and Aldrich and Ruef (2006). In the more general context of dynamic analysis of hierarchical structures, an important intellectual antecedent of these discussions is represented by the work of Simon on quasi-decomposable systems (Simon and Ando 1961; Simon 1962).

We started our broad commentary by drawing attention to the dynamics of boundaries of organizational populations and fields for understanding processes ofInter-organizational evolution (DiMaggio and Powell 1983; Hannan and Freeman 1986). Then we introduced the distinction between indirect and direct approaches to the evolution of Inter-organizational relations. These approaches are used to draw boundaries around sets of interdependent organizations and, while both useful, they are based on different assumptions about what are the most interesting Inter-organizational phenomena. Indirect approaches are mainly interested in an 'ecology of nodes' and interpret Inter-organizational relations as mediated by aggregate demographic variables (Hannan and Freeman 1989). Indirect approaches typically see the evolution of Inter-organizational relations as unfolding within organizational populations and communities. The main analytical advantage of indirect approaches is that they facilitate the specification of dynamic models of evolutionary change at the organizational and population level. In its original formulation, the main limitation of the indirect approach is that it assumes a high degree of homogeneity in the network structure of organizational population. Building on the insights of earlier network traditions (Boorman and White 1976; White *et al.* 1976), direct approaches concentrate on observable exchange flows among organizations in the context of broader fields (DiMaggio 1986; Powell *et al.* 2005). The main advantage of direct approaches is their ability to represent structural differentiation within an 'ecology of edges'. Their main limitation stands in the difficulty of providing a joint representation of mobility and classes, and in keeping track of change happening across the multiple levels of analysis that a relational perspective implies (Monge and Contractor 2003). The various chapters of the volume edited by Breiger (1990) collectively demonstrate the unitary character of this problem across apparently unrelated research settings.

While these two approaches appeal to different bodies of theory and remain clearly distinct, at times bordering on the mutually contentious, in our discussion we identified some elements of potential convergence. Studies of

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Inter-organizational relations inspired by the indirect ecological approach are beginning to incorporate network-based processes of internal differentiation within organizational populations. Conversely, studies of Inter-organizational relations inspired by direct network approaches are beginning to recognize the importance of framing issues of network formation and network influence jointly and in explicit dynamic terms. Important steps have already been taken in the direction of convergence. As evidence for this claim, we would add to the various studies that we have reviewed in this chapter the work of McPherson and colleagues on the dynamics of niche overlap in populations of voluntary organizations (McPherson 1983; McPherson and Ranger-Moore 1991; McPherson *et al.* 1992). Much work remains to be done. As we have discussed, we see progress in the evolutionary understanding of Inter-organizational relations as heavily dependent on our ability to develop, specify, and test statistical models for network dynamics (Doreian and Stokman 2003; Snijders 2005). The application of these models to the study of Inter-organizational relations is in its infancy. Available models are still of limited usefulness for the analysis ofsamples that are as large as those routinely analysed in contemporary empirical studies of organizational populations, communities, and fields.

At a more general conceptual level, one of the main issues still awaiting serious scrutiny within evolutionary theories of organization is related to the ambiguity of the distinction between organizational ‘genotypes’ and ‘phenotypes’. With their characteristic emphasis on behaviour, evolutionary theories of organizations tend to confound routines—structured repositories of information that regulate production activities and that are highly reproducible—and their behavioural expressions, which arise from the interaction of routines with the environment (Warglien 2002). In biophysics, the process linking ‘genotypes’ (routines in our terms) to ‘phenotypes’ (organizational forms or perhaps identities in our terms) is called development, and it plays a crucial role in the conversion of random mutation into systematic innovation (Fontana 2002). The evolutionary trajectories of organizational populations and fields simultaneously depend on and affect processes of organizational development (Malerba *et al.* 1999; Nelson and Sampat 2001; Lomi *et al.* 2005). Reaching a detailed understanding of the feedback structures that regulate processes of evolutionary development—or ‘evo-devo’—is a crucial task for contemporary evolutionary theories (Maynard-Smith *et al.* 1985; Gould 2002) and is perhaps the final test for the relevance of evolutionary interpretations to the study of Inter-organizational relations.

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Transaction Costs Perspectives on Inter-organizational Relations

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Abstract and Keywords

The goal of transaction cost theory (TCT) is to explain which institution will be chosen to govern a given economic interaction. Such interactions can take place within firms (intra-organizational relations) or between firms (inter-organizational relations, or IORs). The TCT literature has looked at IORs as governance mechanisms, i.e. as institutions charged with generating rents from interdependencies between individuals and between organizations. Generating such rents requires informing parties of their capabilities and needs, reducing bargaining, and enforcing the bargains reached. This article sketches the basic approach and assumptions which are subscribed to by all, or nearly all, TCT theorists. It presents a view on the determinants of the choice between different forms of IORs and contrasts them with those of Williamson. It also provides some examples of how TCT has been used to make sense of real world IORs.

transaction cost theory, intra-organizational relations, inter-organizational relations, governance mechanisms, organizations

Introduction

The goal of transaction cost theory (TCT) is to explain which institution will be chosen to govern a given economic interaction. Such interactions can take place within firms (intra-organizational relations) or between firms (Inter-organizational relations, or IORs). The TCT literature has looked at IORs as

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governance mechanisms, i.e. as institutions charged with generating rents from interdependencies between individuals and between organizations. Generating such rents requires informing parties of their capabilities and needs, reducing bargaining, and enforcing the bargains reached. By institution I mean the specific set of rules, formal and informal, that define the way these three tasks are achieved. Institutions areincredibly diverse. Those which handle intra-organizational relations range from small entrepreneurial firms to large bureaucratic ones; those which handle IORs can take the form of spot markets, long-term supply contracts, licensing contracts, franchising contracts, buy-back contracts, distribution contracts, production sharing, equity joint ventures, sharecropping, and so forth. However, as we will see, all these institutions can be understood as a mix of two basic organizing methods, the price system and hierarchy. For TCT scholars, the behaviour of agents in a focal IOR can be explained by their reaction to the set of incentives and constraints that result from the use of a particular mix of these two organizing methods in a given institution (Hennart 1993).

TCT is often viewed by outsiders as a homogeneous body of theory. This is not the case. TCT has a particular way of looking at the choice of economic institutions based on some explicit assumptions. While all transaction costs theorists subscribe to these assumptions, there are substantial differences between TCT scholars in the way they model how organizing methods work, and in how they describe, categorize, and explain the wide variety of institutional forms used to organize IORs.

Given page constraints, I cannot do justice to the considerable literature that has appeared on this topic. I will therefore limit myself to describing and contrasting two approaches that have been taken by transaction cost theorists to explain the choice of institution chosen to organize a particular IOR, that of Oliver Williamson (e.g. 1975, 1985, 1991, 1999) and my own (e.g. Hennart 1977, 1982, 1986, 1993, 2000, 2001). As will become clear, the substantial differences between the two versions raise some interesting issues.

The first section will sketch the basic approach and assumptions which are subscribed to by all, or nearly all, TCT theorists. I will then present my own view on the determinants of the choice between different forms of IORs and contrast them with those of Williamson. The third section will provide some examples of how TCT has been used to make sense of real world IORs. This will be followed by our conclusions.

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TCT Building Blocks

General Considerations

In any society, there are potential gains from exchange and pooling. Exchange harnesses the power of comparative advantage and allows individuals to concentrate on what they can do most efficiently while pooling allows them to reach a scale of production that they could not reach by themselves. We can call these potentialopportunities ‘interdependencies’ and ‘rents’ the potential gains of capitalizing on these interdependencies.

One takes advantage of interdependencies through transactions and the transaction is the basic unit of analysis in TCT. Because transactions vary in their dimensions, this implies that at any point in time a particular firm may organize some of its transactions using a given institution and others using another one, for example it can make some components, i.e. organize the transaction through an intra-organizational relationship, and buy others through an IOR. Likewise, a firm may organize a transaction internally at time t and through an IOR at time $t + 1$. Note that TCT does not ignore the possibility that a specific transaction will be influenced by earlier ones. Indeed this is typically modelled in many TCT studies of international modes of entry by explaining the mode of entry chosen for a particular transaction by a variable measuring past entries into the focal country (e.g. Gatignon and Anderson 1988; Hennart 1991).

Transactions can take many forms. Agents can sell the physical products incorporating their capabilities or they can sometimes rent their capabilities either through the markets for property rights in intangibles or through the rental of their personal services, and either as contractors or as employees. In all cases exchange takes place through transactions. In this chapter, we only deal with transactions between separate legal entities, i.e. IORs, and hence will not deal explicitly with intra-organizational relations, although constant reference will be made to the latter, since a fundamental insight of TCT is that the first category of transactions cannot be understood without reference to the second.

To yield rents, transactions must be organized. This means that a way must be found to let parties know about the existence of potential gains (the information problem), to avoid excessive bargaining over the distribution of the gains (the bargaining problem), and to enforce the terms of the bargain (the enforcement problem). In contrast to neoclassical economics,

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TCT recognizes that performing these tasks incurs positive ‘transaction costs’ (Hennart 1982).

Neoclassical economics implicitly assumes transaction cost to be zero, and hence that all potential interdependencies will be exploited, i.e. that all potential externalities will be internalized. In contrast, TCT realizes that interdependencies will only be organized if the gains from exchanging and pooling capabilities are greater than the costs of doing so. Hence, at any point in time some potential rents will not be extracted from interdependencies because of the inability of the parties to organize transactions at a cost that is lower than the expected rents (Demsetz 1967; Hennart 1982).

I call economic institutions the complex set of rules and customs that mankind has developed to extract rents from interdependencies (from now on, I will use the term ‘institutions’ to mean ‘economic institutions’). Institutions, such as markets and firms, do not fall like manna from heaven, but are the result of many years— sometimes centuries—of investment in crafting and refining their specific rulesand customs and the environment that sustains them, such as generalized morality, professional associations, the court system, and so forth (North 1990). TCT can be seen as the branch of the social sciences that focuses on the comparative advantage that different institutions have in organizing different transactions.

TCT theorists assume that agents can be expected to choose the institution that most efficiently organizes a particular transaction. In what Williamson (1991: 277) has called ‘the discriminating alignment hypothesis’, the assumption is that agents will match institutions with transaction characteristics in order to maximize the rents that can be obtained from organizing that transaction. Hence at any point of time, barring external constraints such as government barriers to their free choice, the institutions chosen will be, by and large, the ones that are most efficient at organizing a particular transaction, although some transactions may continue to be organized by inefficient institutions for certain periods of time (Williamson 1975). Inversely, the predictive ability of TCT will be weaker whenever individuals face restrictions on their choice of institutions.

Note that contrary to what has sometimes been asserted (Zajac and Olsen 1993), agents do not unilaterally try to minimize transaction costs. The choice of institution is the result of the *ex ante* joint maximization of prospective rents by parties to a transaction (although their *ex post* distribution may diverge from the *ex ante* agreement). For agents to

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voluntarily agree to the terms of a particular transaction, they must all find it in their interest. Hence there is nothing in TCT that says that the institution chosen will be the one that maximizes the gains from one party only.

Behavioural Assumptions

TCT is quite explicit in its assumption about human nature. The theory argues that two basic attributes of human nature are bounded rationality and opportunism.

Williamson (1975) has argued that bounded rationality means that human agents are, in the words of Simon (1957), ‘intendedly rational, but only limitedly so’. Agents seek to anticipate and protect themselves against potential problems, but, because of bounded rationality, they will be unable to do it fully because they will fail to fully understand present states of the world and to perfectly anticipate future ones.

Opportunism means that all agents cannot be expected to always live up to their promises. The assumption is not that all agents are dishonest, but that it is difficult to predict *ex ante* whether they are honest or dishonest. The level of opportunism is not a given, and can be expected to vary depending on the strength of legal and social control that characterizes the environment of the transaction.

Bounded rationality and opportunism jointly give rise to transaction costs. If agents were not subject to bounded rationality they would be able to distinguish *ex ante* between honest and dishonest traders, and would devise institutions that fully anticipate all possible consequences. Agents would also know the specific terms thatmaximize their joint gains. Absent opportunism, bounded rationality would not be a problem, since parties would willingly abstain from taking advantage of the inability of their transacting partners to protect themselves and to anticipate all contingencies. Without opportunism, promises would be honoured without a need for safeguards. Hence, with no opportunism and full rationality the problem of institutional choice becomes moot.

A third assumption of TCT is risk neutrality. In contrast to agency theory, which assumes that agents will tend to be more risk adverse than principals, no such assumption is made in TCT (Williamson 1988).

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Hennart's Version of TCT

The basic idea of TCT is that different institutions will usually differ in the level of rents they can generate from a given transaction. The explanations as to why this is the case vary substantially between the different strains of TCT. I will first expound my own version and then contrast it with that of Williamson.

My starting point is the distinction between institutions, which are actual forms taken by the set of rules that govern interactions, and organizing methods. Institutions, for example spot markets, contracts, firms, can be seen as using a combination of two organizing methods, the price system and hierarchy. These two methods use a fundamentally different way to solve the three basic tasks of informing parties, reducing bargaining, and enforcing the terms of the bargain, and hence generate different levels of rent for a particular transaction. Because different institutions use different mixes of these two basic organizing methods, they also achieve different levels of rent for a given transaction. For example, and as seen below, the price system enforces transactions by rewarding outputs. This organizing method will be inefficient if the output of the parties to the IOR is costly to measure. In that case an IOR which is governed by an institution that mostly relies on the price system, for example spot markets, will be relatively inefficient. An institution that relies less on control of output and more on control of behaviour, for example a long-term supply contract, would then be more efficient. Hence to understand institutions one must start with a thorough understanding of how each of these two basic organizing methods, the price system and hierarchy, informs parties, enforces transactions, and reduces bargaining. The following summarizes the argument developed in Hennart (1982).

To inform parties of the existence of interdependencies and of the potential rents from organizing them, the price system uses a decentralized information structure where actors collect by themselves the information they need. That information is provided by prices. Hence the price system is efficient whenever prices provide the necessary information to guide mutually beneficial action, i.e. when they are ‘sufficient statistics’. This occurs when competition between sellers and buyers revealsfull information and when the transacted good is easy to measure. In that case the price system has the great advantage of having the user of information directly responsible for its collection, hence assuring optimal motivation for information collection and no loss through its transfer.

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Prices enforce transactions by rewarding agents in proportion to their market-measured output. The price system will therefore be efficient when output is relatively easy to measure in all of its relevant dimensions. When this is not the case, it will be possible for agents to overcharge the buyer on the dimensions of the transaction that are difficult to measure, what I have called ‘cheating’ (Hennart 1993).

Lastly, the price system solves the bargaining problem through exogenous prices. When there are many buyers and sellers, such prices will impose themselves on traders and make bargaining useless.

The term ‘hierarchy’ is used here to denote a specific organizing method, not the managers who are implementing it. Hierarchy, as an organizing method, uses different recipes than the price system to perform the three tasks that are necessary to organize interdependencies; it solves the information problem by centralizing information, the bargaining problem through fiat, and the enforcement problem through behaviour constraints. Hierarchy makes use of a centralized information structure in which employees are asked to collect a subset of the information necessary to make decisions and to forward it to a central coordinator, the boss, who processes it and sends back directives to employees for execution. This system of specialization in information gathering is efficient if the information needed is too complex for any individual actor to collect it in its entirety. However, centralizing information is subject to a number of limitations: (1) those collecting information are no longer those using it, so incentives for diligent and accurate information collection are weakened; (2) actors on the spot may have access to better information than the boss, but this may not be known by the latter, thus resulting in directives that fail to incorporate all information available (Hayek 1945); (3) because information is transferred up and down the chain of command, it is vulnerable to wilful or accidental information distortion; (4) the system is vulnerable to the boss's information overload. Decentralization is a possible solution to these problems, but it recreates the problem hierarchy had tried to solve, that of the failure of agents to autonomously reach a coordinated response given insufficient information, i.e. suboptimization (Williamson 1975; Hennart 1982).

The second task of any organizing method is enforcement. While the price system rewards actors based on their measured output, hierarchy does so based on their behaviour. Enforcing appropriate behaviour can be done through external directives, i.e. personal supervision or bureaucratic rules, or through internalized constraints, such as indoctrination or socialization,

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what Ouchi (1979) has called the ‘clan’ solution. Whenever output is difficult to measure, but it is easy to control the behaviour of individuals and to obtain from that a given performance, hierarchywill have an advantage. If external monitoring is chosen, and observation of behaviour is costly, for example due to geographical or cultural distance, or because of a weak correlation between observed behaviour and performance, agents will be able to get away with performance that comes short of the letter or the spirit of their employment contract, a behaviour I have called ‘shirking’ (Hennart 1993). Note that shirking does not necessarily mean loafing. Rather it is best defined as the difference between how employees act and how they would act if they were self-employed.

Rewarding behaviour rather than output makes employees relatively less concerned about having the boss direct their actions. This is because their pay as employees now depends on doing as told, and no longer on their output. Hence they are more likely than independent agents to accept the authority of employers in allocating tasks. That authority, the boss's fiat, can therefore be used to reduce bargaining over the assignment of tasks. Note, however, that fiat can only be used in firms for the internal allocation of tasks; it cannot be used for the procurement of inputs, including human resources.

TCT theorists believe that each organizing method has a specific effect on the behaviour of agents. For example, consider interdependencies between manufacturers and salespeople. They can be organized through the price system or through hierarchy, or through a mix of both. If the price system is used, salespeople will be paid entirely as a function of their output, i.e. by how much they sell. Their pay will consist entirely of commissions and their legal status will be one of independent contractor. As independent contractors, they will have full freedom to decide on their schedule, selling method, and other aspects of their selling strategy. Leaving them free to make decisions on these matters will be advantageous if they are more knowledgeable on these matters than manufacturers. Paying commissions linked to sales is also likely to elicit strong sales effort. The specific behaviour we can expect is more easily seen when contrasted with salespeople who are paid a straight salary. Such salespeople will be less motivated to close sales and less inclined to use their personal knowledge and ideas since their remuneration will be less affected by it. On the other hand, because their output is relatively independent of performance, it will be easier to assign them to important but initially less profitable customers that commission-paid salespeople may refuse to service.

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From Organizing Methods to Institutions

Given the above, why would it pay to replace a transaction organized by prices with one organized by hierarchy? Let us, to keep things simple, concentrate on enforcement costs, neglecting information and bargaining costs for the time being. As we have seen, the price system rewards agents for maximizing their output at market prices. Given opportunism, it is likely that some agents will take advantageof the fact that measurement is costly to undersupply those positive dimensions of output which are difficult to measure and to oversupply the negative ones. Given bounded rationality, perfect enforcement of transactions is impossible and it will rarely pay to measure output perfectly. Hence buyers will invest in measurement up to the point where the additional gains from additional measurement effort are equal to their costs. The total cost of enforcing a transaction using the price system (total cheating costs) is thus the cost of measuring output plus the residual amount of cheating that will remain due to imperfect measurement. The more difficult it is to measure output in all of its significant dimensions, the higher these cheating costs.

Switching to hierarchy may reduce total enforcement costs because hierarchy rewards agents for doing as told. Hence agents, who are no longer being rewarded through their output but instead through their obedience to managerial directives, have fewer incentives to maximize output, and hence to cheat buyers. The use of hierarchy to organize a transaction saves on the need to specify *ex ante* the specific characteristics and price of the product and to measure them *ex post*. However one unavoidable side-effect is that the incentives that agents have to maximize output are reduced as well because their pay is no longer directly proportional to their output measured at market prices, but instead depends on their obedience to managerial directives. As long as enforcing a given behaviour on agents is costly, because socialization and/or monitoring are costly, they may indulge in shirking. It generally will not pay for bosses to fully monitor or socialize their employees, so we may expect some residual amount of shirking. The total costs of enforcing a transaction through hierarchy (total shirking costs) is therefore the sum of expenditures undertaken to monitor and/or socialize the behaviour of employees and of the residual amount of shirking that will unavoidably remain.

If a switch from the price system to hierarchy results in excessive shirking costs, then one can switch back to the price system. Agents, who are now rewarded for their output, and no longer for obeying their bosses' orders,

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will exert more effort. For example, salespeople paid through commissions will generate more sales than those paid a fixed salary. However they will be tempted to do this at the expense of other aspects of their performance which are difficult to measure. Hence they will be more likely to sell unneeded features and less likely to provide after-sales service (Anderson and Oliver 1987); in other words they are more likely to cheat. A switch to commission payment will be warranted when the additional costs of having salespeople cheat customers plus that of the additional record-keeping needed for commission payments are less than the benefit of obtaining higher sales. Note that this example shows clearly that TCT is not about minimizing transaction costs, as has been asserted by Zajac and Olsen (1993), but instead about maximizing the rents that accrue from organizing the transaction, since in this case paying salespeople through commission will be preferred to paying them a fixed salary in spite of the fact that a commission system is more costly to set up.

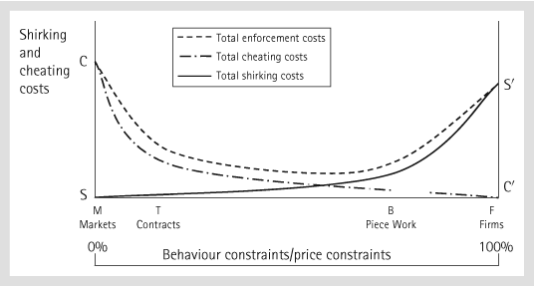

Fig. 13.1 Organizing tools and institutions

Source: Adapted from Hennart (1993).

Figure 13.1, adapted from Hennart (1993), shows how enforcement costs determine the choice of institution for a particular transaction. Institutions are arrayed on the x-axis, which measures the ratio of behaviour constraints to price constraints. Total enforcement costs for a particular transaction are the sum of total shirking (SS′) and total cheating costs (CC′). The institution chosen is that which has, for a given transaction, the mix of organizing methods which results in the lowest sum of cheating and shirking costs (the lowest total enforcement costs). The level and slope of the total cheating CC′ and total shirking costs SS′ curves reflects how effective or ineffective each of these organizing methods is at reducing enforcement costs. Hence a sharp decline in the CC′ curve accompanied by a modest rise in the SS′ curve as one moves to the right suggests that adding some behavioural rules to

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price constraints, while it lowers incentives somewhat, reduces substantially the ability of agents to cheat, and hence has a positive impact on total enforcement costs. The non-linearity of the CC′ and SS′ curves reflects the assumption that each organizing method experiences diminishing returns as it is applied more intensively, a point raised by Ghoshal and Moran (1996), though with the erroneous conclusion that it invalidates TCT One implication of this assumption is that for most transactions the optimal institution will be one that uses a mix of price and behaviour constraints, an observation that seems consistent with reality (Perrow 1986).

Point M corresponds to the economist's view of pure markets, i.e. full output constraints and zero behaviour constraints (in fact, even actors in so-called pure markets are subject to some behavior constraints—for example the good purchased must be handed over even if payment has already been received). At point M, agents are fully rewarded based on their output, and hence shirking costs are zerowhile cheating costs are at their highest. This corresponds to market transactions at exogenously determined market prices and on standard terms where the identity of the parties is irrelevant. A move to the right of M corresponds to an increase in behaviour constraints. This lowers the level of cheating costs as defined above (the CC′ curve slopes downward) and increases that of shirking costs (the SS′ curve slopes upward). Point F corresponds to purely hierarchical organizations (e.g. the Army) characterized by full behaviour constraints (and hence maximum shirking costs) and zero price constraints (and hence zero cheating costs).

Between these two extremes are institutions that use a more even mix of price and behaviour constraints, for instance formal or relational contracts, or firms in which a substantial share of the pay of employees is determined by their output at market prices, i.e. through commissions or piece work.

Point T corresponds to formal contracts. Contracts are market transactions in which the transactors willingly bind themselves to specific behaviour towards each other and specify the compensation to be paid in case of breach, relying on third parties, typically the courts and private arbitrators, to determine whether a violation has occurred, to adjudicate compensation, and to enforce its payment. Examples are long-term supply contracts, such as those used in the mineral industries (Stuckey 1983; Joskow 1988). These contracts can run for as long as thirty years, and typically specify the quantity, quality, and price of the products to be delivered, sometimes with sophisticated price adjustment mechanisms. Contracts are also used in many other settings. Loan contracts typically feature a series of promises, named

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covenants, made by borrowers to lenders (Jensen and Meckling 1976). As a condition for getting the loan, borrowers typically agree to limits to their ability to change the management of the firm, to obtain additional loans, and to pay themselves dividends without prior lender approval. Similarly, licensing contracts usually include specific promises made by licensees that, *inter alia*, limit their ability to export the product manufactured under licence (Caves *et al.* 1983).

Formal contracts arise when full reliance on the price system would generate excessive cheating costs. Take the case of alumina. Alumina refineries are most efficient if their facilities are tailored to a specific type of bauxite. Hence, once built, a plant has to rely on a specific bauxite source and its owner, having only a single possible source of bauxite and a plant that needs to be amortized, can be held up by the mine owner. One solution to this problem is to draw a contract by which mine owners promise that they will supply a given bauxite quantity of a given quality at a given price for a given period of time, and pay compensation if they fail to keep their promises (Stuckey 1983). Formal contracts can be said to consist of a mix of price and behaviour constraints because bauxite sellers are governed by price constraints insofar as their income depends on bauxite sales, but they are also subject to contractual behaviour constraints that force them to supply bauxite of a given quality at a given price at a given time.

Another example is franchising contracts by which independent entrepreneurs (franchisees) rent the reputation accumulated by others in exchange for a royalty. One potential problem with renting reputation on the market is that because the remuneration of franchisees comes from the sale of the products bearing the rented trademark, they have an interest in lowering the cost of the products sold, pushing their quality below the standard promised by the brand. The greater the fraction of non-repeat customers, the more a franchisee who lowers quality can shift the cost of this free-riding unto others, and the greater the threat posed by such behaviour on the viability of the franchise chain (Brickly and Dark 1987). A purely market solution would be one where the quality of the products supplied by each franchisee would be instantly evaluated by the franchisor and the royalty charged franchisees immediately adjusted to reflect the sum of the marginal losses inflicted on all sharing the trademark. The high cost of detecting variations in quality and of measuring their impact on the goodwill capital of the chain makes this solution prohibitively costly. Instead a contractual solution, by which franchisors and franchisees agree to

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follow certain procedures, will be cheaper. These promises are enforced by unannounced inspections by franchisors and sanctioned by the possible loss of the franchise. Hence formal contracts make use of behaviour constraints to palliate cheating, the deleterious by-product of price constraints.

Formal contracts suffer, however, from a number of limitations: (1) because they rely on outside enforcement, the parties are never sure that they can prove breach, and that they will receive the desired compensation; (2) contracts require parties to specify *ex ante* all potential contingencies and the desired adaptations to them. As we show below, this becomes increasingly difficult the greater the level of non-indexable uncertainty and the longer the contract duration. Yet leaving formal contracts incomplete or opting for shorter ones is not a solution since it exposes parties to their partners' opportunism (Williamson 1975); (3) the more contracts constrain behaviour, the more they lower the incentives to maximize output, and hence the more they encourage shirking.

As we move right from T, we reach institutions in which the ratio of behaviour to output control is large enough for the relationship to be characterized as an employment contract. These institutions are legally firms, but, in contrast to firms at F, they make significant use of price incentives. An example would be small research and development (R&D) firms (Zenger 1994), or firms paying their workers through piece work (point B).

To sum up, one must distinguish between organizing methods, the price system and hierarchy, and institutions. From a legal point of view actors fall into two categories: self-employed or employees. Self-employed individuals are primarily rewarded through their output and transact through IORs, while employees are rewarded through their behaviour and interact within the firm. Within each legalcategory, firm and market, there are, however, substantial differences in the mix of price and behaviour constraints used, and hence a variety of institutions. Formal contracts, therefore, are not a third discrete organizing method, as in Williamson (1991), but rather a type of market transaction with a relatively heavy use of behaviour constraints.

Equity Joint Ventures (EJVs)

The preceding discussion throws light on other issues such as (1) how does TCT apply to equity joint ventures; (2) are networks a third type of organizing method in addition to the price system and hierarchy; and (3) where do alliances fit?

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Equity joint ventures (EJVs) occur when two or more parents organize their interdependencies through the common ownership of an entity (see also Dacin *et al.*, Chapter 4, this volume). Thus they are a type of IOR. Contrary to what is sometimes argued (Oxley 1997), EJVs are not hybrid types of organization, since actors in EJVs are not subject, like franchisees, to a mix of output and behaviour constraints. Instead they are direct or indirect employees of the EJV parents, that is, they are employees of the parents seconded to the EJV or employees of the EJV itself, a firm controlled by the parents. Hence EJVs are not hybrids, but the result of the simultaneous imposition of behaviour constraints by two or more separate firms, i.e. they arise from a joint hierarchical relationship.

Like all IOR, EJVs are arrangements to combine the services of assets owned by two or more parties. But they do it in a particular way. There are two types of EJVs, scale EJVs and link EJVs (Hennart 1988*a*). For ease of exposition, I will focus on link EJVs. Consider the case of a firm which wants to exploit its tacit technological advantages in a foreign country with which it is unfamiliar. Likewise, there might be a local firm in that foreign country which knows well the local environment and could profitably exploit the tacit knowledge held by the foreign firm. The combination of these two types of knowledge which is necessary for success can be achieved through contracts by which the local firm signs a licensing agreement with the foreign firm or the foreign firm obtains through a licence the tacit local knowledge held by the local firm, or through an EJV between the foreign and the local firms. In licensing contracts, the licensor gets paid based on the terms of a contract signed at the beginning of the transaction. This requires the local firm to carefully evaluate *ex ante* the value of the foreign technology in its country, or the foreign firm to carefully assess how well the local firm knows the local environment. Moreover, the foreign firm will have to guard against the local firm using the licensed technology to compete with it either during the licensing contract or at its expiration. These transaction costs are likely to be high if measurement and enforcement costs are high, for example if the technology is tacit and not protected by patents.

The EJV solution consists in pooling tacit local knowledge and tacit technological know-how into an institution owned by both input suppliers and in having the two firms remunerated not from selling the knowledge to each other but from a share of the profits of the commonly owned venture. This solution has two main advantages. First, it makes it unnecessary to define and measure *ex ante* the inputs contributed to a venture. This is

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efficient whenever the specific characteristics of the needed inputs are difficult to define *ex ante*. Second, EJV agreements are easier than formal contracts to renegotiate in response to unforeseen contingencies since they do not feature exhaustive *ex ante* agreement on the specific inputs to be contributed by each party to the venture. EJVs will thus be efficient when the markets for complementary inputs held by at least two separate owners are characterized by high transaction costs (Hennart 1988*a*).

Note that the above is a necessary, but not a sufficient condition for EJVs. There are two other ways to combine inputs which are difficult to exchange on the market. One of them is for the firms to develop them internally. This is less desirable whenever the assets sought are characterized by high fixed and low marginal costs, as in the case of knowledge. The second solution is for one firm to acquire the other, or for both to merge. This last solution will be less efficient than an EJV if the assets desired make up a small and inseparable part of the total assets held by each partner, i.e. when they are 'indigestible' (Hennart and Reddy 1997).

Note also that for Hennart (1988*a*, 1991) an EJV is any governance form where two parties get rewarded from the profits of a venture which they co-manage. This means that partial acquisitions, as well as new legal entities co-owned by two or more firms, qualify as EJVs. This is in contrast to many authors who argue that the term EJV should be reserved to 'new legal entities that are created separately from but jointly owned by the partner firms' (Das and Teng 2002: 453; see also Oxley 1997: 390). From the point of view of the analysis above, it makes no difference as to whether the EJV is a new, separate entity or whether it exists within an existing firm, since what matters is the specific way by which the contribution of the partners are being rewarded: whenever contributing partners are not paid *ex ante* but instead *ex post* from a share of the joint profits, we have an EJV.

The weaknesses of EJVs as coordination mechanisms derive directly from their advantages: (1) Because in EJVs parent firms are rewarded *ex post* from a share of the profits from the EJV, they will want to impose behavioural constraints on the managers of the EJV, i.e. they will want to share in its management. This implies that divergence of goals between parents may cause problems; (2) EJVs solve the problem of difficult-to-measure inputs by replacing *ex ante* contracts for their supply by *ex post* sharing of the residual. Since EJVs are used when inputs are difficult to describe precisely *ex ante*, the contribution of the parents to the EJV will often remain vague, and this makes it possible for EJV parents to come short on their obligations,

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in other words to free ride; (3) Lastly, because EJVs typically poolinputs with weak property rights, it becomes possible for EJV parents to transfer them to their wholly owned operations so as to compete with each other and/or with the EJV, what has been called the spillover problem. These potential problems can be alleviated by appropriate design of the EJV structure, broadly defined, and by careful choice of partners (Hennart and Zeng 2005).

As Zajac and Olsen (1993) have noted, TCT does not provide an explanation of the process by which EJVs evolve. It seeks to explain the conditions under which EJVs should be preferred to their alternatives, such as full ownership (Pisano 1990; Hennart 1991). It can also be used to predict EJV contract renegotiation (Reuer and Arino 2002) and EJV survival, but it is silent on the process by which EJVs evolve. In many cases, however, detailed investigations of the complex process of EJV evolution are unnecessary, as the initial structure of an EJV goes a long way towards explaining its survival (Hennart 2006).

Alliances

There is a considerable literature that has considered ‘alliances’ as their unit of analysis (see also Dacin *et al.*, Chapter 4, this volume). The term ‘alliance’ is supposed to cover ‘several governance modalities ranging from relational contracting, to licensing, to logistical supply-chain relationships, to equity joint ventures’ (Contractor and Lorange 2002). If one agrees with the analysis above, then the category ‘alliance’ is not very helpful, as it lumps together two very different institutions, EJVs, which are joint hierarchy, and formal contracts. Such lumping is unhelpful because EJVs and contracts have different applications and efficiency properties. Licensing contracts and EJVs, for example, have been shown to transfer different types of knowledge (Davies 1977).

Networks

Some authors (e.g. Thorelli 1986; Powell 1990) have argued that networks constitute a third distinctive organizing method. Networks, however, are not an organizing method nor an institution, but rather a characteristic of both firms and markets (see also Kenis and Oerlemans, Chapter 11, this volume). Economic agents may belong to both intra-firm and extra-firm (market) networks, but the activity of agents in these networks is coordinated either mainly through output constraints, as in the case of market networks such as subcontracting (Eccles 1981), or mainly through behaviour constraints, as

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in the case of internal networks, or through a mix of both, as in the case of franchising and in that of vertical structures in agriculture (Menard 1996) and manufacturing (Dyer 1996).

Williamson's Version of Transaction Cost Theory

The version of TCT presented by Williamson differs in significant ways from that of Hennart described above. I will first briefly summarize the crux of Williamson's theory of the choice of governance structure and then the main differences between the two versions.

Williamson's Model

For Williamson (1991), there are three alternative governance structures, the market, hybrids, and hierarchy, with hybrids consisting of contracts and equity joint ventures. Market transactions are governed by classical contract law. In markets the identity of the parties is irrelevant and transactions are governed by formal terms that are enforced in legalistic ways. The identity of the parties is more important in hybrid forms of governance which are supported by the more adaptive neoclassical contract law. This form of governance is characterized by mutual adaptation and greater flexibility than in the case of markets and there is greater recourse to arbitration, a more flexible form of conflict resolution. Hierarchy has even greater adaptive properties because it can resolve conflicts through fiat.

These three Williamsonian governance structures, the market, hybrids, and hierarchy, have to be aligned with the characteristics of transactions which for Williamson are asset specificity, uncertainty, and frequency. Asset specificity is high when it is costly *ex post* to redeploy to alternative uses the assets supporting the transaction. Asset specificity is thus a particular case of small-number conditions. High asset specificity increases switching costs and makes it possible for the more flexible party to exploit the less flexible one. This will push transactions with medium asset specificity towards hybrids, because hybrids provide added contractual safeguards and dispute resolution mechanisms, and those with high asset specificity towards firm governance because firms, although they are subject to added bureaucratic costs, are also more adaptive as they can make use of fiat. Williamson thus predicts that, *ceteris paribus*, transactions with low asset specificity will be handled by markets, those with intermediate asset specificity by hybrids, and those with high asset specificity in firms.

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The second dimension of transactions is uncertainty. Uncertainty does not matter when asset specificity is low, since parties can then accommodate unexpected changes in the environment by switching partners. In situations of high asset specificity, however, there are benefits to continuing the transaction and hence hybrid governance is preferred as it facilitates adaptation. However such adaptation cannot be made unilaterally as in market governance, nor by fiat, as in firms. Hence firmgovernance is preferred whenever asset specificity and uncertainty are both high and market governance when asset specificity is low and uncertainty high.

The third dimension is frequency. In contrast to markets, the cost of setting up hybrids and firms is borne by transactors. This is only likely to be economical for recurring transactions.

Putting it all together, Williamson argues that firms are preferred to markets and hybrids in situations of very high asset specificity and uncertainty, and markets to hybrids in situation of low asset specificity and high uncertainty, with hybrids optimal when both asset specificity and uncertainty are at intermediate levels (Williamson 1991).

Differences between Williamson and Hennart

This short summary points to three main differences between Williamson and Hen-nart. The first concerns the nature of hybrids. Williamson differentiates between markets, hybrids, and firms, but does not distinguish between organizing methods and institutions. Hence he tends to see these three forms as discrete alternatives, while Hennart only recognizes two main types of institutions, markets and firms, but allows for variations within each type; for example, within market institutions, contracts are characterized by a greater use of behaviour constraints than spot markets. The absence of distinction between organizing methods (the price system and hierarchy) and institutions (markets and firms) may be the cause of the present confusion as to what is meant by firms and markets (Menard 1995; Hodgson 2002). A number of authors have argued that the terms ‘firms’ and ‘markets’ are no longer relevant as the boundaries of the firm are increasingly blurred (Eccles 1981). In fact, the legal boundaries between firms and markets have been and remain very clear: an employee is someone who agrees to do as told in exchange for a salary that is for the most part independent of her output evaluated at market prices while a contractor is someone who has full authority to decide which actions must be taken to generate output and is remunerated on that basis (Masten 1988). There are no pure ‘internal

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markets' within firms because employees are never totally rewarded on the basis of their output (Hennart 1986). While it is true, as we have seen, that some IORs feature the imposition of significant behaviour constraints, they do not constitute 'quasi-firms' as argued by Eccles (1981) because the pay of participants in these arrangements is still principally determined by their market output and they have the right to decide which transaction to undertake. But while there is a fairly clear legal difference between contractor and employee, and hence between market and firm, there are in fact substantial differences in the mix of organizing methods within markets and firms, with, for example, behaviour constraints playing a more important role in contracts than in spot market transactions.

Williamson and Hennart also disagree as to when hybrids should be chosen. For Williamson, hybrids are efficient when both asset specificity and uncertainty are at intermediate levels. For Hennart, hybrids should be used whenever cheating costs are not high enough to warrant full behaviour constraints and shirking costs are not high enough to justify full output constraints, while markets are used when the increase in cheating costs due to the imposition of full output constraints is lower than the increase in shirking costs that would result from the imposition of full behaviour constraints, and firms are used when the reverse obtains. In franchising, for example, company-owned outlets are preferred when the increased costs of free-riding on quality that accompany a shift to franchising are higher than the increase in shirking that is unavoidable in the case of company-owned outlets (Brickly and Dark 1987). This example suggests that the choice of governance has little to do with the levels of uncertainty and asset specificity.

Lastly, in contrast to Hennart, Williamson (1996) and others (e.g. Kreps 1990; Oxley 1997; Boerner and Macher 2003) put EJVs in the hybrid category. Oxley, for example, writes that the EJV 'is the classic form of hybrid organization' (1997: 390) because it is characterized by lower incentives and greater administrative controls than in the case of market transactions. The lower incentives arise from the fact that the profits of the EJV are shared between the parents, while the greater administrative controls consist in the right of the parents to monitor and direct the EJV (albeit jointly). As we have seen, Hennart (1988*a*) argues that, unlike franchisees who are independent entrepreneurs rewarded by the sale of their output at market prices but are also subject to behaviour constraints, individuals working for the EJV are

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employees of the parents or of the EJV and are typically rewarded solely for their behaviour. Hence Hennart does not consider EJVs to be hybrids.

The second main difference between Williamson and Hennart is that, in contrast to Hennart, who sees the price system and hierarchy as different alternative organizing methods, neither one a priori better than the other, and each likely to fail given the circumstances, Williamson's theory of institutional choice is fundamentally a theory of market failure in which markets are the default option and firms the last resort. Williamson writes, for example

> Because internal organization experiences added bureaucratic costs, the firm is usefully thought as the organization of last resort: try markets, try hybrids (long term contractual relations into which security features have been crafted) and resort to firms when all else fails (comparatively).
>
> (Williamson 1999: 1091)

Two aspects of Williamson's theory reveal the privileged place of markets in his theory. The first is his view that firms are inherently inferior to markets because they are subject to added bureaucratic costs. The second is that the transaction characteristics that he argues should be aligned with governance are only thosethat reduce the efficiency of markets; he does not mention those that reduce the efficiency of firms.

As the quote above shows, Williamson sees firms as inherently less efficient than markets, and only used when markets fail. He states the reasons as follows:

> Our first explanation for why firms do not everywhere supplant the market thus is that (1) firms cannot mimic the high-powered incentives of markets without experiencing added costs (2) although recourse by firms to lower-powered incentives is thereby indicated, that too comes at a cost (3) those added costs of internal organization are not offset by comparative adaptability gains under circumstances … [where] the identity of the parties does not matter, whence classical market contracting works well.
>
> (Williamson 1985: 140)

This way of looking at firms tends to obscure the view that controlling behaviour rather than output has inherent benefits. Hence it would be just

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as logical to discuss the ‘added cheating costs’ that accompany a shift from hierarchical to price governance as the ‘added bureaucratic costs’ that result from a shift from the price system to hierarchy. Similarly, saying that markets have ‘high powered’ and firms ‘low powered’ incentives is misleading. Markets have high powered incentives over output, but low powered incentives over behaviour, and firms the opposite. Likewise, the added ‘bureaucratic costs’ of firms are matched by the higher ‘measurement costs’ of markets.

It is also interesting to note that the dimensions which, for Williamson, are expected to affect the governance of transactions, are only those that lead to market failure. Recall that Williamson argues that transactions have three main dimensions, asset specificity, uncertainty, and frequency, which determine whether they will be organized in firms, markets, or hybrids. For example, asset specificity affects the efficiency of market transactions, since it reduces the number of potential buyers and sellers, and in the presence of uncertainty, leads to contractual difficulties. But note that this factor affects the efficiency of organizing transactions through the price system. Williamson does not discuss whether it also increases or decreases the efficiency of using hierarchy. High asset specificity in the presence of uncertainty is likely to lead to market failure, but it is not clear in Williamson's analysis why it should *ipso facto* guarantee firm success! Both markets and firms could fail (Hennart 1982).

A fully comparative institutional perspective should acknowledge that the ability of firms to organize transactions will also depend on the characteristics of the transactions, and that firms may have more difficulty in organizing some transactions than others. Hence a full analysis of how transaction characteristics affect the choice of governance must also include, as Hennart does (1982), those that make hierarchy a more or less efficient organizing method. If one assumes that firms and marketsuse a different mix of organizing methods, the two sets of characteristics will not be the same.

The third main difference between Williamson and Hennart is on the role of asset specificity. Over the years, Williamson's exposition of his theory has become increasingly focused on that concept (Williamson 1985). Asset specificity is supposed to influence the choice of governance structure because it transforms an *ex ante* competitive situation into an *ex post* bilateral monopoly and leads to possible holdup because it increases the costs of switching partners. Anticipating this, parties may refuse to make relationship-specific investments.

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While asset specificity is powerful in explaining vertical investments (e.g. Stuckey 1983; Hennart 1988*b*), it does not seem so convincing in the case of the horizontal investments that result from the transfer of knowledge and goodwill. Consider the case of knowledge. Knowledge can be exploited either through renting it (licensing) or through producing the product or service incorporating the knowledge (integration). An argument based on asset specificity would have to be that asset specificity is lower in the case of licensing than in the case of integration. But this is unconvincing, because many licensed technologies are unique, and hence the intellectual and physical investments made by licensees to implement them is presumably quite specific. As shown below, it makes much more sense to explain the choice of governance by the extent to which knowledge can be disclosed to potential buyers (Hennart 1982, 2000; Davidson and McFetridge 1984).

Empirical Evidence

While Coase (1937) is seen as the founder of TCT, his approach remained a tautology until Williamson (1975) operationalized it by specifying its assumptions and identifying the key variables that affect the choice of governance structure. However the operationalization of TCT variables generally requires data that are rarely found in published databases but must instead be painstakingly collected, often through archival work or questionnaires. This is hard work.

While research is ongoing, TCT has already provided persuasive and illuminating explanations of real world IORs that were heretofore poorly or not explained by extant theories. That literature is by now very large, with Boerner and Macher (2003) identifying more than 600 articles empirically testing some aspects of TCT. Rather than undertaking a comprehensive survey of this literature, a task that has been very competently done by others (e.g. Shelanski and Klein 1995; Rindlfleish and Heide 1997; Boerner and Macher 2003; David and Han 2004; Carter and Hodgson 2006), I will focus on a few studies which I think provide good examples of the TCT approach to IORs.

Using a database of plants and illustrative case studies, Stuckey (1983), for example, has analysed the uses and limits of long-term contracts and EJVs in the aluminium industry. As seen earlier, alumina refineries enjoy cheaper costs if they are designed to handle a specific type of bauxite. Hence refineries, once built, will be exposed to *ex post* renegotiation by bauxite mine owners. Whenever refineries have higher switching costs

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than bauxite mines, refinery owners will seek, before building refineries, to protect themselves by either setting up captive sources of bauxite or by signing long-term supply contracts with independent mines. Because alumina refineries are capital intensive, they have a long economic life, and contracts must be long term. As shown earlier, to offer protection, contracts must specify all possible contingencies and their remedies, and this becomes increasingly difficult the longer the contract duration and the more uncertain the environment. Note that it is not uncertainty *per se* that matters, but only non-indexable uncertainty. For example the fluctuations of the price of oil or cocoa do not imperil long-term contracts because the prices of these commodities are quoted everyday on official exchanges and contracts can make reference to them.

Stuckey shows the limits of long-term contracts as a solution to *ex post* opportunistic renegotiation through an analysis of the contracts (some nearly 30 years long) signed between Comalco, an Australian bauxite producer, and its Japanese customers. He shows that some of these contracts failed to provide protection because they did not anticipate all relevant contingencies. Those Comalco signed in the 1970s specified fixed prices in US dollars, with price adjustment linked only to the alumina and silica content of particular shipments. The collapse of the Bretton Woods system of fixed foreign exchange parities caused the value of the yen and that of the Australian dollar to diverge from that of the US dollar, resulting in a fall in the Australian dollar prices received by Comalco. This in turn led to difficult and lengthy renegotiations. These and similar difficulties have persuaded both bauxite mining firms and alumina refineries to generally shun long-term contracts and to organize their interaction through common ownership. Hence something like 90 per cent of all bauxite shipments were intra-firm transfers in the mid-1970s and this ratio has probably increased since (Hennart 1988*b*). Some other studies using TCT to analyse the relative importance of long-term contracts versus internal transfers include Hennart (1988*b*) for tin and Fan (2000) for chemicals. A number of authors have also looked at the choice between the internal production and the purchase of parts or components (e.g. Monteverde and Teece 1982; Walker and Weber 1984; Masten *et al.* 1989; Monteverde 1995).

The same general considerations can explain how manufacturers organize their interaction with salespeople. To sell a product efficiently, a distributor must make physical investments in inventory, warehouses, offices and repair facilities, as well as intellectual investments in learning how the product works in order to explain it to customers. Problems arise when

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these investments are specific to the manufacturer, that is when they have no value in alternative uses. Then distributors makingsuch investments will fear that manufacturers will be in a position to renegotiate distribution contracts in their favour or to cancel them. Distributors will therefore be unwilling to make manufacturer-specific investments. Hence one would expect manufacturers to use distribution contracts whenever the necessary distribution investments are not manufacturer-specific, and to use employees whenever they are. Anderson and Coughlan (1987) tested these propositions on how thirty-six US semiconductor firms conducted ninety-four distribution operations. Through interviews with the firms' senior executives they assessed the extent to which the investments to be made by salespeople were specific to a given manufacturer. They found this variable to be an important determinant of whether a manufacturer distributed its products through employees rather than through independent agents and distributors.

TCT has also been used to explain why multinational enterprises (MNEs) exploit some innovations through licensing and others by integrating into foreign manufacturing. The basic problem in the exchange of knowledge is one of information asymmetry, as buyers usually have limited knowledge of what they are buying (Arrow 1962). However, information asymmetry between buyers and sellers of knowledge is likely to be lower for older technologies and for technologies which have already been transferred before. Davidson and McFetridge (1984) tested these predictions on a sample of 1,376 international transfers of 221 new product innovations and 359 imitations by thirty-two US-based multinationals. They found that the probability that an innovation would be transferred through licensing was higher the older the innovation and the greater the number of its past transfers. Other studies that have looked at the choice between licensing and integration include Pisano (1990) and Arora and Fosfuri (2000).

Just like knowledge, reputation gained in one country can often be profitably exploited in another. The sharing of reputation can be organized through franchising contracts where outlet operators rent the right to use another firm's trademark, or by having outlets operated by employees of the trademark owners. Both solutions are typically used simultaneously. Pizza Hut, for example, operates about half of its units with employees and franchises the other half.

TCT identifies two main factors that influence the choice between these two ways of exploiting reputation. The first one is cheating. As argued above, the remuneration of franchisees is a function of the business they

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generate. Reducing quality while keeping the selling price constant increases a franchisee's profits. A given franchisee shares the reputation capital of the chain with other outlets bearing the trademark. If a significant fraction of her/his consumers is unlikely ever to visit again, a franchisee may be tempted to reduce quality because by doing so s/he would be shifting part of the cost of decreasing quality to the other outlets sharing the trademark, while pocketing all the corresponding savings, a behaviour that can be called free-riding or cheating. Franchisors will attempt to prevent franchisees from cheating by having them sign contracts by which they agree to follow certainbehavioural rules that assure a specified level of quality under penalty of contract cancellation. When it is difficult to stipulate such rules, or when monitoring and enforcing their compliance is very costly, trademark owners will operate with employees because employees have lower incentives to free-ride on quality since they do not gain from doing so.

Shirking is the second factor that influences the choice between operating outlets by franchisees or by employees. Paying employees a salary dulls their incentives to cheat, but also that of maximizing sales. Hence, unless the behaviour of the employees who are running the outlets can be tightly monitored, one would expect them to work less hard than franchisees. In 1996, for example, McDonalds reported that the ratio of cash flow to sales (a measure of profitability) was 13.7 per cent for franchised domestic units and 10.4 per cent for company-owned units (Gibson 1996).

The two points above suggest a number of testable predictions. First, if one makes the reasonable assumption that the cost of monitoring employees increases with geographical distance, the greater the distance of an outlet from HQ, the greater the cost of curbing shirking by employees, and hence the greater the probability, everything else constant, that this outlet will be franchised. Second, the greater the percentage of non-return customers, the greater the incentives to cheat, and the higher the probability that an outlet will be company-owned. Brickly and Dark (1987) looked at thirty-six US franchise chains and at their 10,524 outlets. They did find that distance from HQ had a positive influence on the probability than an outlet would be franchised, and that businesses characterized by non-repeat customers, such as hotels, motels, fast food chains, and rental car companies, had a lower proportion of franchised units than those with more repeat customers.

Besides these applications to vertical and horizontal integration, TCT has also provided a new way to look at financial transactions (Williamson 1988; Hennart 1994), vertical restraints (Williamson 1985), and other non-standard

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business practices such as counter-trade (Hennart 1989; Hennart and Anderson 1993) and product swaps (Williamson 1985). In place of the unconvincing explanations heretofore offered by international economics, TCT arguments have also been used to develop a theory of the MNE along the lines that MNEs arise when hierarchical governance is more efficient than the use of prices to organize international transactions (Hennart 1982). Another application has been to explain why EJVs are chosen in preference to contracts and to wholly owned affiliates (e.g. Hennart 1988*a*, 1991; Gomes-Casseres 1989; Erramili and Rao 1993; Chi and Roehl 1997).

Conclusion

TCT, as a general approach to the study of institutions, has made major contributions to the analysis of IORs. According to David and Han (2004), Williamson's1975 and 1985 books have garnered more citations than those for the classic works in institutional theory, organizational ecology, and resource dependence. This survey has only scratched the surface of the richness of the literature that has arisen within this general framework. TCT has shown organization scholars the benefits of looking at firms and markets in a comparative way. By making specific assumptions about human nature, TCT has forced them to think about their own implicit assumptions and has started a useful debate (Ghoshal and Moran 1996; Williamson 1996). The premise of TCT that institutions are chosen on the basis of their efficiency has generated testable propositions. Not all have been empirically supported, but the exercise has greatly increased our understanding of the way IORs are governed. To develop further, TCT will have to surmount a number of challenges.

First, TCT should be considered an approach, not a mantra. Both TCT critics and TCT researchers have focused too much on the later versions of the Williamsonian model, to the neglect of some of the rich insights presented in his earlier work (1975) and of other contributions to the theory from other transaction cost scholars and from agency and property rights theorists (Alchian and Demsetz 1972; Grossman and Hart 1986; Hart and Moore 1990; Barzel 1997). As this survey has pointed out, there are still many unresolved issues in TCT.

Williamson's version of TCT seems also to suffer from two systematic biases. One, pointed out earlier, is a built-in economic bias according to which markets are seen as inherently superior to firms (Ghoshal and Moran 1996). Progress in TCT will come from a more even-handed comparison of the workings of the price system and that of hierarchy. This will require a deep,

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intuitive, and simultaneous understanding of markets and firms. Such understanding is made difficult by the fragmentation of academic training and research into tight silos, with economists analysing the workings of markets and organization scholars those of firms, but with incompatible paradigms. Publishing such research is difficult because it necessarily straddles the two disciplines.

The second bias could be called an American bias, as Williamson's writings seem to be over-focused on legal safeguards and remedies to the detriment of more social ones. For example, the solution used in most parts of the world to avoid the potential hold-up problems that arise from situations of asset specificity is not to draft tighter contracts but instead to carefully select partners that seem less likely to take short-term advantage of such situations. The diffusion of TCT outside the USA should help bring in a broader view in this regard.

Empirically, the specification by Williamson of the dimensions of transactions that should affect the choice between institutions has moved TCT from a tautology to a falsifiable theory. In that sense, TCT is way ahead of some of its rivals, such as the Resource Based or the Capabilities views, which have remained largely tautological (Priem and Butler 2001). Williamson's operationalization of the theory has generated a very large number of empirical tests. While one can argue thatWilliamson's view that TCT is ‘an empirical success story’ (Williamson 1999) may not be true in an absolute sense (Carter and Hodgson 2006), TCT fares well when its empirical literature is compared to that based on other paradigms such as the Resource or Capabilities Based Views.

TCT theory is subtle and often misunderstood. Testing it requires a detailed understanding of empirical realities, a substantial investment that only a select group of scholars is likely to be willing to make. Nevertheless, the contribution of TCT to the analysis of IOR has already been substantial, and its prospects are bright.

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Steve Cropper, Chris Huxham, Mark Ebers, and Peter Smith Ring

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Critical Perspectives on Collaboration

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Abstract and Keywords

Inter-organizational relations (IORs) encompass a wide range of collaborative arrangements that are designed to achieve a variety of social and commercial purposes. This article focuses on one particular category of IOR collaboration, namely, cooperative IORs which rely on neither market nor hierarchical mechanisms of control to ensure cooperation and coordination and, instead, are negotiated in ongoing, communicative processes. This article discusses critical perspectives on collaboration which have moved from an interest in how individual partners might use power for their own interests to understanding the complex webs of power in which all collaborating actors are positioned. To do so, the article first briefly reviews some of the other approaches to collaboration. It then shows how critical perspectives differ from these approaches in some of their basic assumptions, and goes on to present some of the ways in which critical approaches have been applied to collaboration and to provide possible directions for future research.

inter-organizational relations, collaboration, hierarchical mechanisms, communicative processes, research

Critical Perspectives on Collaboration

Inter-organizational relations encompass a wide range of collaborative arrangements (for example, consortia, alliances, joint ventures, roundtables,

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networks, and associations) that are designed to achieve a variety of social and commercial purposes. In this chapter, we focus on one particular category of Inter-organizational relationship—collaboration—cooperative, Inter-organizational relationships which rely on neither market nor hierarchical mechanisms of control to ensure cooperation and coordination and, instead, are negotiated in ongoing, communicative processes (Lawrence *et al.* 1999; Phillips *et al.* 2000). As such, collaboration, by its very nature, means that traditional means of control—market and hierarchy—cannot be used to manage relations among participating organizations. Instead, it depends on the ongoing negotiation of relationships by individuals who are both participants in the collaboration and, at the same time, accountable to and representative of the diverse organizations and communities involved in, andaffected by, it (Hardy *et al.* 2005). Collaboration—as a particular form of Inter-organizational relationship—is thus social insofar as it requires the negotiation of relationships and tensions (Huxham and Beech 2003); political in that it involves individuals playing a dual role as members of both collaboration and organization (Hardy *et al.* 2006); and dynamic in that 'roles in collaborations emerge, evolve and change over time' (Hibbert and Huxham 2005: 60).

It is, perhaps, this complexity which appeals to researchers, whose studies often focus on how the complexity can be managed to leverage differences among partners, develop innovative solutions to complicated problems, and secure 'collaborative advantage' (Huxham 1996). Because of the potential benefits, it is not surprising that researchers are interested in finding ways to make collaboration less complex and political, and more predictable and effective. Accordingly, much of the work on collaboration has focused on various ways in which collaborations can be made to function more effectively.

Critical perspectives, in contrast, are more sceptical; and question whether political issues can be overcome, assuming instead that some partners are more interested in—and adept at—exploiting them. In using the term 'critical', we therefore refer to work that recognizes the existence of divergent interests, acknowledges that power relations among organizations are rarely symmetrical, and tries to incorporate the views of groups and individuals who are otherwise marginalized (Alvesson and Willmott 1992, 2003). Critical perspectives are sensitive to the hidden ways in which power influences outcomes, including the political use of language, and try to 'denaturalize' commonly taken-for-granted understandings (Alvesson and Willmott 1996; Fournier and Grey 2000).

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In this chapter, we discuss critical perspectives on collaboration which have, over time, moved from an interest in how individual partners might use power for their own interests to understanding the complex webs of power in which all collaborating actors are positioned. To do so, we first briefly review some of the other approaches to collaboration. We then show how critical perspectives differ from these approaches in some of their basic assumptions, and go on to present some of the ways in which critical approaches have been applied to collaboration and provide possible directions for future research.

Research on Collaboration: Fundamentally Functional?

While it is 'reasonable to suggest that collaboration is now a distinct area of organizational study', this is not to say that 'the field coheres theoretically' (Everett andJamal 2004: 57). In providing a brief review of some common ways of understanding collaboration—the strategic literature, the resource dependency view, social network theory, literature that links collaboration and legitimacy, and domain theory—we acknowledge that they are not the only ways to examine collaboration and that the boundaries among them overlap and blur. Nonetheless, we provide this overview in order to show that, even though the existing literature may mention power, it adopts a functionalist view of it.

Collaboration and Competitive Advantage

One common way of understanding collaboration is to examine how it helps organizations to respond to environmental and market changes (Bailey and Koney 1996). Increasing competition, growing demands of consumers, globalization of markets, and rapidly changing technologies place additional competitive demands on organizations, creating uncertainty. Organizations therefore collaborate in order to manage and reduce this uncertainty (Laumann *et al.* 1978; Dodgson 1993) and, if possible, gain competitive advantage (Gulati and Gargiulo 1999). Thus an important body of literature has examined how collaboration helps organizations to spread risks, gain access to new technology and markets, reduce costs, increase efficiency and flexibility, and pool complementary skills (Hamel *et al.* 1989; Powell *et al.* 1996; Kale *et al.* 2000). Research has explored the ability of such forms of collaboration as joint ventures, strategic alliances, R&D partnerships, etc. to achieve a competitive advantage (Kanter 1990; Alter and Hage 1993; Barringer and Harrison 2000); and recognizes that collaboration helps even non-governmental organizations (NGOs) to become more 'competitive' by

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attracting funding and securing a mandate for providing services (Bailey and Koney 1996; Fowler 1997).

For the most part, this work does not deal with power directly and concentrates instead on how such factors as asset specificity, knowledge-sharing routines, complementary resources, and effective governance lead to more productive collaborations and greater competitive advantage (Dyer and Singh 1998). Power is sometimes indirectly addressed in terms of power asymmetries among partners (Subramani and Venkatraman 2003). This literature recognizes that weaker partners are vulnerable to the exercise of power by more dominant firms and acknowledges that asymmetry often has negative implications for the outcome of the collaboration; researchers are therefore interested in identifying ways to eradicate asymmetry or compensate for it, although for purposes of efficiency, not equity.

Collaboration and Resource Dependencies

Another way to understand collaboration is to focus on the way it helps organizations to manage dependencies and secure resources. The resource dependencyapproach draws on two key assumptions: organizations are open social systems that depend on the environment for a continuing supply of critical resources; and these critical resources are limited and difficult to obtain (Pfeffer and Salancik 1974). Collaboration is one way for organizations to gain access to critical resources, including industry and/or geographical information, legal and technical advice, research and development capability, as well as knowledge and learning (Kogut 1988; Inkpen and Crossan 1995; Larsson *et al.* 1999; Dyer and Nobeoka 2000; Tsang 2002). Collaboration thus embodies ‘cooperative relations that join together otherwise autonomous organizations for joint production, provision or allocation of resources or activities’ (Akinbode and Clark 1976: 102) that enable two or more organizations to gain efficiency (Oliver 1990).

In many respects, this literature complements the work on competitive advantage—both bodies of work address how organizations engage in collaboration to deal with an uncertain environment and increasing competitiveness to increase the chances of acquiring critical resources and, thereby, reducing dependencies. While resources and dependencies have been equated with power (Pettigrew 1973; Pfeffer 1981), this approach tends to couch discussions in more neutral terms (information, research and development capability, knowledge, efficiency, etc.). Discussions also tend to focus on the power of the collaboration, not power relations within

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it, although there is some acknowledgement that collaboration itself creates additional dependencies, which must be managed to protect organizational autonomy.

Collaboration and Social Networks

The work on social network theory (Burt 1980; Brass and Burkhardt 1992; Nohria and Eccles 1992; see also, Kenis and Oerlemans, this volume) conceptualizes organizations as embedded (Kogut 2000; Rowley *et al.* 2000) in networks of linkages that both facilitate and constrain their actions, as well as shape their interests. Collaboration helps an organization to increase its centrality in the network (the degree to which it is directly and indirectly connected to other organizations and the degree to which other organizations are connected through it). With increased centrality comes increased organizational power which, Galaskiewicz (1979: 151) argues, is not so much a function of its direct control of resources, but rather, 'the set of resources that actors [can] mobilize through their existing set of social relationships'. These effects may be felt in an arena broader than a single collaborative relationship; and may endure beyond the life of a particular collaboration (Gulati 1998; Wasserman and Galaskiewicz 1994).

This work explicitly uses the language of power. It acknowledges that collaboration enables organizations to control and influence others in the network (Nohria 1992; Gulati *et al.* 2000; Lawrence *et al.* 2002; Hardy *et al.* 2003). It complementsthe work on competitive advantage insofar as research tends to be conducted in business settings where the acquisition of power is part of an effective competitive strategy. It builds on the resource dependency literature by linking resources and dependencies with a more embedded view—resources do not exist in a vacuum and are inherently attached to the network of relationships in which the organization operates. Like resource dependency theory, this approach emphasizes the power derived from a collaboration rather than the power relations within a collaboration.

Collaboration and Legitimacy

Collaboration has also been explored as a means to gain legitimacy (Galaskiewicz 1985; Oliver 1990). This view has its roots in institutional theory (Meyer and Rowan 1977; DiMaggio and Powell 1983), which suggests that institutional environments require organizations to appear legitimate and to conform to prevailing social norms. Collaboration may confer

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legitimacy on an organization by symbolizing conformity to institutional norms that deem collaboration to be a legitimate and useful activity, and through participation in a collaboration that is perceived as legitimate as a result of a membership of reputable, prestigious organizations. The use of collaboration to secure legitimacy has thus been found in relation to perceptions of economic efficiency (Waddock and Post 1995), political credibility (Black 1983; Bailey and Koney 1996; Lotia 2004a), and legal compliance (Galaskiewicz 1985).

The focus on legitimacy might be considered a variant of the resource dependency view insofar as legitimacy is considered by many researchers to be a critical resource. It differs in that it tends to use a more explicitly political vocabulary since legitimacy is related, not to actual efficiency or effectiveness, but to the ability to *symbolize* efficiency or adherence to other social norms. Research occurs in settings outside the commercial arena, where political stakeholders are more obvious and political dynamics are more visible.

Collaboration and Problem Solving

Another way to explain why organizations collaborate relates to domain theory (Trist 1983), and the way in which organizations in a particular domain become motivated to work together to tackle mutual concerns (Gray 1985). Collaboration is ‘a process of joint decision-making among key stakeholders of a problem domain about the future of that domain’ (Gray 1989: 11). The objective is to enable stakeholders to develop a more comprehensive understanding of the problem at hand and then to act collectively in order to solve it. In this way outcomes can be achieved that would not be possible if organizations were working independently (Huxham and Vangen 2002). This literature focuses on multi-sector collaborations dealingwith social issues, with NGOs the preferred research site as they collaborate to address social causes that cut across economic sectors, societal levels, and geographic boundaries, such as poverty, hunger, environmental issues, human rights (Brown 1991; Selsky 1991; Waddock 1991; Wood and Gray 1991; Waddock and Post 1995; Lewis 1998; Selsky and Parker 2005). Studies thus ‘employ a broader understanding of collaborative advantage than the conceptualizations of other authors, which focus on the value creation or competitive advantage that firms can gain through coordinating sub-units or forming alliances … and therefore include a range of notions of mutual gain beyond simple value creation’ (Hibbert and Huxham 2005: 59).

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This work is far more sensitive to the existence of vested interests, power imbalances, and potential conflicts of interest that arise in collaboration and far more realistic about the difficulties of bringing about collective outcomes (Huxham and Vangen 2000). It acknowledges that even when relations are running smoothly, collaborations continually throw up dilemmas and difficulties (Huxham and Vangen 2004) and regularly run into trouble (Huxham and Vangen 2003). Ultimately, however, researchers assume that parties are willing to work together towards genuinely collaborative outcomes (Gray 1989), and that the varied motives, interests, and needs of individual organizations can somehow be resolved. Accordingly, much of the research is directed towards finding out how this can be achieved (Beech and Huxham 2003; Hibbert and Huxham 2005).

Functionalist Assumptions

A theme that characterizes all the work discussed above is the assumption that, when it can be made to work, collaboration is clearly beneficial. Accordingly, consistent with other critics (Hazen 1994; Everett and Jamal 2004), we argue that this work is fundamentally functionalist and concerned with finding practical solutions to practical problems. The functionalist paradigm, briefly put, accepts ‘the norm of purposive rationality, the logic of science, the positive functions of technology, and the neutrality of language, and uses them as building blocks in the construction of supposedly value-free social theories’ (Burrell and Morgan 1979: 297). The emphasis is on efficiency and effectiveness as managers—and, in this case, collaborators — are presented as capable of being rational and objective actors who are primarily concerned with the improved functioning of organizations (Alvesson and Willmott 1992). From this perspective, collaborations are seen as a particular organizational form that can be designed and managed in ways that will enhance the efficiency and effectiveness of individual member organizations, as well as the collaboration as a whole.

This does not preclude a direct or indirect recognition of power (see Huxham and Beech; Knoke and Chen; and Yeung, this volume). In fact, power lies at theheart of many of the benefits associated with collaboration. The strategy literature assumes that collaborative partnerships—‘constellations of firms’—increase market power. Social network theory equates collaboration with centrality. The resource dependency literature sees collaboration as securing control over critical resource, while the work on legitimacy shows how collaboration helps organization to secure this particular form of power. Domain theory assumes that the collaboration is more powerful than the

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sum of its constituent parts. In other words, in one way or another and in one form or another, power is what the collaboration is striving to acquire.

This view of power is, nonetheless, functionalist (see Hardy and Clegg 2006). Power is represented as 'the ability of different parties to achieve something together they could not accomplish individually' (Baum 1989: 195), incorporating, in this case, the collective ability to get others to do something that they would not otherwise do (cf. Weber 1947; Dahl 1957). Power is similar to a resource: something that is 'held' by the collaboration and exercised to bring about supposedly beneficial outcomes. The negative consequences of collaboration such as exploitation, unfairness, abuse and the misuse of power are largely overlooked, while an illusion of neutrality helps to justify collaborative initiatives on rational, functionalist grounds. While this body of work undoubtedly provides insight into how individual actors might manage complex collaborative processes, it fails to take into account the fact that collaboration can itself be a political manoeuvre. As a result, questions that interest critical researchers, such as whether benefits are equally distributed, whose interests prevail, and whether collaboration can be detrimental to some participating organizations, are not addressed.

The Development of a Critical Approach

In talking about critical work, we use the term in a general sense: to refer to diverse bodies of work that can be traced back to Marx and critical readings of Weber (Hardy and Clegg 2006), as well as the work of Habermas and the Frankfurt school on Critical Theory (Alvesson and Deetz 2006). As mentioned above, critical theorists tend to see society and organizations as inherently political arenas; their role therefore is to expose situations of domination and distortion, as well as giving marginalized actors a greater voice (Deetz 1992*a*, 1992*b*). As a result, critical researchers are interested in power—not simply in terms of the acquisition of a scarce resource—but in terms of identifying asymmetrical powerrelations and exploring how power dynamics shape, often in hidden ways, the process of collaboration. So, whereas the researchers discussed above tend to focus on the virtues of collaboration—cooperation, common good, risk sharing and joint problem solving, critical studies are concerned with issues of control, exploitation, exclusiveness, and unfair practices (Hardy and Phillips 1998; Lotia 2004*b*). Furthermore, whereas the work discussed above assumes that conflicting interests can ultimately be reconciled in some way (if not without some difficulty), critical theorists, for the most part, assume that vested interests and other manifestations of power are inevitable and impossible to escape.

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In this section, we discuss two bodies of work that consider the link between power and collaboration: work that examines how collaboration confers power; and work on the political dynamics that occur within collaborative ventures. We examine how researchers have factored power into their studies of collaboration, noting that critical researchers conceptualize power more broadly than mainstream theorists (Hardy and Clegg 2006).

The Power of Collaboration

Critical theorists maintain that is naïve to assume that collaboration is always undertaken for the benefit of all stakeholders inside and outside the collaboration. They are sceptical of why organizations would want to collaborate in the first place and dispute the idea that the ‘greater good’ is necessarily the reason. For example, building on the earlier work of Benson (1975), who highlighted the need to conceive of Inter-organizational networks as a political economy, critical work focuses on how the acquisition of power through collaboration can advantage some organizations, enabling them to influence decisions and actions in line with specific organizational interests (Knights *et al.* 1993; Hardy *et al.* 2003). In such situations, collaboration is often deliberately used to prevent change and to protect the privileged positions of existing power-holders.

Warren, Rose, and Beurgunder (1974) and Rose and Black (1985) present such a situation in mental health care, where powerful stakeholders collaborated in order to exclude an organization which was trying to redefine mental health problems in terms of social problems, rather than simply as a medical condition. By reframing effective mental health care in terms of a societal obligation to alleviate social problems such as poverty, job prospects, and education instead of an individual's medical problem, this newcomer challenged established forms of treatment and threatened to undermine the dominance of the organizations that provided them. As a result, these organizations collaborated to maintain the status quo and to prevent (what some would argue were) more progressive and enlightened definitions of mental health problems from entering the Inter-organizational domain. In other words, collaboration was a political strategy designed to prevent change and defendthe field from incursions by new stakeholders that might threaten existing patterns of advantage.

Such work on the use of collaboration to preserve a field of influence and prevent opponents from entering or changing it (Warren *et al.* 1974; Rose and Black 1985) provides an explicit recognition of political dynamics. By

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adopting a critical perspective, it helps to show that organizations may collaborate with other powerful allies with political goals in mind. From a critical perspective, then, collaborations are viewed somewhat differently than in the more functionalist work. Rather than means of bringing about outcomes that benefit a range of stakeholders, they are seen as instruments of power and influence and a means for protecting individual organizational interests. More powerful stakeholders may force collaboration on weaker players to control them; or they may cooperate with other powerful allies to prevent opponents from reconstituting the field or domain in which they operate in a way that protects their interests. In other words, collaborations represent political moves by organizations to protect privileged positions.

The Politics of Collaboration

Critical researchers have also explored the hidden ways in which power infiltrates collaborations. This body of research (Gricar and Brown 1981; Gray and Hay 1986; Waddock 1989; Golich 1991; Hazen 1994; Hardy and Phillips 1998; Hardy *et al.* 2003) has questioned the assumed neutrality and objectivity of collaborating. It acknowledges that participating organizations may have diverse interests, goals, and values, as well as access to sources of power. From this perspective, collaborations represent arenas where collaborating organizations use their power to shape the collaboration itself. Consequently, researchers have looked at how certain members of a collaboration may have greater control over decisions (Gray and Hay 1986; Sharfman and Gray 1991); how stakeholders may be included or excluded from participating (Gray 1989); how the interests of collaborating organizations influence their commitment to collaborate (Logsdon 1991); and how power shapes the structure of the collaboration and the definition of the social problems at the heart of it (Lawrence *et al.* 1999).

The use of power to shape collaborative outcomes and processes can take a number of forms. First, powerful members may influence collaborative outcomes through their control over decisions and processes in the collaboration. Perucci and Pilisuk (1970) refer to these influential members as a group of elites within Inter-organizational networks that hold power. It is this group that plays a coordinating role within collaborations, coming to agreements that are later ratified in the larger forum (O'Toole and O'Toole 1981). Weaker organizations may only participate because they have been forced to by more powerful organizations (Hardy and Phillips 1998), and even if they try to participate, they may have little or no impacton decision-making. For example, a study of a collaboration involved in the Sydney 2000

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Olympic Games shows that while communities were stakeholders in the project, they were only given a voice to express frustration with the design of the project. They were not included in managerial decision-making, as a result of which their impact was limited (Pitsis *et al.* 2003).

Second, weaker stakeholders may be excluded altogether. Research on collaborations in education (Griffiths 2000; Clegg and McNulty 2002; Tett *et al.* 2003; Seddon *et al.* 2004) questions the assumption that all members participate as equals in collaborative processes, and highlights patterns of marginalization and exclusion that deny some collaborators' knowledge and voice and privileges others (Knights *et al.* 1993). In a study of the National Coal Policy Project (NCPP), Gray and Hay (1986: 105) show how certain groups were excluded. For example, convenors chose not to invite the United Mine Workers to participate because of their desire to 'limit the diversity of viewpoints', a decision that was 'influenced by considerations of the power of stakeholders within the domain' and 'fraught with politics'.

A third way in which power can be used in a collaboration is through the way in which the problems and solutions are defined. For example, in her study of the UK Refugee System, Hardy (1994) showed how the different organizations— the government, NGOs, and refugee organizations—had divergent views about refugees. These organizations also varied in their access to power sources, for example, the government had access to financial and legislative resources, the refugee organizations had the support of the refugees, etc. Although these organizations were working on the same overall problem of refugees and their settlement, their divergent views and asymmetrical power relations led them to define the refugee 'problem' in different ways and to advocate for different 'solutions'—namely those that reinforced the organization's position in the refugee system (Phillips and Hardy 1997). Similarly, Flyvbjerg's (1998) work on a transport infrastructure development project in a Danish city also provides insights into how different collaborators claim their views and interpretations as 'right' and 'true' in order to protect and promote their interests.

From a critical perspective, the asymmetrical power relations among participants, the ensuing power dynamics as the collaboration unfolds, the outcomes of the collaboration, and the differential distribution of the benefits of collaboration must all be subjected to scrutiny since those who are more powerful have both the means and the motivation to push their interests more forcefully than others; while the less powerful may have no option but to comply (Hardy and Phillips 1998). Critical perspectives on collaboration

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thus challenge the functionalist assumption that, through collaborating, organizations achieve a collective collaborative advantage that benefits everyone and that organizations are willing and able to put aside political differences.

In making these observations, critical work is consistent with a multidimensional conceptualization of power (Lukes 1974). First, rather than share power with theircounterparts, as is often assumed by the functionalist literature, some participants may prefer to wield their decision-making power (the first dimension) to ensure decisions made in the collaboration are in keeping with their interests. The second dimension of power may be used to influence whether issues are addressed or ignored, as well as whether particular stakeholders are legitimate participants or not. In this way, non-decision-making (Bachrach and Baratz 1962) helps to keep dangerous issues and individuals outside the collaboration. Finally, the third dimension—the management of meaning (Pettigrew 1979; Hardy 1985)—may be used to define the 'problem' at the heart of the collaboration. Since collaborations are negotiated relationships (Lawrence *et al.* 1999; Phillips *et al.* 2000) that entail processes of social construction (McGuire 1988) and meaning creation (Altheide 1998), it is to be expected that the more powerful collaborators will attempt to influence these processes to their advantage (Hardy and Phillips 1998). As Blumer (1971) has pointed out, social problems do not exist in any objective sense—they are 'named' by actors with different interests as a result of communicative practices that create meaning for them. The way in which a problem is defined has important implications for the subsequent direction of the collaboration, placing limits on the potential nature and outcome of interactions (Hardy and Phillips 1998) and the possibilities for action (Lawrence *et al.* 1999).

Power, Discourse, and Collaboration

Our understanding of power has moved beyond the three-dimensional view in recent years as a result of the influence of Michel Foucault and other postmodern writers (Hardy and Clegg 2006). Traditional views of power as a resource exercised by more powerful actors over less powerful ones have given way to a greater interest in the ways in which *all* actors are subjected to the power effects of discourse—a prevailing web of power/knowledge relations which resides in every perception, judgement, and act, and from which the prospects of escape are limited for dominant and subordinate groups alike (Knights and Willmott 1989; Alvesson and Willmott 1992*a*, 1992*b*; Deetz 1992*a*, 1992*b*; Hardy 2003).

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Discourses are historically and culturally variable bodies of knowledge embedded in structured collections of meaningful texts that ‘systematically form the object of which they speak’ (Foucault 1979: 49). They are constructive rather than descriptive of reality and, by creating the meaning of social categories, identities, and conceptual frameworks (Fairclough 1995), they shape ‘the strategies and rules by which we can speak about and act on a domain of objects … in such a way that certain possibilities and outcomes are realized rather than others’ (Reed 1998: 196).Accordingly, researchers have explored how actors are positioned within discourse in ways that both limit and enable their scope for agency (see, for example, Grant *et al.* 2004).

A discursive approach to collaboration directs attention towards the larger discursive context in which collaborators are situated. It recognizes that power is embedded in the existing patterns of talk and action that constitute social structures (Fairclough 1992). Dominant groups can achieve some closure on meaning and thereby institutionalize it in organizational practices that reduce the scope of possible action (Phillips and Hardy 1997). At the same time, closure is never fully achieved, and there is always potential for resistance, contest, and reinterpretation (Clegg 1989). Consequently, discourses do not only discipline actors, they also embody power on which actors draw ‘in different ways at different times to achieve their particular purposes’ (Watson 1995: 816–17). Building on other work on the role of language in effecting organized, collective action (Ford and Ford 1995; Heracleous and Barrett 2001), a discursive approach also conceptualizes individual collaborations as social accomplishments that occur in an iterative fashion over time among individual participants working in collaborative teams, while representing the interests of organizational stakeholders. Any collaboration is enacted through the discursive activities of these participants, who draw on discourses operating at organizational and societal levels (Hardy *et al.* 2005), and which have both enabling and constraining effects.

In this section, we explore the relatively small body of work using a discursive approach, with reference to three themes: the discourse of collaboration; the way in which collaborating identities are discursively constructed; and the use of language and discourse in generating collaborative action.

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The Discourse of Collaboration

The discourse of collaboration is becoming increasingly pervasive, especially under the rubric of ‘partnership’. As Tomlinson (2005) has pointed out, this term is being applied to a range of Inter-organizational arrangements within diverse international settings—partnerships between firms; between unions and employers; between purchasers and suppliers; and between private and public sectors. Such collaboration is advocated as a means to achieve social change and social justice, especially in the pursuit of environmentally sensitive and sustainable development. For example, the World Summit on Sustainable Development emphasized voluntary multi-stakeholder partnerships among government, industry, and civil society as key to a sustainable future in areas such as health, education, poverty, etc. and launched over 200 partnerships during the 2002 Johannesburg Summit. In the UK, the Blair government gave its support to partnerships both within and across sectors that emphasize working ‘across organizational boundaries to deliver services that areshaped around user needs and policies that take a holistic approach to cross-cutting problems—through … the development of partnerships at local and national level’ (UK Cabinet Office 1999, cited in Tomlinson 2005: 1171). Similarly, the Australian government has identified four national priorities—health, environment, security, and technology—all of which are closely linked to cross-sectoral collaboration.

Such discourse presents partnerships and collaborations as ‘good’. In so doing, the rhetoric reinforces the functionalist orientation, hiding the political struggles that go on inside collaborative partnerships (see Tomlinson 2005). It tends to link collaboration to concepts such as trust, which is another ‘good thing’, but also another area where the literature tends to gloss over crucial issues related to power and control (Maguire *et al.* 2001). In other words, as the broader discourse of collaboration takes hold, it positions actors in a very explicit position *vis*-à-*vis* the supposed ‘value’ of collaboration, making it harder for prospective partners to resist collaboration; making it more likely that governments will fund collaborative initiatives at the expense of individual ones; and also making it harder for researchers to resist functionalist views of collaboration. Thus there is considerable potential for greater exploration of the ‘grand’ discourse (Alvesson and Kärreman 2000) of collaboration to examine how it positions actors—both practitioners and researchers—as well as the ‘conditions of possibility’ that it creates for enacting and studying collaborative activities (cf. Maguire and Hardy 2006).

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Discourse and Collaborative Identities

A second theme in this literature concerns how discourse constructs identities that are more or less able to collaborate. For example, in examining a collaboration between community members and pharmaceutical companies in the Canadian HIV/AIDs treatment domain, Maguire *et al.* (2001) show how the discourse created very different identities than in traditional disease treatment domains. In the latter, skilled professional elites—pharmaceutical companies, medical researchers, and their institutions—produce scientific knowledge and treatment products; other powerful actors, such as the government, then approve these products, which are then dispensed to groups of passive disease patients or victims. Within traditional medical discourse, patients do not interact with pharmaceutical companies, much less collaborate with them, since they are separated and protected from them by gatekeepers such as physicians, pharmacists, and governments.

The discourse of HIV/AIDs positions actors somewhat differently through the creation of new identities—passive patients became People Living with HIV/AIDs and then powerful AIDs activists; over time, some activists became 'treatment activists' and then 'treatment advocates' (Maguire *et al.* 2004). These activist-experts were distinguished by their knowledge and expertise of scientific and medical matters. As such, these identities were far more capable of collaboration with thepharmaceutical industry than either activists or passive patients, especially as new identities were also constructed for pharmaceutical companies—from profiteering and exploitative to compassionate and consultative. In other words, changes in the larger discursive context were necessary to create identities from which individuals could collaborate. Maguire and Hardy (2005) explore this theme further, by showing how successful collaborators were those who were able to construct their identities in ways that provided them with legitimacy to speak both *for* their own constituency and *to* potential collaborative partners. It involved three contradictory yet simultaneous processes of identity work: *identification* with their respective constituencies; *counter-identification* by constructing themselves as different from the core members of their respective constituencies; and *dis-identification* by constructing themselves as being on the periphery of their constituency—closer to and capable of bridging to their collaborative partner. In this way, certain actors successfully exploited particular categories of identity available to them within the HIV/AIDs discourse and capitalized on the conditions of possibility for collaboration. Future research may, then, explore different discourses

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and the extent to which they create conditions within which collaboration becomes a greater (or lesser) possibility.

Discourse in Collaboration

Discourse also plays a role in the construction of particular collaborations. Hardy, Lawrence, and Phillips (1998) have explored the role of discourse in creating a collective identity for a collaboration, as well as in constructing the emotions that motivate individuals to participate and legitimate the skills necessary to support collaborative action (this is a rather different perspective on identity from that discussed in Schruijer (this volume)). Similarly, Hardy *et al.* (2005) adopted a discourse-oriented perspective to highlight the interaction of the discursive context and conversations among participants in achieving collaboration. This work suggests that the discursive production of a collective identity is a first step in producing effective collaboration; but conversations that continually juxtapose the needs of the home organization against the needs of the collaboration are also required for collaborative action. In this way, these researchers challenge the idea of collaboration as a relatively stable organizational form and, instead, conceptualize it as a far more precarious set of communicative relationships, embodying many tensions. They also broaden the focus from the chains of conversations among participants in the collaboration to include those between participants and the organizations that they represent. Future research might, then, examine how collaborations arediscursively constructed by participants and for non-participants, such as other members of the organizations represented in it; an area which has to date has not received much attention.

In concluding this section, we suggest that research on discourse offers promising insights for the study of collaboration through its focus on the study of talk and texts, which provides a way to track collaboration on an ongoing basis through the ‘traces’ of discursive activity that can be identified in the relevant texts (Taylor and Van Every 2000: 289). A discursive approach also views the social world as an ongoing accomplishment that is held precariously in place through discursive struggle, allowing us to view collaboration as an organizational form that is always in the act of ‘becoming’ (Tsoukas and Chia 2002) rather than as a discrete entity. It also allows us to examine the ‘levels’ involved in collaboration—traditional research tends to focus on the psychology of individual participants or the group dynamics of the collaboration team; it rarely deals with other members of the organizations represented in the collaboration or the broader

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discursive context in which collaboration is occurring. A discursive approach allows us to conceptualize these interactions through conversations that embrace and interconnect all ‘levels’. The discursive approach may also be a useful way to examine collaborative failure— of which there are many instances—that is caused by the withdrawal of organizational support, as well as identifying the signals to which organizations react when assessing whether to continue their support. For example, how and in what form does language either reassure stakeholders that collaboration is safe, productive, and worthy of continued support, or cause concern to the extent that support is withdrawn (Hardy *et al.* 2005)?

The Future of Critical Research on Collaboration

This section looks to the future of research on Inter-organizational relationships from a critical perspective. While there is a long history of critical work in the study of management and organization, Critical Management Studies (CMS) has emerged as an identifiable sub-field only in the last decade (Fournier and Grey 2000). The increasing institutionalization of this body of work (Clegg *et al.* 2006) has been marked by purported changes in the ways that critical research is being carried out. First, critical researchers are considerably more sympathetic towards management than has traditionally been the case (Alvesson and Willmott 1996; Fournier and Grey 2000; Adler 2002; Alvesson and Willmott 2003). In the past, many critical theorists have been unwilling to engage with managers for fear oftransforming CMS into ‘just another ‘tool kit’ for managers, who, equipped with their better understanding of power relations in organizations …[can] further their domination’ (Fournier and Grey 2000: 25). Recently, however, a cautious engagement with management practice has emerged, where the ‘aspiration is to foster the development of organizations in which communications … are less distorted by socially oppressive, asymmetrical relations of power’ (Alvesson and Willmott 1996: 18). Critical theorists have become increasingly aware that managers are not a monolithic group; they too are managed and subjected to political pressures (Adler 2002). As a result, although there remain differences of opinion about how management can or should be transformed, there is some support for a dialogue between managers and critical theorists (Anthony 1998; Fournier and Grey 2000). In addition to taking managers under its wing, CMS is also associated with a wide range of other stakeholders, such as politicians, policy-makers, regulators, and the general public (Zald 2002) and in providing more insight into equitable and ethical management practice (Anthony 1998).

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Second, critical work is being promoted for its potential benefits for managers, as well as society more generally. For example, it is argued to address the tendency of traditional management research to focus on narrow goals and quantitative approaches, which, coupled with its neglect of social and political issues, often leads to short-lived, unsuccessful techniques. Carson *et al.* (2000: 1143) have noted that the 'management discipline is regularly bombarded with dramatic claims of new knowledge creation' and that managers tend to 'tenaciously latch on to unproven conjecture', despite the widespread experience of failure with previous fads. These authors raise the question of whether, by latching on to these fads, 'managers are simply attempting to outsource critical thought' (Carson *et al.* 2000: 1143). By adopting a critical approach, researchers can help managers to engage in critical thought and avoid seductive—but simplistic—solutions.

Third, the institutionalization of critical work has been associated with increasing debate about what it means to be critical (Adler 2002; Grey and Willmott 2002; Nord 2002; Walsh and Weber 2002; Zald 2002; Alvesson and Willmott 2003), as a result of which key aspirations of CMS are being identified that differentiate it from orthodox or mainstream academic endeavours. It takes the interests of society into account rather than emphasizing a concern with profit. As such, it factors in goals related to justice, community, human development/welfare and ecological balance, and recognizes that these priorities are not well served by either profit-maximizing behaviour (Fournier and Grey 2000; Adler 2002) or instrumental reasoning (Martin 2003). It recognizes the existence of divergent interests and acknowledges that power relations are rarely symmetrical among organizations (Alvesson and Willmott 2003). It provides a voice for views and individuals who are usually marginalized (Grey and Willmott 2002). Fourth, in illuminating political interests and power imbalances, CMS seeks to produce more equitable and ethical outcomes in bringing about change that might improve individuals' experiences(Alvesson and Willmott 1996). Fifth, CMS seeks to 'denaturalize' commonly taken-for-granted understandings (Fournier and Grey 2000) and unpack received wisdom (Alvesson and Willmott 1996), thus creating scope for more radical change. Sixth, CMS appreciates the centrality of language and communicative action insofar as it recognizes that many forms of conventional wisdom are unthinkingly sustained by the political use of language and the reification of knowledge (Alvesson and Willmott 1996). Seventh, CMS promotes fundamental reflection on the part of managers and academics (Fournier and Grey 2000). If managers are aware of the complexity and political nature of their situation, they have greater scope to consider radical change than if they are bound to conventional

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understandings about management being technical and profit being the only goal. Similarly, CMS recognizes that critical studies are themselves a product of power relations and therefore researchers must also be reflexive.

In many respects, such a profile is entirely compatible with those seeking successful, effective, and functional collaboration, especially those with broader social purposes. For example, collaboration will be more effective if consideration is given to a broad set of goals when deciding on its mandate. Participants in the collaboration will have different degrees of power, which may affect how the collaboration proceeds and the outcomes it produces. Processes should therefore ensure that all participants have an equal voice and allow stakeholders from outside the collaboration to contribute. Recognition of different interest groups and their inclusion in transparent collaborative processes is likely to lead to more equitable and ethical outcomes. Collaboration processes should also be designed to challenge taken-for-granted assumptions and language developed to help redefine problems and promote new ways of thinking. Participants should also continually question the collaboration—the way it has been set up; the mandate it has been given; and who are, and who are not, participants—with a view to continually remaking it.

In other words, the premises of CMS appear to be leading us towards a methodology for collaboration that will increase its benefits and distribute them more widely and, potentially, engender collaborations that are more emancipatory. By attending to power in sophisticated and multifaceted ways, we may be able to produce collaborations that offer more ‘benefits’ in line with the ‘common good’. But, does this mean that the critical and the functional are converging? Are researchers and collaborators alike becoming more seduced by collaboration which is increasingly constructed as beneficial—to business, to stakeholders, and to society? Is critique becoming colonized by functionalism; and pluralism by liberalism? If so, how do we address this paradox? How can we resist being seduced? Perhaps one answer is to continue with work on discourse—to make sure that as researchers we do not forget how we are positioned within contemporary discourses of both critique and collaboration. Nor should we forget resistance, especially since there are very few studies of collaboration as a form of resistance (the way in which actors collaborate as a way to challenge dominating forms of power) or of resistance withincollaboration (how actors challenge the dominating effects of collaboration). Nor is there much consideration about how actors resist being enrolled either into individual collaborations or into the discourse of collaboration, which is increasingly permeating all sectors of society. It

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appears, then, that researchers have considerable scope to continue with their critical perspectives on collaboration.

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The Oxford Handbook of Inter-Organizational Relations
Steve Cropper, Chris Huxham, Mark Ebers, and Peter Smith Ring

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Managing Collaborative Inter-organizational Relations

Paul Hibbert, Chris Huxham, Peter Smith Ring

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Abstract and Keywords

This article discusses the jungle of theories and approaches that abound today in works applied to the management of relations between organizations. It discusses the actions of ‘individuals’ who may be thought of as managers of an inter-organizational entity (IOE). It also explores research that describes organizational capabilities — in the sense of building them — as a product of, and an enactment through, managerial action. It address the various ways in which this kind of research has been conducted, including a discussion of the various methodologies and underlying theories that provide foundations for discussions of the management challenges inherent in dealing with collaboration and areas of substantive focus. Finally, this article closes with a discussion of significant gaps in the literature that require future research.

managers, inter-organizational entity, organizational capabilities, research, management challenges

Introduction

More than forty-five years ago, Koontz (1961: 174) observed: ‘we now see … early beginnings overgrown and entangled by a jungle of approaches and approachers to management theory’. His objective was to ‘cut through this jungle and bring to light some of the issues and problems involved in the present management theory area so that the tremendous

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interest, intelligence, and research results may become more meaningful'. His observation still applies, and never more so than in the context of Inter-organizational relations (IOR). In this chapter we discuss the jungle of theories and approaches that abound today in works applied to the management of relations between organizations. What do we mean by management?Needless to say, there are literally hundreds of 'textbook' definitions of the term. For our purposes, it is enough to say that management is a series of processes undertaken by a team of individuals, with various skills and capabilities, that are focused on defining both the direction to be taken by an Inter-organizational entity (IOE) and the allocation and implementation of resources towards those ends.

It is not our intention to produce a framework for thinking about managing collaboration, or to develop a model. Our purpose is to expose the richness of the work on the topic and to reflect upon important gaps. To produce the chapter, we reviewed a wide range of literature. Although some of it has purely academic roots, as one might expect, 'consultants' also have had much to say about the management of collaboration (see e.g. Bleeke and Ernst 1993; Ernst and Bamford 2005; Lank 2006). It also is not surprising that a great deal of relevant literature is in the form of books. Those authored by managers or other practitioners are useful in identifying managerial challenges (e.g. Audit Commission 1998; Deering and Murphy 2003; Logan and Stokes 2004). Beyond these, we have been particular in restricting our usage of books to include only those whose authors are clear about the empirical basis of their 'prescriptions' (e.g. Child and Faulkner 1998; Doz and Hamel 1998; Spekman *et al*. 2000; Koppenjan and Klijn 2004; Nooteboom 2004; Reuer 2004; Huxham and Vangen 2005). In general, we particularly looked out for scholarly work that related management practices to performance outcomes (e.g. Judge and Ryman 2001) and theory-driven prescriptive models (see e.g. Ireland *et al.* 2002).

In common with the IOR field in general, the literature on management tends to be sectorally focused into bodies of work concerned with IOEs involving firms, *or* public sector agencies, *or* the third sector and its non-governmental organizations (NGOs) and not-for-profit organizations (NFPs). Within each of these perspectives, a sub-set of scholars also look at IOEs that cross sectoral boundaries. Despite this, the level of abstraction in which the contributions are couched allowed us to treat the material mainly in a sectorally a-specific manner and combine it across the three bodies. We focused on (and bounded our search by) literature that refers to any IOE in which two or more organizations (firms, governmental agencies, NGOs,

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NFPs, etc.) *collaborate* in the pursuit of individual and common objectives while remaining autonomous and independent. This includes the various manifestations of IOE highlighted in the preceding section and many others. Although the management of non-collaborative forms of Inter-organizational relationships is also interesting, it is beyond the scope of this chapter.

The discussion that follows is focused on the actions of 'individuals' who may be thought of as managers of an IOE. The range of notions of 'manager' that might be informed by the literature has a considerable sweep, including for example: a manager participating in an IOE; a member nominated from within to lead or manage a partnership; an external professional appointed to manage the IOE; an alliancemanager attending to a portfolio of alliances on behalf of a single organization. We also explore research that describes *organizational* capabilities—in the sense of building them—as a product of, and an enactment through, managerial action. For example, we respect arguments that organizations may be better served by dealing with their IOEs within a centralized function (e.g. a corporate headquarters), but we are more interested in this research when its managerial implications are clearly spelled out.

The remainder of the chapter is structured as follows. First, we address the various ways in which this kind of research has been conducted, including a discussion of the various methodologies and underlying theories that provide foundations for discussions of the management challenges inherent in dealing with collaboration and areas of substantive focus. We then discuss various categories of management insights prevalent in the literatures we reviewed. This is followed by some evaluative comments and a brief discussion of our own perspective on the management of an IOE. We close with a discussion of significant gaps in the literature that require future research.

Research Approaches, Methodologies, and Underlying Theories

In general, the literature on IORs has been the subject of periodic review. Early, and significant, contributions included work by Van de Ven (1976), Aldrich and Whetten (1981), Galaskiewicz (1985), Oliver (1990), and, more recently, Barringer and Harrison (2000) and Brass *et al*. (2004). From these reviews it is possible to draw conclusions about the theories that tend to be relied upon by those researching IOEs and their management. These include: co-evolution, resource dependence, theories of power, political economy and political science, exchange theory, transaction cost economics, agency theory, self-organization theory, and institutional theory. In many cases

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the theories underlying investigations of the management of collaboration are very explicit. Sometimes they are not so obvious—'hidden' from the reader (particularly in practitioner-oriented works) to improve the flow of the presentation.

Researchers have developed their work on managing collaboration through a broad range of research approaches employing these theories in diverse ways, which can seem to defy simplification (Van Raak *et al.* 2002; Brass *et al*. 2004; Everett and Jamal 2004). However a focus on how the research problem is conceptualized—and, in particular, the scale of the investigation—can provide some traction. Broadly, investigations into the challenge of managing collaboration can be classified as:

- relatively *micro-scale* in focus, with an orientation towards management *practices*—i.e. how managers act in the moment, in relation to the day-to-day issues that emerge in collaboration;
- relatively *macro-scale* in focus, with an orientation towards *structures* or the institutional determinants of management challenges—i.e. the ways in which external factors and systems largely beyond the control of managers construct, to a degree, the management agenda in collaboration; and,
- focused on an intermediate scale, often with a definite temporal element, and oriented towards management *processes*—i.e. the diachronic dimension of the management of collaboration, especially the ways in which the challenges change over time.

Interestingly, there is no parallel division of *research approaches.* For example, qualitative and conceptual approaches have been applied to micro-scale, practice-oriented studies (Alexander *et al.* 2001; Judge and Ryman 2001; Gustavs and Clegg 2005), studies with a macro focus (Buckley *et al.* 2002; Zeng and Chen 2003), and in intermediate, process-oriented studies (Kale *et al.* 2001; Ireland *et al.* 2002). Similarly, case studies and quantitative approaches are also applied to a range of studies, whatever their level of focus.

The use of *underpinning theory* is equally unrelated to scale (see Table 15.1). In practice-oriented studies a wide range of issues related to the management of collaboration have been considered. These include leadership (Alexander *et al.* 2001; Judge and Ryman 2001), managing relationships (Kelly *etal.* 2002; Qiu 2005), managing alliance networks and portfolios (Parise and Casher 2003; Goerzen 2005; Hoffman 2005), the development of influence (Samuel 2005), and management styles (Qiu

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2005). Such studies are largely grounded in mid-range theories which may draw upon psychological (Gomes *et al.* 2005), sociological (Larsson *et al.* 2003), or economic theories (Nguyen and Meyer 2004)—and sometimes combinations of these (for example, Sundaramurthy and Lewis (2003) work with economically rooted stewardship theory and sociologically grounded agency theory to explore governance in private sector IOEs). A similar diversity of approaches can be observed in those studies with a structural orientation, to which we now turn.

Many of the structurally oriented studies are concerned with economic or social structural influences (or perhaps determinants) of the possibilities for collaboration management; they usually have clear theoretical underpinnings that support their particular social or economic perspective. For example, some draw explicitly on institutional theory (e.g. Steensma *et al.* 2005; Teague 2005), whereas others focus on specific macroeconomic or social theorizing which is arguably more ‘mid-range’ in nature. Typical examples in the economic strand would include Salorio, Boddewyn, and Dahan's (2005) work on inter-firm political behaviours in the context of organizational economic strategizing and Ireland's (2004) work on the determinants of

Table 15.1 Theories used in studies on the management of collaboration

Focus of class of studies (or elements of particular studies)	Theoretical ground or underpinnings and works in which they are evidenced
Practice oriented, relatively micro-scale	Usually mid-range theories with roots in one or more of: • • psychology (Hudson *etal.* 1999) • • sociology (Larsson *etal.* 2003) • • economics (Nguyen and Meyer 2004) • • political science/public administration (De Gibaia 2001) For a multiply grounded approach see Sundaramurthy and Lewis (2003)
Structurally oriented, relatively macro-scale	Usually rooted in one of: • • economics (Nault and Tyagi 2001; Salorio *etal.* 2005)

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	• social network theories (Clegg, Kornberger, and Pitsis 2005) • political science (Coulson 2005) • institutional theory (Steensma *etal.* 2005)
Process oriented, usually of intermediate scale	Particular process foci/views: • life-cycle (de Rond and Bouchiki 2004) • trust-centric (Ariño *etal.* 2001) • cooperative processes (Diamond 2005; Celuch *et al.* 2006) Process works are often argued from empirical grounding rather than explicit theory.

partnering as an option in supply chain management. Typical examples in the social theorizing strand include Larsson *et al.*'s (2003) work on the impact of cultural differences upon the control of alliances, and Gustavs and Clegg's (2005) work on the socially embedded nature of partnership practices.

Getting a handle on the theoretical basis of process-oriented studies is somewhat more problematic than dealing with practice-or structure-oriented work, but there are clearly groups of authors interested in viewing collaborative processes as:

• constituted within (or by) life-cycle concepts (e.g. Spekman *et al.* 1998; Buchel 2003);
• centrally concerned with the development or maintenance or loss and recovery of trust (e.g. Ariño *et al.* 2001; Anderson and Jap 2005; Hurmelinna *et al*. 2005);
• a specific set of processes addressing issues such as learning, cooperation, and relationship development and maintenance (e.g. Lui and Lu 2002; Diamond 2005; Celuch *et al.* 2006).

The scale of conceptualization of the management challenge, the methodology applied to the research, and the nature of the underlying theory, are all relevant dimensions for classifying and ‘getting a handle on’

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the extant research in this area. Yet, as this discussion has shown, there is a degree of blurring along these dimensions. For this reason, in the following section we explore a fourth dimension—the type of envisaged *managerial use* of material—which provides an additional and perhaps more helpful, distinction.

Management Insights Typified

From the ‘type of use’ perspective, the range of insights into the management of collaboration is broad and many contributions are idiosyncratic. Compiling and comparing, therefore, is not a trivial task. There is no agreed, authoritative system to group or classify such contributions. Nevertheless, we have been able to group contributions, loosely, where they seem to have some similarity to each other. This has led us to identify six categories of contribution, which loosely relate to the different scales of investigation identified in the preceding section. Table 15.2 summarizes these relationships.

We present the six categories of contribution in two groups. The first grouping focuses on those that start from a position of conceptualizing the nature of collaboration; the second focuses on those that are aiming to provide managerial responses to collaborative situations. This is an imprecise grouping since most of the approaches can be viewed to some degree from both perspectives. In addition, as exemplified in the ‘response’ column in Table 15.2, studies may quite reasonably suggest a *response* to a particular challenge at a different level from that at which it is conceptualized as a *problem*. It is not, therefore, surprising that categories of response straddle two or three levels of conceptualization.

In addition, the discussion below is intended principally as a means of understanding the different types of approach rather than as a precise characterization of the work of particular authors. Many have multiple contributions which collectively span multiple categories; any citation of a particular author should therefore be considered as an example of the category and not a definition of the author's overall approach. Space considerations precluded detailed discussion of the contributions in each category; instead we have aimed to provide signposts to areas of literature that may be followed up elsewhere. In the following subsections we aim to introduce the approaches in a value-neutral way, reserving our assessments of these approaches—and a seventh category—for the following section.

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Table 15.2 Relationships between categories of insight and problem conceptualization

Type of research problem conceptualization	Categories where the research is usually used to help *conceptualize the nature of collaboration*, as a management challenge	Categories where the research is usually used to describe (or prescribe) *responses to the management challenge* of collaboration
Practice oriented, relatively micro-scale	Category III—success and failure factors	Category IV—competencies, behaviours, and tasks
		Category V—guidelines and process steps
		Category VI—tools and facilitation
	Category VII—themes	Category VII—handles for reflective practice
Process oriented, usually of intermediate scale	Category I—life-cycles, phases, and stages	Category V—guidelines and process steps
		Category VI—tools and facilitation
Structurally oriented, relatively macro-scale	Category II—analytic conceptualizations, such as typologies, models, and diagnostics	Category IV—competencies, behaviours, and tasks Category V—guidelines and process steps

Conceptualizing the Nature of Collaboration

Many authors start from a position of conceptualizing the nature of collaboration itself, relating this to specific management tasks. We have identified three ways in which this happens.

Category I—Life-Cycles, Phases, and Stages

A common approach to discussing issues related to the management of collaboration, consistent with a process (intermediate) theory perspective

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(e.g. Van de Ven and Poole 2005), is to consider IOEs as passing through a set of phases or stages, sometimes referred to as a life-cycle. This research may take the form of a theory-driven model (e.g. Zajac and Olsen 1993), but more frequently emerges from single, or occasionally multiple, case studies (e.g. Ring and Van de Ven 1994; Browning *et al.* 1995). Generally, the particular stages are presented as generic, applying to all IOEs—or at least, to all IOEs of a similar type—and 'narrating their life as a predictable, linear sequence of life-cycle stages' (de Rond and Bouchiki2004: 57). Some authors do, however, acknowledge that the boundaries between one stage and the next may not be as clear as the conceptualization itself suggests (e.g. Spekman *et al*. 1998).

Many of these 'phases' models are concerned with the whole process of collaborating from start-up onwards. The stages included vary in number and detail. Kanter's (1994) five-phase model is typical of many. She invokes the marriage metaphor and describes stages of 'selection and courtship', 'getting engaged', 'setting up housekeeping', 'learning to collaborate', and 'changing within'. Some elaborate to a greater number of phases. Spekman *et al*. (1998), for example, identify seven: anticipation, engagement, valuation, coordination, investment, stabilization, and decision. These models tend to follow the progress of an IOE into functional operation and imply that this will be an indefinitely continuing state. Ring and Van de Ven (1994), however, do address termination issues and Inkpen and Ross (2001) explicitly include a 'dissolution' phase and argue strongly that IOEs should not be allowed to persist beyond their useful life. Some 'phases' models concentrate on a particular part of the developmental cycle. The early periods of collaboration are often seen as particularly important; Gray's (1985) classic model, involving the three sequential phases of problem setting, direction setting, and structuring is of this type.

Whatever their focus, processes that are relevant to the 'phases' are typically elaborated in some detail. The intention is usually to provide some insight about issues that need management attention at that stage. These may be in the form of propositions or commentary about what needs to be done in order to increase the chances of (some aspect of) successful collaboration (e.g. Gray 1989; Inkpen and Ross 2001), guidelines, evaluating key options (e.g. Das and Teng 1997), or the roles that managers need to play (e.g. Spekman *et al*. 1998; Ring *et al.* 2005) at that time. In some cases the 'phases' themselves are intended to be prescriptive of how IOEs should be made to (i.e. managed) unfold rather than merely descriptive of how they do unfold. For example, Inkpen and Ross's dissolution phase appears clearly

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prescriptive, since they argue (descriptively) that many IOEs fail to dissolve themselves when they are no longer valuable.

An important exception to this general categorization of the literature is to be found in Doz, Olk, and Ring (2000). They looked at this literature on phases/stages with a view towards determining whether, or not, IOEs (in particular R&D consortia) actually evolve in any generalizable way. The results of their research, based on works using case studies and survey data, suggest that there is variance in the ways that IOEs evolve. From this literature they identified nine variables and revealed three distinct pathways of evolution which they described as emergent, engineered, and embedded. In each of these pathways the phasing was different and some of the phases that they included in their model were not present in all evolutionary pathways. The managerial implications of these differences have been discussed in some detail in Ring, Doz, and Olk (2005).

Category II—Analytic Conceptualizations—Typologies, Models, and Diagnostics

A diversity of other models and frameworks has been proposed with a view to providing a base for managerial action. These often, although not exclusively, relate to structural (macro) theories. In the main, these studies focus on particular issues within the overall collaborative process. Typologies and categorizations abound, including some that relate variables to each other, spotlighting a variety of areas of collaborative management including networking activities and contextual variables (Harland *et al*. 2004), the hierarchical level at which an organization participates in an IOE (from corporate to individual), formality of involvement (from formal to informal), and time-frame (long-, medium-, or short-term) (Goerzen 2005).

Typologies of forms of IOE are particularly common; the notion here can be both to correlate collaborative purpose with the most appropriate type of collaborative form and to clarify the different management tasks or issues that each form implies. Most do this along a continuum from those that are seen as weak or unambitious relationships to those seen as the strongest or closest collaborations. Some—and this seems to be a predominant feature in typologies focused on commercial alliances—use terminology that partly captures the purpose and nature of the relationship: for example, invasive, multifunction, multiproject, coopetition, networks (Anslinger and Jenk 2004). Others focus on a generic hierarchy of relational constructs: for example, networking, coordination, cooperation, collaboration (Himmelman 1996).

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There is, unfortunately, no consensus in the literature about the nature of the items included in these typologies, nor about the labels used to describe them.

Some researchers provide explicit frameworks to dictate the circumstances when it is appropriate to adopt a more or less collaborative stance, usually focusing on a specific aspect or circumstance such as the division of surplus value (Cox *et al*. 2003) or the degree of risk or trust (Ring and Van de Ven 1992) between partners. Frameworks of this latter sort may be thought of as diagnostics. A manager might use them to establish what position her IOE is in—or would like to be in—and to aid in selection of an appropriate course of action. Diagnostic models have been developed to focus on many aspects of collaboration, including ensuring corrective change (Ernst and Bamford 2005), management levers to overcome barriers to collaboration (Hansen and Nohria 2004), and which sub-projects should be carried out by a single partner (Gerwin 2004).

Category III—Success and Failure Factors

Our final type of descriptive conceptualization is, perhaps, the most common of all. It focuses on the identification of inherent generic factors that affect the success of collaboration and relates predominantly to practice (micro) theory. Factors promoting success are often explicitly conceptualized as ‘success factors’ although other terms such as ‘conditions’ and ‘criteria’ for success are sometimes used. Factorspromoting failure tend to be wrapped up in terms such as ‘challenges’, ‘obstacles’, or even ‘minefields’ (Buchel 2003). Both success and failure factors, at times, are expressed as hypotheses or propositions in which an independent variable is related to performance. They also can be presented as quite detailed theoretical frameworks (e.g. Hudson *et al*. 1999). The approach generally appears to carry the implicit presumption that an understanding of the factors can lead to better management practice (Bijlsma-Frankema 2004).

The investigation of success and failure factors focuses at two rather different levels. One approach is to identify a single or small number of variables that are thought to contribute to IOE performance and examine it or them in detail. Taken together, factors treated in this way form a rather disparate collection, including, for example, power issues (Mayo and Taylor 2001; Medcoff 2001; see also, Huxham and Beech, this volume), risk management (Ring and Van de Ven 1992), issue framing (Dewulf *et al.* 2004; see also, Gray, this volume), communication behaviour (Browning

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and Beyer 1998) and influence (Samuel 2005), and the dilemmas between maintaining control and committing to collaboration (Van Marrewijk 2004) or between competition and collaboration (Zeng and Chen 2003). Some, such as national culture (e.g. Lane and Beamish 1990; Buckley *et al.* 2002), trust (e.g. Bachman 2001; Child 2001; see also, Bachmann and Zaheer, this volume), and partner selection and management (e.g. Shenkar and Yan 2002; Buchel 2003; Fitzpatrick and Dilullo 2005), have received much attention from many researchers while others are more idiosyncratic.

A second approach concentrates on establishing the broad range of factors that contribute to the collaborative performance. A surprisingly small amount of attention has been paid to understanding the collectivity of contributors to poor performance and with the occasional exception (e.g. an Accenture survey reported in Anslinger and Jenk 2004), they tend to be at least partly context specific. For example: Qiu (2005) identifies recruitment and training, dismissal (problems with hiring the right staff), energy supply (problems with electricity and gas supplies), and development agendas (problems with partners' conflicting objectives) as key to joint ventures in China's interior; and Sink (1996) focuses on problems associated with involvement of public officials, incrementalism, the shift to empowerment, individual representatives, and diverse sectors, in the context of community-based collaboration.

By contrast, much attention has been paid to deriving lists of success factors and there is much complementarity between them. The lists contain anything from three to 20 items and some factors occur repeatedly across authors. For example, Mattessich, Murray-Close, and Monsey's (2001) review of 40 articles concerned with social IOEs highlights the importance of trust as being identified in almost 70 per cent of these. Trust also appears regularly in literature based on commercial IOEs (see Bachmann and Zaheer, this volume). Other highly cited factors identified in Mattessich *et al.*'s review are listed in Table 15.3. Almost all of these appear in

Table 15.3 A sample of success factors

History of collaboration of co-operation in the community
Mutual respect, understanding, and trust
Appropriate cross-section of members
Members see collaboration in their self-interest
Multiple layers of participation

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Development of clear roles and policy guidelines

Open and frequent communication

Shared vision

Sufficient funds, staff, materials, and time

Skilled leadership

Source: Based on Mattessich *et al*. (2001).

some or many of the lists derived from research on commercial IOEs and thus do not appear to be contextually specific.

This way of conceiving of IOEs is very close to being directly prescriptive. The factors tend to be a mix of uncontrollable environmental attributes that need to be accounted for in the management of collaboration and controllable attributes that are the essence of what needs to be managed. For example, Mattessich *et al*. (2001) indicate that a 'favourable political and social climate' is cited as essential by several authors. These may be directly relevant for policy-makers, but are outside of the control of those involved in the IOE. For the latter, the most obvious management implication is presumably that collaboration should not be initiated in situations where the factor is not present. Another way of viewing environmental factors is as features to be *managed around*. For example, a 'history of collaboration or cooperation in the community' is obviously not changeable, but it may be possible to take managerial action to compensate. Success factors such as 'development of clear roles and policy guidelines' are directly within the managerial sphere and are thus, at least to some extent, controllable. By the very nature of collaboration, however, many of these are relational attributes—for example, commitment, trust, communication quality, (Mohr and Spekman 1994)—and thus can only be partially managed by any single involved party acting alone.

An important aspect to watch for in the success factors literature is the research basis from which a set of factors is derived. Not infrequently, the factors identified are based on questionnaire or interview responses concerning participants' reflections on their experience in one or more IOE and are not examined for their actual effect on performance in those situations. In these cases the factors must be viewed as representative of *perceptions of* those involved about what has made a positive difference. This does not diminish their significance—perceptions are important and will affect the way participants try to manage their involvement—but perceptions

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are not the same as actual determinants of performance. Whenperformance is explicitly addressed—for example, as in some hypothesis testing research—a variety of different surrogate performance measures are used. This means, first, that every piece of research has to be examined carefully before it can be related to practice; and, second, that it cannot be taken for granted that different contributions are comparable.

Establishing Responses

As we have indicated already, conceptualizations of the nature of collaboration can be a precursor to devising responsive management behaviours and tasks. We have also indicated that many of these conceptualizations either implicitly suggest actions or behaviours or explicitly spell out the actions and behaviours that follow from the description. We now turn our attention to those prescriptive aspects that are directly related to the management task. For some authors, this is the central focus of the work and mapping the nature of collaboration is not a part of the logic of their approach. We include here insights from both those who do and those who do not start from the ‘nature of collaboration’ position.

Category IV—Competencies, Behaviours, and Tasks

Many prescriptions for successful collaboration are couched in terms of competencies, skills, capabilities, or attributes. Closely related to these are those prescriptions couched in terms of collaborative behaviours and the management roles that are needed within a specific IOE. Also related are those that focus on activities, tasks, strategies, and techniques. This category is clearly related to the practice (micro) orientation but there are also structural (macro) considerations. While all of these labels suggest a focus on individual managerial action, some of the approaches are actually framed at the organizational level. For example, organizations may be exhorted to gain partnering competencies or to use partnering techniques. As suggested in the introduction, however, we view these as ‘managerial’ because implied individual competencies or actions are needed to enact the proffered organizational level response.

A significant body of literature that is framed at the organizational level is concerned with ‘alliance capability’ (e.g. de Man 2005) or ‘portfolio management’ (Wagner and Boutellier 2002). The focus here is on an individual organization's ability to manage multiple (often many hundreds of) IOEs. The approach has been used in the context of all types of IOE.

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However, there is a significant sub-body of literature relating specifically to collaborative relationships with suppliers. A recurring theme in the area relates to the importance, role, and structure of an ‘alliance function’ within an organization: that is, a part of the organization that is dedicated to ensuring smooth management of its key alliances (Hoffman 2005; deMan 2005). It is generally concluded that such a function makes a significant difference to achieving good performance in the individual alliances. Kale, Dyer, and Singh (2001) however, present a ‘4-C’ framework (capture, codify, communicate and create, coach) for ensuring that the collaborative know-how is retained and built upon. The appointment of one or more ‘alliance managers’ to manage the organization's input into all, or a group of, its alliances is also regarded as positive (Spekman *et al*. 1998; Draulans *et al.* 2003). A key focus of research in this area is on specifying the tasks (Hoffman 2005), techniques (de Man 2005), or guiding principles (Wagner and Boutellier 2002) that alliance management demands. In some cases, this is done to a considerable degree of expansion (e.g. Child and Faulkner 1998).

The role of an alliance manager as described above is a different role from that of a ‘partnership manager’ appointed by the IOE to manage its activities (Vangen and Huxham 2003). Consideration of the latter shifts the focus of attention to the management of the IOE itself. Researchers who focus at this level often conceptualize their recommendations in terms of strategies or tasks that will ‘foster collaboration’ (Gray-Gricar 1981: 403). Gray's own early work, for example, identifies strategies of advocacy, diagnosis, networks, search conferences, and referent structures. These are tasks that are to be undertaken by the IOE; we may presume that this means by those individuals who enact the IOE on behalf of their organizations.

A related body of literature is concerned with *network management*. Kickert and Koppenjan's (1997) perspective on this poses a network as a looser set of relationships than other IOEs such as partnerships or strategic alliances (see also, Klijn, this volume). The task is to promote the mutual adjustment to each other of actors within a framework of Inter-organizational relationships. They suggest that it involves three elements: intervention in an existing pattern of relations, consensus building, and problem solving, and suggest several strategies for achieving these. As with alliance management, there are many examples where collaboration and network management has been expansively elaborated (e.g. Gray 1989; Koppenjan and Klijn 2004).

An alternative approach takes the principal focus as not so much on the tasks themselves as on the competencies and behaviours required to

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carry them out. Williams (2002), for example, focusing particularly on individual ‘boundary spanners’, defines competencies as the combination of particular skills, abilities, experience, and personal characteristics. He argues that effective boundary spanners demonstrate competencies for building sustainable relationships, managing through influence and negotiation, managing complexity and interdependencies, and managing roles, accountabilities, and motivation. Expressed at this level the competencies approach still focuses principally on tasks that have to be carried out. It is only when the tasks are examined at a more detailed level that individual capabilities that contribute to the enactment of these become evident. In a longitudinal study of people whom participants identified as effective collaborativeleaders, Feyerherm (1994) arrives more directly at behaviours. Her list of fourteen items includes, among others: reasoning, bridging, using humour, and providing examples and analogies.

Category V—Guidelines and Process Steps

Some approaches are expressed in what appear to be more directly prescriptive terms. Many authors produce guidelines for managing (nearly) any IOE, or some aspect of it. Guidelines, which may derive from process (intermediate), structure (macro), or practice (micro) positions, are generally expressed in lists of ‘soundbites’ of best practice, always leading with a clear imperative. Thus Das and Teng's guidelines for risk management in collaboration include instructions such as ‘ensure increased productivity by emphasizing superior alliance performance’ (Das and Teng 1999: 60). Their guidelines for the broader task of sustaining strategic alliances are slightly more elaborate, including, for example, contingencies, but are equally firm in their advice (Das and Teng 1997). Spekman, Isabella, and MacAvoy's (2000) guidelines for a ‘no-blame review’ of an IOE's performance—which is just one aspect of their overall guidance—are also framed as instructions, although their content is more process oriented than Das and Teng's and includes a long list of ‘things to think about’ before the meeting, a set of ground rules to be followed during the meeting, and a list of possible outcomes—including both validating the IOE's strategy and terminating the IOE—presented almost as a list of options from which participants might choose.

Guidelines of this sort are often suggestive of a sequenced approach or, in some cases, the researchers explicitly frame processes as sequenced steps (e.g. Crosby and Bryson 2005*a*; Ring *et al.* 2005). Some are presented with rich discussion aimed at fleshing out the explanation for the ‘sound-bite’ nature of guidelines. At the other extreme are those that are presented with

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no elaboration or explanation of a specific guideline as though the reader is expected to trust the author.

Although the examples referred to above are reported in journal articles, there are a vast number of books that are essentially in this mould. Some are written by academics as the practical embodiment of research that has been reported elsewhere (e.g. Doz and Hamel 1998). Some are written by consultants based on understandings they have gained from (sometimes extensive) experience of seeing the success factors implemented (or not) in practice (e.g. Bergquist *et al.* 1995; Mankin and Cohen 2004; Lank 2006). Yet others are devised by organizations or government departments to guide their own staff or practioners operating in particular policy areas (e.g. Melaville *et al.* 1993; Audit Commission 1998). These books are naturally much more elaborated than articles, but they too tend to focus on what has to be done much more than on how to do it well (implying, frequently, that managing collaboration is like managing anything else). Typically they provide many stories to illustrate the advice they are providing, but very little in the way of empiricalwork or reference to literature that indicates that the points are actually related to performance in terms of explaining outcome variance. Even though they sometimes disclaim it, there is a sense that they believe that most IOEs face the same or similar challenges and thus their guidelines tend not to be associated with caveats.

Category VI—Tools and Facilitation

Our final category of responses aims to provide direct assistance with the enactment of the previous two. It is concerned with the development of tools and techniques that can be used to support the collaborative process. These include conceptualizations which have both practice and process (micro and intermediate) related aspects, and examples vary radically: Shaughnessy's (1994) techniques for collaborative project management include quantitative analyses of risk, while Winer and Ray's (1994) collaboration handbook includes questions to think about, group activities, and so on. At a higher level, the notion of Transorganizational Development (TD) can also be regarded as being in this category. Conceptually, TD was introduced by Cummings (1984) as the Inter-organizational embodiment of Organizational Development (OD). It is concerned with large system change. Many methods have been devised for promoting such change; Boje and Rosile (2003), for example, cite 16 on their TD ‘gameboard’. They range from the theoretical (e.g. critical theory sociology of OD) to practical events (e.g. search conferences). Although these tools can be used by participants themselves,

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there is often a presumption that they will be used by a facilitator (e.g. Ackermann *et al*. 2005; Friend and Hickling 2005).

Intervention methods of this type are very important contributors to the management of collaboration and as such are the subject of an entire chapter in this book (see Gray, this volume). We will not discuss them in detail here, but refer you to that chapter.

Another Way: Category VII—The Themes Approach and Reflective Practice

In introducing the six categories of management insight just described, we stressed the impreciseness of the categorization. Nevertheless, we believe that this approach—if not taken over-literally—is helpful in providing our sense of the array of contributions to the field.

The six categories—and the variants within them—each have their own merits but it may not always be a straightforward translation for those managers seeking to convert them into meaningful action. In some cases this is because their form of presentation hides their context specificity. This is most evident in the case of *guidelines and process steps*, where similar presentations of material may relate to research (and management) problem conceptualizations at the micro, macro, or intermediate scale, or some mixture of elements from these—which may have an impact on the relevance and transferability of the material to the domain of use. However, more specific instances of hidden context specificity can also be cited. For example, the *life-cycle approach* does not fit our own empirical observations to the extent that while we observe IOEs passing through various stages, there does not appear to be commonality of these from one IOE to another.

There are also other reasons why translation into action is difficult. *Typologies* are problematic to the extent that the literature—and, in our experience, the terminology used in practice—do not coalesce towards any agreed version. Even when the same terminology is used, the definitions are often different and sometimes even reversed. For example, the term ‘collaboration’ is sometimes taken to suggest a stronger relationship than ‘partnership’, and sometimes a weaker one. The *success and failure factors approach* is good at suggesting where pain or reward can be experienced in collaboration but rarely correlates perceptions with outcomes—and assumes that factors can be consistently determined to assist or detract from positive outcomes. As a rule, little guidance is given on how to turn the factors into successful managerial action and our empirical observation is that most

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factors may pull in either direction or be often unattainable in practice. Similarly, *guidelines* are generally quite explicit about what is to be done but rarely address the practicality of doing it. *Tools* and *techniques* can be a help with this, provided that they have a sound empirical and theoretical basis.

The Huxham and Vangen (2004, 2005) response, therefore, has been to take an approach which encapsulates some aspects of the above but which is structurally different. This is embodied in their development of the theory of collaborative advantage as a basis for practical managerial action. While this focuses centrally on practice (the micro level), both process (intermediate) and structural (meso) considerations are seen as important determinants of practice. In common with others (Crosby and Bryson 2005*b*; Imperial 2005), the approach makes a fundamental assumption that collaboration is too complex and idiosyncratic for precise prescriptive remedies. It therefore focuses on providing 'handles for reflective practice'. These are formulated as conceptualizations of collaboration practice which focus the user's attention on aspects of practice situations that have to be managed, but which expect the user to formulate the managerial action in the light of their own circumstances and competencies. Each conceptualization is thus used as a framework or tool for aiding what Bardach (1998) refers to as *managerial craftsmanship*.

To a degree, this has similarities with the success and failure factors approach in that the aspects of collaboration that are focused on are largely those that participants perceive as causing pain and reward. However, the theory aims to provide rich conceptualizations of each aspect that explicitly focuses on identifying areas where there may be tensions between alternative possibilities for useful modes of action (Huxham and Beech 2003). As a whole, the theory is structured in overlapping 'themes'. Each theme relates to an aspect of collaboration practice such as managing aims, power, trust, identity, collaborative structures, and so on. From a practice perspective, dividing the world into themes allows the complexity of the whole to be considered in manageable chunks. In using themes-based theoretical frameworks, the manager is thus able to concentrate at any one time on particular issues of current concern—let us say, dealing with difficulties in the agreement of collaborative purpose—while maintaining an awareness that dilemmas and difficulties highlighted by the other themes—say, lack of mutual trust and power imbalances—will affect the fruitfulness of any line of action that they choose to take.

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A reflective practice approach, as a mode of use, is consistent with many of the tools of category VI and it is possible to incorporate any of the types of insight from categories I–V within such a mode. Doing so, however, requires that neither descriptions nor responses are taken too literally. Operating within this mode, each insight is seen as a stimulus for constructive thought in the practice situation and as such is likely—and necessarily—to be challenged and reconstructed in that context.

Conclusion—Areas for Further Research

Specific Topics for Further Research

In general, our review of the literature in this area suggested that there is a lot of IOR material that could be read in terms of its insight into the 'how to' of managing collaboration. However, it also revealed some notable omissions. For example, it is clear that relatively little attention has been paid to the day-to-day management of IOEs and there is much scope for (micro-and intermediate scale) research that investigates and conceptualizes how IOE managers spend their time. Furthermore, the area is largely devoid of comparative assessments of management practice issues and this is a serious shortcoming that cries out for resolution. There are few cross-sector assessments of how managers treat issues such as 'partner' selection or trust building. Ring (1997) demonstrates that it is possible for some managers in public-private IOEs to find common ground in supra-organizational goals such as nationalsecurity concerns. It would be useful to know what other contexts might make it easier to manage IOEs across sectoral boundaries. There are similar deficiencies in the literature on structural or environmental comparisons; the comparative challenges of managing an IOE in emerging or transitioning economies have only recently begun to be addressed (and then, typically, in the context of China, but see Rondinelli and Black 2000; Kotabe *et al*. 2000).

Other notable omissions relate to the substantive areas that authors have focused on. For example, while the literature that we have categorized as concerned with 'success and failure factors' includes many relational concepts (trust, power, mutual understanding, and so on) there is little that focuses on the emotions that may be at the heart of these issues. Clearly there is the potential for managerial challenges to arise out of emotions such as fear, surprise, regret, etc. Actors in an IOE are social and socialized beings with traditions and values that may differ markedly between individuals (Hibbert and McQuade 2005), and the problems that arise from such

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differences have been noted in the private sector literature (Chikudate 1999; Cohen and Mankin 2002), public sector studies (Kitchener 2002; Everett and Jamal 2004), and cross-sectoral work (Millar *et al.* 2004). As Millar *et al*. (2004) have suggested, trying to *impose* common standards where none exists can harm those intended to benefit from such manoeuvres. In these circumstances, an inability to control any number of emotions may lead to 'breaches' in relations that would require repair or rebuilding of those relationships.

This suggests a number of substantive areas in which managerially focused research could usefully be directed. First, there is an opportunity to build from the work of Huy (1999) on the role of emotions in managing. Second, a (macro or intermediate scale) focus on how the repair or rebuilding of IOEs—whether the need stems from endogenous events such as a breach of trust between one (or more) of the parties to the IOE, opportunistic behaviour, or the impact of events that are exogenous to the IOE—might be managed also seems likely to be a fruitful area for future research. Third, there is a need for (macro and intermediate scale) research that determines how management *against* change might be understood, from an appreciative rather than a critical perspective. That is, we see a need for studies that give equal value to the emotional and rational-economic aspects of change avoidance processes in the management of an IOE.

A comparison of IOR management research with mainstream management texts (e.g. Morden 1996; Rue and Byars 1997; Palmer and Hardy 2000; Clegg *et al.* 2005; Hannagan 2005) indicates a few other substantive areas that might usefully be followed up. We particularly noted a paucity of useful theory related to decision-making, ethics, and motivation, all of which seem likely to be important in IOR contexts.

In the case of decision-making, while much of the prescriptive literature provides lists of choices to be addressed or guidance for particular decisions such as selection of partners (e.g. Geringer 1988; Beckman *et al.* 2004; Hitt *et al*. 2004), or the choiceof structural and institutional forms for IO arrangements (e.g. Bergquist *et al.* 1995), there is little that relates explicitly to decision-making processes at either organizational or Inter-organizational levels within an IOE. Since the quality of these processes has obvious connection to the value of the outcome of collaborative working, empirical work with a deliberate focus on the actual *processes* (at the micro or intermediate scale) by which decisions are reached in IOEs seems likely to be extremely valuable.

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The consideration of ethics has some bearing on the conditions for decision-making in various types of IOEs, but is also self-evidently important in its own right. Insights might be drawn from some (arguably) conceptually overlapping areas, such as culture (e.g. Alvesson and Lindkvist 1993; Clegg *et al*. 2002) and works dealing with norms and values (e.g. Garcia-Canal *et al.* 2003; Perrone *et al.* 2003). Here, too, there is a need for some integrative and empirical work, particularly in relation to the question of whether systems or principles of ethics may be unified phenomena at the IOR level—through the objectification of micro-scale notions to produce a macro-scale normative environment—or consist of overlapping and rather loose sets of ideas in play in the mêlée of IOEs.

Motivation is an area that has been covered in passing, notably in work addressing aspects of leadership and management (in general) in specific types of IOEs (e.g. Gray 1989; Amabile *et al*. 2001). In such work, however, motivation largely figures as a management or leadership task, so there is room for more conceptual development, and specific practice-and process-oriented (micro and intermediate) studies that look at how motivation in collaborative settings is achieved in practice. Studies which consider values and norms (as discussed above) or behaviours (e.g. Håkansson 1989; Mohr and Spekman 1994; Bierhof and Müller 2005; Salorio *et al.* 2005) in collaborative contexts arguably might yield some initial insights as a springboard for further investigations. Work on the negotiation of aims or shared purpose within an IOE (e.g. Eden and Huxham 2001; Child and Yan 2003; Huxham and Vangen 2005) may also be informative in this context.

A Reorientation of Research in the Field

Although we regard all of the future research areas suggested above as important for developing meaningful understandings that may contribute to managerial practice, we reserve our final, and perhaps most significant, comment for remarks about the way in which research that supports the management of collaboration is conducted and constructed.

We have noted and discussed four dimensions on which such research might be categorized: the scale of conceptualization of the research (and management) problem, the underlying theories, the methodological approaches, and the potential use of the research output in supporting management insights. Whatever thesubstantive IOE management topic under consideration, we suggest that there is a need for careful consideration of all four dimensions in conducting future research into the

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management of collaboration. This connects with the concerns identified above about the validity of many of the contributions in each of the categories. So long as researchers strive for highly prescriptive outcomes, progress in this area clearly requires research that pays attention to context and variance, examines the link between practice insights and performance, focuses on the micro detail of the practical enactment of the insights, and is clear about their theoretical basis. Over time, it should then be possible to produce an increasingly usable set of insights.

However, as indicated above, we remain sceptical about the possibility of precise prescription. While we nevertheless see value in pursuing ever better conceptualizations and models, we suggest that a sensible parallel—or, better still, integrated—research thrust should be a focus on development of the *use* of these insights in a 'handles for reflective practice' mode (Huxham and Beech 2003). Insights in all categories could be viewed as providing users with research-justified areas to direct their thinking rather than as precise prescriptive remedies. The expectation would be that users would then invoke their own expertise and judgement to craft a course of action (Bardach 1998). The implication would be a reframing of the way that the insights are presented. Success factors, guidelines, and task lists would need to be couched in less assertive language and offered as 'key issues that often need to be managed'. Life-cycle models might offer alternative 'phase' descriptions that users' actual IOEs could be compared with, rather than force-fitted into. Analytical models, currently in category III, would become a subset of the thinking tools of category VI. Serious progress in this direction requires only a shift of perspective about acceptable forms of presentation of research output.

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Steve Cropper, Chris Huxham, Mark Ebers, and Peter Smith Ring

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The Social Psychology of Inter-organizational Relations

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Abstract and Keywords

Social psychology is ‘the scientific investigation of how the thoughts, feelings, and behaviours of individuals are influenced by the actual, imagined, or implied presence of others’. The social psychology of intergroup relations is concerned with understanding the determinants of conflict between groups and concomitant processes. This article discusses the dynamics of conflict and collaboration between multiple parties from a psychological perspective. First, it provides an overview of how social psychologists have traditionally studied relations between groups and the theories that have been formulated to understand their dynamics. Then it discusses the relevance of these social psychological theories for understanding the dynamics of complex inter-organizational relations and point to their weaknesses. It ends with a call to develop a comprehensive theory of the psychological dynamics of inter-organizational conflict and collaboration and to engage in multidisciplinary research.

social psychology, conflict, collaboration, inter-organizational relations, psychological dynamics

Introduction

Very little is known about the psychological dynamics of complex Inter-organizational relations. In view of the frequency with which distrust, negative attitudes, poor communication, and stereotyping are seen as

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characteristic of or even as the cause of failure of Inter-organizational relations, psychology can be expected to provide a promising perspective for understanding, handling, or even preventing such dynamics. Nevertheless, little research is devoted to the psychological dynamics of Inter-organizational relations. Most attention is paid to financial-economic and strategic aspects. Myopia concerning the psychology of Inter-organizational relations characterizes both managers and psychologists themselves. This is not to say that there are or have been no psychologists studying organizations and their dynamics (classics like Katz and Kahn (1978) and Schein (1980) quickly coming to mind), nor that there is hardly any research touching psychological issues inInter-organizational relations (e.g. Ring and Van de Ven 1994). Psychologists have rarely studied relations between organizations, despite the fact that a long-standing social psychological tradition exists aiming to understand the dynamics of relations between social groups. Though some concepts developed within this tradition have been applied to the study of intergroup relations within organizations (e.g. Blake *et al*. 1964; Ashforth and Mael 1989), the psychological study of Inter-organizational relations still needs to be developed.

Below I will discuss the dynamics of conflict and collaboration between multiple parties from a psychological perspective. First, I will provide an overview of how social psychologists have traditionally studied relations between groups and the theories that have been formulated to understand their dynamics. Then I will discuss the relevance of these social psychological theories for understanding the dynamics of complex Inter-organizational relations and point to their weaknesses. The chapter ends with a call to develop a comprehensive theory of the psychological dynamics of Inter-organizational conflict and collaboration and to engage in multidisciplinary research.

Social Psychological Theories of Intergroup Relations

Social psychology is ‘the scientific investigation of how the thoughts, feelings and behaviours of individuals are influenced by the actual, imagined or implied presence of others’ (Allport 1935). Social psychologists study phenomena like attitude change, social influence, group processes, leadership, decision-making, prejudice, intergroup behaviour, aggression, affiliation, attraction, and love. Social psychology has a long tradition of studying the dynamics of intergroup relations, known as the ‘social psychology of intergroup relations’. Negative stereotyping, prejudice,

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attitudes, discrimination, and scapegoating can all be found under this heading.

The social psychology of intergroup relations is concerned with understanding the determinants of conflict between groups and concomitant processes. The two main theories that have been developed within social psychology are the Realistic Conflict Theory (Sherif 1967) and Social Identity Theory (Tajfel and Turner 1979). But although these two, and especially the latter have stimulated a lot of research, they are not the only theories. Earlier thinking about intergroup hostility was influenced by Freud. Other approaches extrapolate from the dynamics belonging to the interpersonal level to the intergroup level. Sociological theorizing enteredthe field with the concept of 'relative deprivation' (Stouffer *et al*. 1949), adapted by psychologists. Finally, the 'cognitive turn' in psychology influenced the domain of intergroup relations too. More recently several other perspectives, drawing from these earlier theories, have been formulated. Below a short overview of those theories that have stimulated the most extensive discussion and inspired most research is provided (taken and adapted from Schruijer 1990). For a more elaborate presentation of social psychological theories of intergroup relations I refer to Schruijer (1990), Brown and Gaertner (2003), and Sidanius (2004). First, however, some basic concepts need to be explained.

A group can be described as 'two or more interdependent individuals who influence one another through social interaction' (Forsyth 1990: 7). The concept of intergroup relations then stands for 'relations between two or more groups and their respective members. Whenever individuals belonging to one group interact, collectively or individually, with another group or its members in terms of their group identifications we have an instance of intergroup behavior' (Sherif 1967: 12). Thus, intergroup behaviour can be manifested by individuals, when their interaction is largely based on their respective group memberships. An example would be representatives of various groups who are engaged in negotiating. Intergroup behaviour is different from interpersonal behaviour in the sense that the latter refers to a relationship between two individuals who interact in terms of their personal relations and their individual characteristics, not determined by their respective group memberships. Intragroup behaviour refers to all types of social relations within the boundaries of a particular group (such as, for example, within a project team, see Jones and Lichtenstein, this volume). Examples of intergroup relationship would be those between organizational

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departments (and their respective members or representatives), between sports teams, or between research groups.

Not all social psychologists studying intergroup behaviour conceive of a group in the same terms though. Some stress the importance of interdependence between group members (e.g. Realistic Conflict Theory), others that of identification of group members with a group (e.g. Social Identity Theory, see below). In the latter case intergroup behaviour could also refer to the interaction between individuals belonging to different social categories, such as between men and women, between different nationalities, between old and young persons, as long as they identify strongly with their social category.

Two final terms that need a description are ‘ingroup’ and ‘outgroup’. The term ‘ingroup’ refers to ‘a group to which a person belongs, or thinks he or she belongs’ (Hewstone *et al*. 1988: 41) while the term ‘outgroup’ refers to ‘a group to which a person does not belong or thinks he or she does not’ (Hewstone *et al*. 1988: 454). Thus, outgroup animosity, for example, stands for animosity directed at (members of) another group, while ingroup attraction means attraction towards (members of) one's own group.

Psychodynamic Theories

Psychodynamic theories share a Freudian psychoanalytic knowledge base in understanding the determinants and dynamics of intergroup conflict. Rather than looking at the relationship between groups, they focus on the person exhibiting prejudice or negative behaviour towards one or more members of another group. Three main perspectives within the domain of psychodynamic theories can be distinguished.

Freud's Psychology of Groups and Group Behaviour

Freud developed a group psychology that was heavily based upon his psychodynamic theory of intra- and interpersonal dynamics. He directly applied his model of universal intra- and interpersonal dynamics to the explanation of hostility towards other groups. Freud defined a group as ‘… a number of individuals who have put one and the same object in the place of their ego ideal and have consequently identified themselves with one another in their ego’ (1922: 116). In Freud's theorizing, this particular object refers to the group leader. Freud would not consider a group which does not have a powerful leader as a group. A group is formed via (partially or

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completely unconscious) processes of identification with the leader, and with those other individuals who identify themselves with the same leader. Thus, libidinal ties are formed with the leader and among group members.

In Freud's thinking, an individual undergoes psychological changes when becoming a member of a group. That individual loses intellectual abilities and becomes more susceptible to influence attempts. This fits with Freud's negative view of groups and their behaviour, a view that he shared with LeBon (1896) and McDougall (1920). However, when organized appropriately, groups can acquire the characteristics of an individual and hence be able to act at a higher intellectual level. In such a case, group members experience feelings of certainty and purpose. The group leader can also improve performance by using influence through suggestion.

Early emotional relations within the family, which are the bases of identification processes within the group, involve feelings both of love and of hatred and thus cause psychological ambivalence. The hostility has to be coped with. At an individual level this is done by repression; at the group level the hatred is displaced towards another group. Those groups that are most dissimilar, are the most likely targets for hostility. According to Freud, displacement of aggression via outgroup hostility is not only inevitable, it also performs an important function: it maintains and enhances ingroup cohesion.

Frustration-Aggression Hypothesis

The Frustration-Aggression hypothesis (Dollard *et al*. 1939) was originally formulated within the context of interpersonal aggression, but has been applied tointergroup aggressive behaviour as well. The Frustration-Aggression hypothesis states that frustration will invariantly lead to aggression, and that the occurrence of aggressive behaviour is always preceded by frustration. Frustration is a consequence of a prevention of goal-directed activity. The expression of aggression is considered to be cathartic. It restores a psychological equilibrium, such that the chance of subsequent expressions of aggression is reduced. Aggression due to frustration is normally aimed at the agent or cause of frustration. However, when the agent is unavailable or punishment is feared, the frustrated individual will look for another target. The selection of another target can occur via a process of stimulus generalization, in which a target is chosen as similar as possible to the frustrating agent. Or, the aggression is displaced onto a completely different target: a scapegoat. Dollard *et al*. explained intergroup

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hostility by referring to this mechanism of displacement. Aggression towards members of the ingroup is displaced onto dissimilar outgroups.

In 1941 the original Frustration-Aggression hypothesis was modified. Miller (1941) stated that frustration induces an instigation to a number of types of responses, one of which is aggression. Instigated aggression will only be expressed when there are no strong competing responses that may inhibit aggressive behaviour. Berkowitz (1962, 1969) combined the postulated universality of the existence of an aggressive drive, with notions belonging to learning theory, in order to be able to explain that this universal tendency only becomes manifest in certain situations. He furthermore widened the concept of frustration by including disappointment due to unfulfilled expectations. In his view, frustration leads to arousal of anger, which in turn leads to overt aggression provided that cues which have been associated in the past with aggressive behaviour are present. Here, group aggression is seen as a consequence of simultaneously occurring individual aggressive responses to the same frustrating cues.

The Authoritarian Personality

Psychologists have looked for individual differences in order to obtain a proper understanding of hostile intergroup behaviour. Why is it, for instance, that some people are susceptible to an anti-semitist ideology, yet others are not? Adorno and his colleagues explored the cognitive and motivational characteristics of the so- called authoritarian personality and its implications for racial prejudice (Adorno *et al*. 1950). The authoritarian personality refers to a personality syndrome which expresses itself in a negative view of minorities, in conservatism, a submissive attitude towards authority, aggression towards those who violate conventional rules, resistance to the subjective and imaginary, superstitiousness and stereotyping, destructiveness and cynicism, preoccupation with sexuality, preoccupation with the dimensions dominance—submission, strong—weak, leader—follower, and identification with authority figures.

One scale of the questionnaire used by Adorno *et al*. was the so-called ‘ethnocentrism scale’. The concept of ethnocentrism can be traced back to Sumner (1906), who used the concept to describe the general tendency of groups to evaluate their own group more positively than others and downgrade outsiders. It appeared that individuals high on authoritarianism were also high in ethnocentrism. In the opinion of Adorno and colleagues,

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therefore, individuals characterized by an authoritarian personality are predisposed to be prejudiced.

Harsh and restrictive childrearing practices are held responsible for the development of an authoritarian personality. Due to identification processes, the parents are idealized and feelings of hatred towards them are repressed. It is argued that this identification process includes all authority figures. Criticisms one has towards them are projected onto outgroups which enjoy lower status and power. The repressed feelings of hatred are displaced onto these outgroups, resulting in aggressive behaviour towards (members of) these groups.

Cognitive Theories

The aim of the cognitive approach is to understand how knowledge concerning groups influences an individual's information processing and vice versa. According to Stephan (1985):

> The cognitive approach … makes it possible to broaden the focus beyond the traditional topics of prejudice and stereotyping to include a wider range of cognitions and their role in information processing and overt behaviour. This approach encompasses the organization of knowledge about groups into higher-level structures such as schemata, scripts, and prototypes, as well as providing new insights into the operation of expectancies and biased perceptions of intergroup behavior.
>
> (Stephan 1985: 600).

The cognitive approach assumes that the human information processing capacity is limited (‘bounded rationality’), which makes it unnecessary to attribute biases in perception and cognition to motivational factors. Thus, limitations in the human information processing system are seen as the cause of biased intergroup perceptions and cognitions. These, in turn, may lead to new biases in information processing. For instance, categorization may be the causal mechanism for stereotypes to form, stereotypes which in turn may lead to selective attention to information confirming the stereotype. Ashmore and DelBoca (1981) point out that despite the notion of bounded rationality, human beings are conceived of by the cognitive orientation as ‘intrinsically motivated by “intelligent” concerns. Woman (or man) is

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a scientist, albeit a fallible one, seeking to make sense out of a complex environment' (Ashmore and DelBoca 1981: 30).

Much attention is devoted to the influence of information-processing limitations on stereotypes and prejudice, and to the influence of stereotypes and prejudice on information processing. A key concept within the cognitive approach is that of social categorization (Oakes 2003). Social categorization refers to the cognitive process whereby the social world is divided into social groups and categories. Its function is to reduce the complexity of the information coming from the world around us. Objects are categorized according to their similarity along one or more defining dimensions. Experience with a certain category can lead to the formation of subcategories, resulting in a hierarchy of categorizations. Race and sex are basic categories in information processing about others. Intra-category similarities and inter-category differences are accentuated (e.g. Tajfel and Wilkes 1963). However, the outgroup is seen as more homogeneous than the ingroup (e.g. Linville and Jones 1980). As a consequence, generalization over members of the outgroup is easier in comparison to generalization over ingroup members.

Extrapolations from Interpersonal Research and Theories

Some perspectives have applied concepts and insights that were originally developed for understanding interpersonal relations to the area of intergroup relations. They are: social exchange theory, belief congruence theory, and the contact hypothesis.

Social Exchange Theory

Social exchange theory (Thibaut and Kelley 1959; Homans 1961) conceives of interpersonal and intragroup interaction as analogous to economic transactions. Human beings are seen as rational creatures, motivated to avoid costs or punishment and to maximize profit or gain. Its methodology has been influenced by game theory (Luce and Raiffa 1957). The ideas of social exchange theory have been applied to relations between groups and nations (see for example Deutsch 1969). An example of this extrapolation is research on bargaining and negotiation (Pruitt and Kimmel 1977). Though the term multiparty negotiation is used by some, it refers to negotiation with more than two individual players (Bazerman *et al*. 2000).

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Some, however, do make a clear distinction between interpersonal and intergroup negotiation. In the latter case representatives with constituencies are involved (Morley and Stephenson 1977). Group representatives (negotiators) face a dual conflict (Adams 1976): as a representative they have to negotiate with the other groups' representatives who may have interests contradictory to the ingroup—anintergroup conflict. Simultaneously, representatives are stuck with a certain mandate and may face difficulties in persuading their constituencies of compromises that the representatives have developed—an intragroup conflict. Each negotiator has to respect his or her role obligations towards the group that is represented, yet at the same time has to establish and maintain an interpersonal relationship with the representatives of the other groups, in order 'to mitigate the tensions and misunderstandings generated in the formal intergroup relationship' (Stephenson 1981: 186). Thus, intergroup negotiation comprises of both an intergroup (between the groups in conflict) and an interpersonal relationship (between the groups' respective representatives). A climate in which intergroup demands are high while interpersonal demands are low is likely to lead to conflict; low intergroup demands and high interpersonal demands result in collusion. When both demands are low apathy is a likely outcome, while compromise may result when both demands are high. Several factors can affect the salience of intergroup and interpersonal relations, for example procedural requirements, formality of the communication system, eye contact, third-party evaluation, and number of negotiators present (Stephenson 1984).

Some have focused on the impact of power differences on communication and participation among managers, subordinates, and union officials (e.g. Mulder 1972; see also, Huxham and Beech, this volume, for a discussion of power differences). When power differences are too large, participation by relatively powerless groups increases their felt power distance.

Belief Congruence Theory

Belief congruence theory states that the similarity or congruence between the belief systems of individuals is a major determinant of their attitudes towards one another (Rokeach 1960, 1968). An individual is attracted to others who have similar beliefs, since an individual is in need of validation of his own beliefs. Belief congruence is also seen as determining intergroup attitudes: Rokeach conceived of racial prejudice as the outcome of perceived or assumed belief incongruence and not as the result of belonging to a different race or group.

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Contact Hypothesis

The main thrust of the contact hypothesis is that contact between members belonging to different groups leads under certain conditions to an improvement of that particular intergroup relationship (Allport 1954; Pettigrew 1998). It was recognized that mere contact is not sufficient to improve intergroup relations and might even lead to deterioration. Therefore, conditions for the success of contact werespecified. The most often mentioned conditions are, that the group members in the contact situation enjoy equal status, pursue common goals, are backed by social and institutional support, and that the contact is not threatening or anxiety-provoking (e.g. Allport 1954; Pettigrew 1998; Stephan and Stephan 2000).

Relative Deprivation Theory

The term relative deprivation was first used by Stouffer *et al*. (1949). They found that air force personnel in the US army were more dissatisfied with the promotional system than the military police, despite the fact that promotions were fast in the former and slow in the latter. Stouffer *et al*. suggested that this finding may have been due to expectations by air force personnel that they would get a promotion, since that was a common occurrence. By not getting promoted they felt dissatisfied. In the military police promotions were rare and hence were not expected and could not subsequently lead to feelings of dissatisfaction. Apparently, soldiers belonging to the air force compared themselves with colleagues who had already been promoted, and not with soldiers from another unit where promotions were seldomly made. Since then a host of studies on relative deprivation have been carried out by both psychologists and sociologists. Most proponents claim that feelings of relative deprivation are closely linked with collective action. A key insight employed was that the reaction of people to objective circumstances is a function of subjective comparisons.

Over the years, many different theories and definitions of the concept of relative deprivation have been developed (see Crosby 1982). All theories include a minimum of three essential elements (Martin and Murray 1984): (1) an objective distribution of outcomes; (2) the choice of a comparative referent; and (3) feelings of deprivation, which are defined as feelings of discontent, dissatisfaction, or perceived injustice. Runciman (1966), for example, stated that '…A is relatively deprived of X when (1) he does not have X, (2) he sees some other person or persons … as having X …, (3) he wants X, and (4) he sees it as feasible that he should have X' (1966:

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11). Runciman made a distinction between feelings of egoistical relative deprivation, resulting from interindividual comparisons, and feelings of fraternal relative deprivation, resulting from intergroup comparisons. Gurr (1970) defined relative deprivation as the discrepancy between ‘ought’ and ‘is’, or an individual's perception of a discrepancy between value expectations (the goods to which people feel entitled) and value capabilities (the goods which people feel they can attain). He identified three types of relative deprivation: (1) decremental deprivation (stable value expectations yet declining value capabilities); (2) aspirational deprivation (stable value capabilities yet increasing value expectations); and (3) progressive deprivation (increase of expectations yet deterioration of capabilities). According toCrosby's original model (1976), egoistical deprivation is experienced when people want X, see that another has X, feel entitled to X, think it feasible to attain X, and not blame themselves for not having X. Later (1982) she revised her original model into a simpler one, in which she states that feelings of relative deprivation are the result of a discrepancy between wanting and deserving.

Over the recent years, psychologists continued to work with the concept of relative deprivation (Pettigrew 2002) while sociologists seemed to have abandoned it (Brush 1996). Within social psychology, the distinction between feeling deprived as an individual and feeling deprived as a group member has been further developed and the concept of relative deprivation has been integrated with social identity theory (Ellemers 2002) and with distributive and procedural justice theory (Tyler and Lind 2002), leading to innovative research questions and a deeper understanding of the phenomenon of relative deprivation.

Realistic Conflict Theory

Sherif defined a group as

> a social unit that consists of a number of individuals (1) who, at a given time, have role and status relationships with one another, stabilized in some degree and (2) who possess a set of values or norms regulating the attitude and behavior of individual members, at least in the matters of consequence to them. Shared attitudes, shared sentiments, shared aspirations and goals that characterize the closely identified members are related to these properties, especially to the common values or norms of the group.

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(Sherif 1967: 12).

Sherif stresses the historical aspects of any group:

> Groups with anything resembling the properties of actual groups are *historical* affairs. There is no getting around it. Those investigators who try to do so, by ignoring the organizational and evaluative properties of actual groups and defining any collection of individuals as a ‘group’, may achieve interesting results. These results may bear on some significant problem of social interaction; but they are not studying group interaction by merely calling the collection a group.
>
> (Sherif and Sherif 1969: 10).

The main thrust of Realistic Conflict Theory is that intergroup conflict is due to an incompatibility of groups' goal attainment. Whenever a negative interdependency between groups exists, that is, one group achieves its goals at the expense of the other group's goal attainment, negative intergroup behaviour is likely to emerge. Thus, intergroup behaviour is explained in terms of the functional relations between groups. The introduction of a superordinate goal, that is, a goal that isshared by both groups and can only be achieved through the joint efforts of both groups, is capable of solving intergroup conflict.

Groups in conflict become more cohesive, task-oriented, and organized. Autocratic leadership emerges and group members are expected to conform and be loyal. Each group sees the other group as an enemy and negative stereotypes and attitudes develop. Intergroup hostility increases while interaction and communication between the groups decrease. Biases in perception and listening, in favour of the ingroup, occur. The winning group finally becomes even more cohesive, yet loses its task-orientedness and fighting spirit (‘fat and happy’). Since their stereotypes of the outgroup are confirmed, no learning takes place, such as reconsidering perceptions and strategies. The losing group will first deny or distort the reality of having lost. Initially the situation or an outsider will be blamed, then scapegoats are looked for within the group. Task-orientedness and tension increase (‘lean and hungry’), whereas there is low concern for members' needs. Outgroup stereotypes are disconfirmed and hence losers are able to learn about the ingroup and the outgroup and perceive both more realistically. The introduction of super-ordinate goals leads to a decrease in intergroup hostilities, although not necessarily immediately.

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Social Identity Theory

Tajfel and Turner defined a group as ‘a collection of individuals who perceive themselves to be members of the same social category, share some emotional involvement in this common definition of themselves, and achieve some degree of social consensus about the evaluation of their group and of their membership of it’ (Tajfel and Turner 1979: 40). Intergroup behaviour then takes place when one or more individuals behave towards (an)other(s) in terms of their membership of different social groups or social categories.

Individuals behave in some situations in terms of their group membership because the group to which someone belongs can be important to that individual. Group membership defines someone's position in society. Tajfel and Turner assumed that individuals strive for a positive self-image. Such a positive self-image can be obtained via the group to which one belongs. Individuals define and evaluate themselves, to a smaller or larger extent, in terms of the group(s) to which they belong. Tajfel and Turner used within this context the concept of social identity: ‘that part of the individuals’ self-concept which derives from their knowledge of their membership of a social group (or groups) together with the value and emotional significance of that membership' (Tajfel 1981: 225). When individuals' social identity is salient, they will strive for a positive social identity. They try to attain this by comparing their own group with a relevant other group on a dimension whichis important for the comparing group. It is essential here that individuals consider their group membership as an important part of their self-image, that a comparison on a relevant dimension is possible in that particular situation, and that the other group is perceived as a relevant comparison group (often determined by salience, proximity, and similarity of that group).

Group members experience a negative social identity if an intergroup comparison results in a negative distinctiveness. To change this, group members can change their group. This is a purely individual action and Tajfel and Turner labelled it therefore individual mobility. Whether an individual adopts this strategy is related to his or perception of the possibilities of exchanging group membership for another which provides the individual with a positive social identity. Individual mobility can occur at the physical level, that is, by factually changing group membership, or it can be done at a psychological level. In the latter case, individuals adopt values and attitudes of the group to which they want to belong and/or imitate its behaviour. Group members can also choose another comparison dimension; change

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their evaluation of the ascertained negative distinctiveness, or change their comparison group. These three behavioural options are called ‘social creativity’. Finally, group members can directly confront the comparison group on that dimension which initially resulted in a negative distinctiveness. This strategy is called social competition and most likely leads to intergroup conflict. Which strategy will be chosen is largely determined by an individual's belief system concerning the permeability of group boundaries. Those characterized by a belief system of social mobility will enhance their negative social identity by trying to pass to the comparison group, whereas those with a belief system of social change will engage in social creativity or social competition.

Conflict between groups is particularly likely when the group experiencing a negative social identity can conceive of alternatives for this state of affairs. Whether or not cognitive alternatives are imaginary is related to the degree to which the social system and outcomes of intergroup comparisons within this system are perceived as stable and/or as legitimate. Legitimacy refers to whether the status difference is or is not in conflict with a superordinate value of justice; stability refers to whether or not it is feasible to alter the groups' status position *vis*-à-*vis* one another. The likelihood of conflict is quite small when the comparison outcomes are experienced as stable and legitimate by the inferior group; sometimes even positive attitudes towards the superior group can exist. The inferior group will however not acquiesce very easily to the status quo when it perceives the superior position of the outgroup as unstable and illegitimate.

From a social identity theory perspective intergroup conflict can be solved by crossing a particular categorization with another (Deschamps and Doise 1978), by creating ‘superordinate identities’ (Turner 1981), and thus transforming intergroup relations into intragroup relations, or by decreased social categorization, leading to interactions becoming more interpersonal (Brewer and Miller 1984). Another wayof reducing or even preventing conflict can be found in a strategy of social creativity. Both groups may validate one another's superior position on two different dimensions. This phenomenon has been referred to as social validation or social cooperation (Rijsman 1983), or mutual intergroup differentiation (Hewstone and Brown 1986). However, social validation does not wipe out ingroup favouritism (Mummendey and Simon 1989). I refer to Turner and Reynolds (2003) for a discussion of recent perspectives and controversies within Social Identity Theory.

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Recent Theorizing

Turner and colleagues elaborated upon Social Identity Theory and formulated a Self-Categorization Theory (Turner *et al*. 1987; Hogg and Abrams 1988) with which they want to explain (intra)group phenomena (e.g. group formation, group polarization, conformity). The main process involved is an individual's self-categorization as a member of a social group or category. Norm Violation Theory studies the role that norm violations and subsequent attributions play in the process of intergroup conflicts, especially in the (de)escalation of conflict. It conceives of norms as opinions or beliefs of individual group members concerning how they ought to behave in a specific situation (DeRidder *et al*. 1992). The theory addresses four factors that influence the explanation of the norm violation the victim group arrives at and its reaction: ingroup identification, intergroup attitudes, power, and fraternal relative deprivation. A key concept in Social Dominance Theory is Social Dominance Orientation (Sidanius and Pratto 1999). Individuals differ to the extent to which they accept existing intergroup hierarchies in society. Those who endorse existing hierarchies and want their ingroup to dominate their outgroups score high on Social Dominance Orientation. System-Justification Theory (Jost *et al*. 2004) posits a need to justify the existing order and hence consider it legitimate and fair. This need may account for the internalization of feelings of inferiority among members of disadvantaged groups in society, accounting for the outgroup favouritism exhibited by them. The theory maintains that this need may be especially strong among those who suffer from the status quo.

Social Psychology and Inter-organizational Relations

Relevance for the Study of Inter-organizational Relations

The theories discussed above differ in various respects, for example, whether they focus on cognitive or motivational drivers for intergroup stereotyping anddiscrimination. Also, the system level at which the key explanatory variables are situated (Doise 1986) differs. Psychodynamic theories focus on intrapsychic phenomena, social exchange theories originate from interpersonal dynamics, while the remaining theories treat the individual as embedded in social relations and group memberships, within a social or societal context. Despite the differences among these, often complementary theories, they jointly demonstrate the relevance of social psychology for understanding Inter-organizational relations. They provide insight into the determinants and processes of inter-group conflict as expressed in

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stereotyping, negative attitudes, discrimination, and other self-serving perceptions or behaviour in which one's own group is put in a positive light *vis*-à-*vis* other groups, for example through the kind of explanations individuals provide for ingroup and outgroup behaviour. They contribute to an understanding of why ingroup members are treated differently than outgroup members, namely by pointing to the importance of psychological needs (for example, building a positive self-concept through one's group membership, need for identification with a particular group, the importance of obtaining validation from relevant others for one's positive distinctiveness *vis*-à-*vis* one or more comparison groups). They make intelligible why differences between groups are sometimes actively constructed even though from an outside point of view these are either not there or not important. Further, they point to the necessity to study intergroup and intragroup behaviour simultaneously, as intergroup competition may hand-in-hand together with intragroup collaboration and/or suppression of diversity.

However, the term ‘group’ is not to be simply equated with the term ‘organization’. Although a group might be conceived of as a micro-organization, with shared goals, a structure, a sense of identity and interdependence among individuals as its characteristics, uncritically translating a higher system level concept into one that belongs to a lower system level stands for reductionism. The argument here is, though, that we can learn from the social psychology of intergroup relations as comparable psychological processes may be involved in Inter-organizational relations. Individuals can identify with organizations and their interests as strongly as they may do with groups, with comparable psychological dynamics as a result, as described by for instance Realistic Conflict Theory and Social Identity Theory. Thus, a social psychological perspective can explain the striking ease with which negative Inter-organizational behaviour (enacted by representatives) is triggered. For example in a two-day simulation involving the forming and maintaining of relations between seven different organizations, stereotypes and distrust are already formed without parties having met each other and before knowing which inter-dependencies exist. Implicitly it is assumed that it concerns a zero-sum situation (Vansina *et al*. 1998; Schruijer 2002). In line with Social Identity Theory, the mere awareness of other groups is sufficient for stereotyping and other perceptual biases to occur. Stereotypes become fulfilled in interactions and quickly intergroup competition,positional bargaining, and distrust become prevalent. Indeed, managers who are asked about their experience in working in Inter-organizational relations point to distrust, lack of open communication, and

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power games as the most important obstacles to successful collaboration (Schruijer 2006*a*).

The social psychology of intergroup relations proposes many ways to reduce or solve conflict that have relevance for ameliorating Inter-organizational relations (see also, Gray, this volume, for a discussion of approaches to conflict handling). Realistic Conflict Theory for example introduces the notion of a superordinate goal to reduce conflict and promote cooperation. Social Identity Theory suggests creating a common social identity, de- and recategorization. These notions may prove useful for those who work towards promoting positive Inter-organizational relations. Also, insights offered by social psychology may help to avoid attributing difficulties in Inter-organizational relations to personalities or egos (only) (Schruijer 2006*a*). Concepts like social identity and fraternal relative deprivation make intelligible why conflict seems 'irrational' when collaborating seems the logical way forward. Of course there may be problems related to individual styles and characteristics, but it is important to sort out whether experienced difficulties are related to the underlying Inter-organizational relationship, to (incompatibility of) organizational goals, to the complexity of the task, lack of progress, or indeed to person issues. Scapegoating or psychologizing occurs frequently while the cause of pain lies in the Inter-organizational relationship, task complexity, or situational factors. Changing representatives, the facilitator, or even the leader is not likely to help in the latter case. Likewise, insights into the dynamics of psychological processes may make the occurrence of stereotyping for example easier to tolerate.

A Necessary but Insufficient Perspective

Though social psychology definitely has something to offer to those interested in gaining a deeper understanding of Inter-organizational dynamics, there are various problems in working with a social psychological understanding of Inter-organizational relations only. It is mostly concerned with understanding conflict and conflict reduction, its insights are predominantly drawn from laboratory work that uses ad hoc groups, and it is aimed at understanding rather than finding out how to work with Inter-organizational forms and how to improve their functioning. I will explain these issues in some further detail.

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Conflict versus Collaboration

What the social psychological theories of intergroup relations share is a focus on the dynamics of conflict between groups and much less of collaboration betweengroups. (A conceptual confusion between positive intergroup interdependence and pro-social or altruistic intergroup relations appears to exist, see for example Penner *et al*. 2005). Creating superordinate goals or developing common identities implies merging rather than working with the differences in a way that benefits both parties. Collaboration requires that differences are retained, and that one uses what the other offers and vice versa, while working together on a joint task (Vansina *et al*. 1998). The concept of social creativity and the dual identity model (Brewer and Gaertner 2003) come closest to what I mean, although goal orientation is not necessarily implied (apart from validating one's superiority) and findings are based on laboratory groups. Collaboration does not feature in the social psychology of intergroup relations. The theories are biased towards understanding conflict and aimed at conflict reduction rather than understanding collaboration. Yet absence of conflict does not equal collaboration.

Collaboration has been defined as the characteristic of the emerging work system between two or more (legally independent) parties (groups or organizations), formed to address a concern, problem, or opportunity (Vansina *et al*. 1998). A joint goal often is not the starting point of collaboration. Rather, parties come together around a shared concern and a vague notion that collaboration is necessary (Gray 1989). While working together, a joint goal becomes defined and accepted. Participating organizations make a unique contribution to this goal. They are interdependent with respect to their jointly defined goal but otherwise remain autonomous (Vansina *et al*. 1998; Schruijer 2002). If collaboration is successful, sufficient common ground is created, in which the unique contribution of each party, insofar as it is relevant for the task, is recognized, accepted, and valued. The diversity in perspectives, interests, identities, and resources present provides for a wide enough problem definition with which all parties can identify, reinforces creativity and completeness in the generation of solution alternatives, legitimizes the strategy to be chosen, fosters energy and commitment to implementation, and allows for continuing governance of the collaborative work system. Apart from realizing the joint goal and with that meeting the individual party's interests, embodied within the joint goal, successful collaboration helps to create a positive social identity through mutual validation (Rijsman 1997).

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Though absence of conflict does not imply the existence of successful collaboration, successful collaboration goes hand in hand with conflict (Schruijer 2002). Task conflict stands for the observable differences or even contradictions that may exist between ideas, identities, and interests of different organizations. Such diversity needs to be faced rather than suppressed. Working with diversity is key to successful collaboration. Task conflict is very different from relational conflict where diversity is not used to reach a jointly defined goal but where the aim is to beat the opponent (cf. Jehn 1995). The opposite of task conflict is collusion where the diversity among parties in interests, contributions, and power differences insofar as it is relevant to the task is not confronted but glossed over so as to preserve'harmony'. Needless to say, both relational conflict and collusion are detrimental to the success of Inter-organizational relations. Still, any complex, long-term Inter-organizational relationship in a dynamic environment, with participating organizations coming and going, may know phases of collusion and relational conflict and still be successful if such phases are sufficiently worked through, perhaps by conflict-reducing interventions. Nevertheless, conflict-reducing interventions can never in themselves stimulate collaboration.

Ad Hoc versus Real Groups

Another issue concerns the fact that social psychologists have studied individuals belonging to social categories or ad hoc groups (groups without a history or a future, just created for an experimental situation). Groups as a whole have been the focus of their attention to a far lesser extent. Partly this is because much research has been conducted within the perspective of Social Identity Theory and partly this is due to the experimental tradition of (social) psychology. The reliance on the experiment as the appropriate methodology for research implies that the history, future, context, and long-term dynamics of intergroup relations have been neglected (although there has been some theorizing, e.g. Taylor and McKirnan 1984). In laboratory research it is rare that more than three independent variables are introduced while others are kept constant. In real life, however, a multitude of variables vary simultaneously with numerous possible interactions as a result. That may explain why social psychological research demonstrates the existence of ingroup favouritism rather than outgroup derogation, which is quite out of step with intergroup atrocities committed in the real world (Hewstone *et al*. 2002).

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Also, social psychological research usually involves two groups only, often with equal power. The multiple perspectives, interests and resources that go together with multigroup interactions make the latter more complex than two-group interactions. (Temporary) coalitions may be formed, different social identities triggered, and trust may be more difficult to establish (Kramer 1991; Polzer *et al*. 1995). In real life, many groups relate to each other simultaneously, mostly with unequal power.

Understanding versus Working with Diversity

Social psychology, within its predominant use of the experimental method and its focus on conflict, contributes to understanding certain dynamics but not so much how to work with these. If diversity is important for Inter-organizational collaboration, how to handle it? Managers expect trust to be present at the start of a collaboration process if it is to be successful in their eyes (Schruijer 2006*a*; see Bachmann and Zaheer, this volume, for an alternative perspective on trust). Unfortunately, trust is unlikely to be present at the start of an Inter-organizational relationship. It needs to be patiently developed (Schruijer and Vansina 2004).

In early phases of interacting with other parties, there is a reluctance to appear to be dependent on anything other parties may have to offer (Vansina *et al*. 1998). Parties' autonomy and (real or imagined) power over others are strongly asserted. When all parties are playing hard to get, it is difficult to explore interdependencies and find out about parties' interests. If fear of dependency is not dealt with, collaboration may fail even before it has had a chance to begin. Since trust is likely to be absent in the beginning, other means are grasped to reduce complexity and ambiguity, mostly too much and too fast. Stereotyping and conflict develop, the process becomes overstructured, a strong leader is called for, etc. Aiming at swift bilateral deals rather than trying to adopt a multiparty perspective on the problems is another example of reducing complexity that may backfire. How then can one avoid reducing complexity prematurely and excessively? How can one accept uncertainty and stay with ‘not knowing’? And if a common goal and a common identity are important, how to develop these?

Within the domain of organizational psychology and community psychology action research and intervention work has been conducted that has relevance in understanding and intervening in the dynamics of Inter-organizational relations. Bartunek, Foster-Fishman, and Keys (1996) describe their work aimed at fostering collaboration between three different interest

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groups with a history of conflict (people with developmental disabilities, family, professionals) and enhancing the participatory competence of those involved. Unfortunately, they were not representatives of their respective constituencies. In other organizational and community development work, ‘large group interventions’ (Bunker and Alban 1997) are organized that bring together the various stakeholders for a few days during which interdependencies are explored and a common goal and strategy is worked towards. However, the emerging dynamics are often not explored from a multiorganizational perspective. The same is true of interesting work among community psychologists, for example in Italian cities where interventions are organized to make city planning a truly multiparty process by actively involving and empowering children to also integrate their voice (Alparone and Rissotto 2001). It would be valuable if social psychologists engaged in action research concerning Inter-organizational collaboration themselves, preferably joining forces with action researchers from organizational or community psychology or other disciplines.

Leading Collaboration

The concept of leadership is quickly introduced by stakeholders when discussing how to work with diversity. But what type of leadership is needed? In the simulation referred to above, the call for a strong leader is often heard (Vansina *et al*. 1998). Those who take up a leadership role are often, consciously or unconsciously, confused about their role. They put themselves forward as neutral facilitators of collaboration while in reality they serve their own interests and act more likemanagers or judges. This is despite the fact that managers list ability to listen, perseverance, capacity to bring parties to the table, insight into the psychological and social dynamics of collaboration as the most important qualities of successful collaborative leaders and sticking to one's principles, building a power base, and pushing through one's own ideas as the least important (Schruijer 2006*a*).

Little is known about leadership of Inter-organizational forms as most research has studied intra-organizational leadership only. There are some exceptions (Chrislip and Larson 1994; Huxham and Vangen 2000) but much more research is needed. Leadership in multiparty collaboration can be described as creating and maintaining conditions for getting the most out of the diversity of perspectives, competences, and resources that parties bring to the table, while simultaneously enabling the different parties to realize their objectives (Vansina *et al*. 1998). Important remaining questions are

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what their main tasks and required competences consist of, and whether collaborative leadership can be shared and, if so, under what conditions.

Conclusion

Overall then, one could claim that the value of social psychological research into the dynamics of intergroup relations is that it simplifies the complexity of Inter-organizational relations, exposing fundamental psychological processes. This simplification, however, is also its major shortcoming. A social psychological perspective is useful but can never be sufficient in understanding, let alone positively influencing, long-standing controversies, for example the conflict between the interests of the fishing industry on the one hand and concerns of nature conservation organizations with respect to the future existence of mechanical cockle fisheries on the other (Neven and Schruijer 2005).

What is needed for an understanding of the full spectrum of the dynamics of Inter-organizational relations, though, is that real organizations and their interactions are studied, their relevant histories and future perspectives understood, the dynamics occurring at various system levels looked at (between representatives, between representatives and their constituencies, dynamics between the constituent groups with the concomitant images they have of each other, events in the larger environment, e.g. larger politics, media). This implies being aware of the existence of many social identifications, the salience of each shifting in function of the events. This implies that there may be various goals, possibly changing over time, common goals that need to be developed and interdependencies that are not given but need to be discovered. In other words, it implies studying the complexity with which conflict and collaboration between organizations take place.

A comprehensive theory of Inter-organizational relations comprising the psychological dynamics of both conflict and collaboration needs to be developed. The ‘law of requisite variety’ specifies that a system's internal complexity needs to match the complexity of its environment (Ashby 1969); in this case, that the complexity of the research system matches the complexity of what is researched. Multi- or even interdisciplinarity is desirable when studying Inter-organizational relations. This way the required complexity and diversity is integrated in the research perspective. Moreover, learning about the dynamics of the heterogeneous research team itself can take place. Psychology as a whole but also social psychology itself

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is very specialized. The image that comes to mind is that of a group of blindfolded people touching an elephant; one touches a flexible hose (trunk), another senses a soft leather rag (ear), a third a bony curved object (tusk). Apart from those immersed in the field of intergroup relations, some study negotiations, others group diversity, still others leadership, etc. All these domains may have something valuable to contribute, though communication across domains is limited.

Attempts at integrating various theories and perspectives within social psychology exist (e.g. Mackie and Smith 1998) but they are rare. Multidisciplinary research, although a rhetoric concerning its necessity is ubiquitous, is difficult to conduct and report, partly because of the difficulties in actually collaborating across boundaries but also because university systems and the academic climate do not really facilitate it. Still, various problems and themes are inherent in the dynamics of Inter-organizational relations around which researchers from different disciplines might join, for example power, identity, and leadership. Further it is my conviction that a deep understanding of such dynamics will predominantly come through action research, in which real-life collaboration problems that arise among existing organizations are worked with (Schruijer 2006*b*). Again, the current university climate is not very conducive to that type of research, certainly not in psychology departments, although action research by psychologists within the domain of Inter-organizational relations is being reported (e.g. Bouwen and Taillieu 2004). If a better understanding of Inter-organizational relations is a desirable aim, the first thing then that is called for is creating conditions for collaboration among traditions and disciplines within academia (Schruijer 2006*b*).

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Political Perspectives on Inter-organizational Networks

David Knoke, Xinxiang Chen

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Abstract and Keywords

This article examines political perspectives on inter-organizational relationships, which refer primarily to the disciplines of political science and political sociology and their diverse approaches to theorizing and empirically investigating relationships among organizations. It reviews recent work in both political science and political sociology on a broad range of topics, including political institutions and governance, voting and social movement participation, social capital formation, public policy-making and implementation, and systems of political opportunity and influence. The common thread weaving together these diverse topics is social network analysis, which explains how the structure of interactions connecting political actors affects perceptions, attitudes, and actions, and in turn, how political behaviours transform network structures. Although one can draw ideas from general theories of social networks and organizational behaviour, the specific objective of this article is to demonstrate how those concepts and propositions help in better understanding and explanation of the political relationships among organizations.

inter-organizational relationships, political science, political sociology, social network analysis, political relationships

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Political Perspectives in Inter-organizational Networks

We examine political perspectives on Inter-organizational relationships, which refer primarily to the disciplines of political science and political sociology and their diverse approaches to theorizing and empirically investigating relationships among organizations. We review recent work in both political science and political sociology on a broad range of topics, including political institutions and governance, voting and social movement participation, social capital formation, public policy-making and implementation, and systems of political opportunity and influence. The scope ranges from local communities, to national polities, to the international system. The common thread weaving together these diversetopics is social network analysis, which explains how the structure of interactions connecting political actors affects perceptions, attitudes, and actions, and in turn, how political behaviours transform network structures (Knoke 2001; Knoke and Yang 2008). In this approach, organizations are proactive agents that strategically manage their diverse network connections to reduce uncertainties arising from their pursuit of organizational advantage (Galaskiewicz 1985). Although we draw ideas from general theories of social networks and organizational behavior, our specific objective in this chapter is to demonstrate how those concepts and propositions enable us better to understand and explain the political relationships among organizations.

Theoretical Approaches to Inter-organizational Political Relations

Diverse organizational theorists concur that organizations are constrained by their resource situations and external environments, and that a large portion of those environments is constituted of the Inter-organizational relations in which individual organizations are embedded (Pfeffer and Salancik 1978; Aldrich 1979; Granovetter 1985). Resource dependence on environments and differential organizational goals leads simultaneously to interdependence and conflict among organizations (Scharpf 1978). Anthony Downs's (1967) assertion of widespread Inter-organizational conflict assumes that all organizations operate in multiple environments where they inevitably come into some degree of competition and conflict with other organizations. To resolve or reduce those conflicts, to carry out collective actions (Knoke 1990*b*), to acquire control over essential resources (Pfeffer and Salancik 1978), or to maximize organizational performances, organizations form a variety of horizontal and hierarchical network relationships. From a political perspective, these Inter-organizational relations—and related concepts of autonomy, dependence, cooperation, conflict, competition,

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control, dominance, coordination, coercion, force, and even violence—are generally shaped by the generation and dynamic distribution of power among organizations (see also Huxham and Beech, this volume).

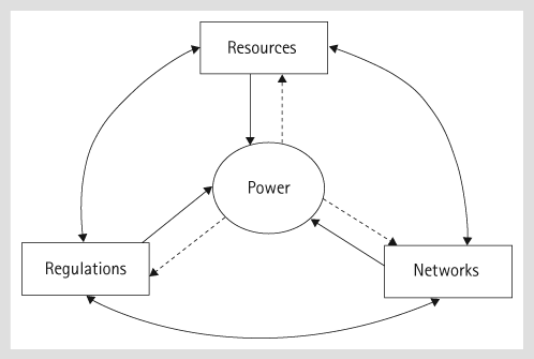

Fig. 17.1 Dynamic patterns of power generation and distribution among organizations

Because power enables organizations to realize their goals, Figure 17.1 conceptualizes in greater detail the dynamic patterns of power generation and distribution among organizations. The distribution of resources, regulations concerning rights and duties under Inter-organizational relations beyond specific individualorganizations, and positions occupied within Inter-organizational networks facilitate and constrain the generation and distribution of power among organizations (revised after Pfeffer and Salancik 1978; Pfeffer 1992, 1997). In the alternative political science and political sociology perspectives on Inter-organizational power discussed below, the power over which organizations struggle is generated from three main analytic sources: resources, regulations, networks. In turn, power affects each source: gaining or losing resources, changing or maintaining beneficial regulations, shifting positions within critical Inter-organizational networks. Figure 17.1 uses solid straight arrows to indicate the main dynamic mechanisms in the generation and distribution of power among organizations, our primary concern in this chapter. Dashed straight arrows show the reciprocal influence of power on its main sources. Curved arrows represent mutual influences among the three power sources. In this section, we discuss five broad theoretical approaches, from the viewpoints of political science and political sociology, to conceptualizing these sources of political power in Inter-organizational relationships.

Governance Networks In this approach, power comes mainly from state constitutional, legislative, regulatory, and rule-based legitimate authority

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that imposes checks and balances on the permissible competitive and cooperative relationships among private-sector organizations. From a political perspective, policy decisions in democratic states are not reached through formally rational processes, but rather through political influence, compromise, accommodation, and negotiation and bargaining. This perspective emphasizes the acquisition and maintenance of powerto affect binding policy decisions as a primary reason why organizations interact politically, forming coalitions and attempting to influence public policy decisions.

A well-known example is the institutional structure of the US federal government, a tripartite system that separates power into legislative, executive, and judicial branches, and reserves other powers to state and local governments. As designed by the Framers of the 1789 US Constitution, the federal system of checks and balances was undoubtedly the result of bargaining and compromise among the conflicting interests of the thirteen original states. However, its functioning since then only gives a superficial appearance of rational decision-making, barely disguising the constant struggles among contending political parties and organized interest groups to influence the outcomes of public policy decisions at all levels of government.

Many analysts have explicitly examined governance systems as Inter-organizational authority networks. For example, Deil Wright (1990) traced the changing patterns of influence and authority role relations between and within US central and peripheral governmental organizations. The historically successive emergent key concepts of federalism, intergovernmental relations, and intergovernmental management reflected the increasing complexities in implementing policies and administering programmes which cross jurisdictional lines. Other scholars have compared the inter- and intragovernmental authority relationships of unitary and federal states in Europe, Canada, Australia, and India (e.g. Zimmerman 1993; Schmidt 2001; Braun 2003; Chhibber and Kollman 2004). The federated governance form also occurs among organizations within the private sector, such as labour union councils and chambers of commerce, and their authority structures can also be examined as types of Inter-organizational linkage networks (Provan 1983).

Power Structure Networks Power in this perspective derives mainly from occupancy of important positions within structures of informal political networks (see also Kenis and Oerlemans, this volume). In general terms,

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‘power is an aspect of the actual or potential interaction between two or more social actors’ (Knoke 1990*a*: 1), whether among persons or larger collectivities, such as corporations or nation states. Based on theoretical definitions of power provided by Weber, Knoke (1990*a*: 2) defined power as ‘a relationship of one social actor to another and it is specific to a situation’. Any complex political system can be regarded as a social network whose basic units ‘are not individuals, but positions or roles occupied by social actors and the relations or connections between these positions’ (p. 7). In this sense, organizations as social actors interact in two basic power networks, influence and domination relations. Knoke identified four fundamental types of political power networks, formed by crossing low and high levels of influence and domination relations: coercive, authoritative, egalitarian, and persuasive power (p. 5). Examples of informal political exchange systems include urban Inter-organizationalnetworks (Galaskiewicz 1979, 1989) and national pressure group systems (Walker 1983; Salisbury 1984). Some international relations scholars have applied social net— work analysis to examine how transnational and intergovernmental organizations try to promote peace and cooperation among member states. Hafner-Burton and Montgomery (2006), for instance, argued that conflicts between states are shaped not only by internal attributes such as political regimes and gross domestic product, but also by relative positions of power created by intergovernmental organization memberships and characterized by significant disparities and by common beliefs generated by social networks of intergovernmental organizations.

Social Capital Networks For political scientists in particular, social capital constitutes a prominent conceptualization of power as persuasion or influence through social network relations (see also, Nahapiet, this volume). High levels of social capital correlate with high confidence in political institutions (Brehm and Rahn 1997), high satisfaction with government and political engagement (Putnam 1993), and positive effects on government performance (Boix and Posner 1998). Theorists and researchers have defined social capital in a variety of ways. For sociologists, social capital was originally defined as resources embedded in social relations that could facilitate collective action, leading to alternative forms of social capital analysed as network closure (Coleman 1990) or structural holes (Burt 1992). This approach treats social capital as endogenous. However, political scientists strayed considerably from that original formulation of social capital, recasting it as a feature of political culture and thereby treating it, like cultural values generally, as an exogenous variable (Jackman and Miller 1998). But, because empirical tests of the exogenous social capital were

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deficient, Jackman and Miller urged political scientists to return to treating social capital as endogenous, emphasizing trust relations in social networks. ‘Because political exchanges are carried out in the absence of a rigorous accounting system, such as a money economy, trust is the vital ingredient in any informal dominance system’ (Knoke 1990*a*: 14). No doubt, a return to analysing network relations within which trust is created would facilitate the application of social capital concepts to the study of Inter-organizational power relations.

Resource Dependence Networks The bases of power-dependence in this approach are resource inequalities in Inter-organizational networks. Resource dependence theorist put great emphasis on the importance of gaining access to and control over ‘critical resources’ controlled by other organizations as the driving force in the formation of Inter-organizational bonds (Laumann *et al*. 1978; Pfeffer and Salancik 1978). Organizational interdependencies are mutual dependencies that develop to reduce uncertainties stemming from dyadic relationships and from other environmental conditions, such as the market. They arise whenever organizations don't have full control over the resources necessary for carrying out a desired action toaccomplish an organizational goal. Various resources—including financing, information, political support, legitimacy, and strategic allies—are vitally important as sources of organizational power (Pfeffer 1992). More power accrues to organizations that own or possess a resource, control access to resources, control the actual use of resources, or make the rules regulating a resource (Pfeffer and Salancik 1978). Organizations controlling more highly demanded resources, or that can reduce the most uncertainty about resource flows, typically enjoy greater power in any Inter-organizational relationship. According to Pfeffer and Salancik, resource exchanges vary on two important dimensions: the magnitude of an exchange and the criticality of a resource. Criticality measures an organization's ability to survive without the resource. Thus, resource stability is very important and unpredictable variability in resource flows, by disturbing organizational interdependencies, threatens to break apart organizational coalitions.

By forming alliances for acquiring critical resources, organizations risk losing their autonomy and independence. ‘Organizations seek to form that type of Inter-organizational exchange relationship which involves the least cost to the organization in loss of autonomy and power’ (Cook 1977: 74). Bonacich and Roy's (1986) research showed that interfirm relations shape corporate power. Networks among organizations comprise a substantial part of their environments, acting as an ‘external control of organization’ where

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‘organizational activities and outcomes are accounted for by the context in which the organization is embedded’ (Pfeffer and Salancik 1978). Laumann *et al*. similarly defined environment as an opportunity structure: ‘a sub-network within which exchange relations tend to be confined as a function of the resources involved, legal or institutional constraints on permitted partner, geographical proximity, functional similarity, or preexisting organizational overlap’ (1978: 471). Within any opportunity structure, some actors usually have better access than others to different parts of the complete network.

Policy Domain Networks This last theoretical approach to Inter-organizational relations integrates multiple bases of power. The organizational state model — analysing the national policy domains of liberal political democracies —blends elements of political networks, resource dependence, elite, and pluralist power structure theories (Laumann and Knoke 1987; Knoke *et al*. 1996). A policy domain is a component of the political system organized around substantive issues (Burstein 1991). Political relations involve exchanges of policy information, resources, and political support among organizational actors, including political parties, government agencies, legislative and judicial bodies, interest groups, and social movement organizations. Policy networks in policy domains consist of consequential political actors that form temporary, event-specific coalitions seeking to influence public policy decisions through collective action. Therefore, ‘policy formation and policy implementation are inevitably the result of interactionsamong a plurality of separate actors with separate interests, goals, and strategies’ (Scharpf 1978: 347). All durable interactive relationships including that of hierarchical authority are based on exchange, be it symmetrical or asymmetrical. For his policy coordination study, Scharpf (1978) combined resource dependence and network linkage and found that mutual dependency and direct relations set the preconditions for applications of influence strategies in Inter-organizational policy coordination.

Empirical Research on Political Inter-organizational Relations

This section briefly reviews empirical research, conducted during the past two decades by political scientists and sociologists, on political aspects of Inter-organizational networks.

Participation in Elections

The great majority of empirical research on political party attachments and voting behaviour by political scientists and sociologists applies various

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models of individual decision-making in which the social attributes of voters—such as education, race, religion, and gender—and their social psychological attitudes towards issues and candidates jointly affect electoral choices (e.g. Sanders 2003; Brooks and Manza 2004; Ashbee 2005). For example, the long-running dispute over whether political class-cleavages are declining or persisting in Western democracies hinges on analyses of survey data trends to reveal the relative importance of stratification positions, subjective class identifications, and social and economic policy preferences on voting decisions (Brooks and Manza 1997; Clark and Lipset 2001). But, because electoral surveys collect information only from individual respondents, data are usually unavailable to examine the political impacts of respondents' personal networks or other household members (for an exception, see Johnston *et al*. 2005). Without indicators of micro-level contexts, researchers cannot model these alternative sources of political socialization and voting influence.

A small, but steady, stream of research on political partisanship has carried on the social network legacy of Paul Lazarsfeld and Bernard Berelson. Their studies of two small American communities in the 1940s depicted the flow of political information as a two-step process: political party messages are first conveyed by mass media organizations to opinion leaders, thence through interpersonal communicationnetworks to ordinary voters (Lazarsfeld *et al*. 1948; Berelson *et al*. 1954). They also hypothesized that cross-pressured voters—embedded in personal networks that expose them to contradictory political cues from organizations such as political parties, unions, workplaces, and churches—would either delay their vote decisions or not turn out on election day. Subsequent researchers uncovered consistent evidence that social networks affect individuals' political attitudes and behaviours. Burstein (1976) found that the party choices of Israeli men were more strongly related to their network ties than to standard background attributes, such as class or ethnicity. The partisan composition of personal networks and political discussions among members influenced voting turnout and party choices in Switzerland, Great Britain, the USA, and the Netherlands (Knoke 1990*c*; Zuckerman *et al*. 1994; Epple 1995; Nieuwbeerta and Flap 2000).

Robert Huckfeldt and his colleagues were the most diligent recent advocates for advancing the networks-and-politics research agenda. Using community and national survey data, they showed that interpersonal political communication outweighs mass media effects on voting decisions, while parties and voluntary associations are more influential among the less-interested voters (Beck *et al*. 2002); that varying patterns of agreement

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and disagreement within political discussion networks have diverse consequences for political opinion formation (Huckfeldt *et al*. 2004); and that an absence of contrary viewpoints in personal communication networks limits the political engagement of American, German, and Japanese citizens (Huckfeldt *et al*. 2005; see also Huckfeldt and Sprague 1987; Huckfeldt *et al*. 1995; Baybeck and Huckfeldt 2002). Taken collectively, the partisanship studies strongly imply that the structures and contents of discussion networks influence citizens' political involvements.

Social Movement Organizations

In social movement studies, network-based explanations of mobilization have predominated since the 1980s, so the conventional wisdom now is that ‘organizations and pre-existing networks are the basis of movement mobilization’ (Zhao 1998: 1494). Inter-organizational relations and interpersonal networks play an important role in recruitment and mobilization of social movements. Snow, Zurcher, and Ekland-Olson proposed the hypothesis that ‘movements which are linked to other groups and networks will normally grow at a more rapid rate and normally attain a larger membership than will movements which are structurally more isolated and closed’ (1980: 797). Some analysts have studied social movements as though they were composed primarily of formal organizations, from fairly centralized to totally decentralized, that act much like businesses. However, social movement organizations (SMOs) comprise only one component of any social movement, which involves broadly based collective actions by relatively powerless challengergroups using extra-institutional means to promote or resist social change. An SMO identifies its goals with the preferences of a social movement or a counter-movement and attempts to implement those goals by mobilizing resources and recruiting members (McCarthy and Zald 2003: 173). Studies of SMOs focus on Inter-organizational exchanges, including coalition-building (Rucht 1989; Hathaway and Meyer 1994; Sawer and Groves 1994; Diani 1995; Ansell 2001), overlapping memberships (Schmitt-Beck 1989; Diani 1995; Carroll and Ratner 1996), and the role of advocacy groups, public interest groups, and movement organizations in policy networks (Broadbent 1998). Direct ties between movement organizations include most prominently the exchange of information and the pooling of mobilization resources (Curtis and Zurcher 1973; Jones *et al*. 2001), indirect ties from shared personnel (Carroll and Ratner 1996), and shared linkages to third parties, whether private or public-sector organizations.

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Social movement researchers working within a political process perspective mostly agree that movement emergence depends on three broad factors: organizational networks, political opportunity, and cultural framing or other interpretative processes (McAdam 1999: viii). Doug McAdam's investigation of student recruitment to the high-risk 1964 Mississippi Freedom Summer campaign found that activists who went to the South had more organizational affiliations and extensive prior and current ties to other participants than did volunteers who ultimately withdrew (McAdam 1988; see also McAdam and Fernandez 1990; McAdam and Paulsen 1993). In the case of the Polish People's Republic, Osa (2003) demonstrated the important role of social networks for social movements in the most restrictive political environments such as the Leninist state. She found that ‘protest peaks arise when the Inter-organizational structures in the opposition domain reach their highest degree of development’ (Osa 2003: 101). For the case of Italian environmental politics, Diani and Forno (2002) suggested that, compared with protest initiatives promoted by unconnected groups, those initiatives by coalitions of SMOs are more likely to have a broader scope and to target higher-level political institutions. Diani (1995) examined the network roles of activists (both centrality and brokerage) in generating links between SMOs, which he regarded as a specific form of social capital that creates favourable ground for Inter-organizational cooperation. In Milan, centrality (in-degree) and brokerage measures reflect different dynamics within movement networks (Diani 2003). Organizations identified by many other SMOs as alliance partners were more likely to be connected to media and political institutions, and thus in the best position to act as a ‘representative’ of the movement to the broader public sphere. In contrast, occupying a brokerage position in the movement network doesn't necessarily imply a public role; however, brokerage positions are crucial for the integration of movement networks.

Building on network concepts and methods, some social movement researchers contributed to reformulating classic concepts of the political process approach froma relational perspective, for example, alliance and oppositional fields, protest cycles, and political opportunities. Tilly and Wood (2003) used network analysis to chart significant changes in Britain between 1828 and 1834 in patterns of attachment and claim-making relationships among different social groups (including royalty, parliament, local and national officials, trade, and workers). Oliver and Myers (2003) explored network mechanisms in diffusion processes and protest cycles, focusing on three processes: the flow of information, the flow of influence, and the construction of joint action. In contrast, Broadbent (2003) presented a non-

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Western case—the environmental movement in Japan—and added cultural and social contexts to the analysis of social movements. He found that Japanese networks operated mostly in terms of block recruitment rather than individual recruitment; in particular, vertical ties between elites and citizens strongly shaped local movements' ‘political opportunities’.

Social Capital

During the past two decades, social capital emerged as a transcendent theoretical concept in virtually all social science disciplines (see also, Nahapiet, this volume). Each field developed its own definitions, substantive applications, and preferred empirical measures and methods (Devine and Roberts 2003; Van Deth 2003). In this section, we contrast the divergent approaches of political science and political sociology in applying social capital principles to explain political behaviours. Many political scientists emphasize a civic culture or civic voluntarism model, which depicts citizen participation in non-political institutions and organizations as generating the subjective orientations (norms, values, and attitudes) necessary to support competitive political parties and democratic institutions. Sociologists pay more explicit attention to how social capital embedded in structural relationships gives people access to political resources through their direct and indirect network ties.

In its initial formulation by Gabriel Almond and Sidney Verba (1963), the civic culture model hypothesized that stable democratic societies are sustainable only when citizens believe that they are capable of influencing their governments. The higher their socio-economic status, the more likely people are to acquire the essential resources—time, money, organizational and communication skills—to engage in political action and influence. In addition to their workplaces and religious organizations, people develop civic skills by participating in voluntary associations; for example, attending meetings, giving speeches, taking part in collective decision-making (Verba and Nie 1972; Verba *et al*. 1995). Small organizational settings enable ordinary citizens to understand how formal organizations function, socialize them to support democratic norms and values, and motivate them to apply those civic skills by participating in larger political arenas.

Robert Putnam modified the civic volunteerism model to emphasize the importance of high levels of individual and community social capital for robust civic engagement. He defined social capital as ‘features of social

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organizations, such as networks, norms, and trust that facilitate action and co-operation for mutual benefit' (Putnam 1993: 35–6; Putnam 2000). However, his empirical indicators largely concentrated on connecting indicators of voluntary association participation and voter turnout to people's attitudes toward parties, politicians, and political institutions. Norms of generalized reciprocity and trust, both key ingredients of social capital, generate more political efficacy, cooperation, and participation in public affairs, and thus, through a virtuous cycle, further increase participants' social capital. Many political scientists have found positive co-variations among social capital, trust, confidence in institutions, and civic engagement in the USA and other countries (e.g. Brehm and Rahn 1997; Rice and Ling 2002; Teorell 2003; Caiani 2004; Lowndes 2004).

Putnam's numerous critics chided him for faulty data, incoherent theorizing, and failure to elucidate the specific micro-mechanisms through which bonding and bridging forms of social capital might instil in association members such pro-social orientations as generalized trust, cooperativeness, reciprocity, and initiative (see Ladd 1996; Edwards and Foley 1998; Foley and Edwards 1999; Rotberg 1999; Boggs 2001). In advocating an alternative approach, Jackman and Miller (1998: 47) castigated theorists who 'strayed from the original treatment of social capital, which casts it as endogenous'. By relying on the classical civic culture model of unchanging values, political science 'treats trust and related values as exogenous, where durable cultural norms drive political and economic performance' (p. 57). Instead of conflating group membership and trust, Jackman and Miller argued, a better theoretical perspective is to treat social capital as endogenous, exemplified in the original structural formulations of social capital by sociologists such as Pierre Bourdieu (1986); James Coleman (1988); and Nan Lin (2001). The core principle is that social capital consists of the resources controlled by network alters to which an ego-actor may gain access for individual or group benefits. Thus, social capital resides neither in an individual's attitudes and beliefs, nor in group norms, but involves the joint relationships between two or more actors.

A few political sociologists have applied structural network versions of social capital to civic engagement and political behaviour. For example, members embedded in a voluntary association's communication network are more easily mobilized to contact government officials about matters of concern to their organization (Knoke 1982). In the USA, the declining membership rosters of older, national voluntary associations are eclipsed by rising rates of participation in local, special-purpose networks that emphasize

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service, advocacy, and self-help (Wuthnow 1998). Brokering political deals among opposing interest groups is, of course, the primary job description for politicians from dog catcher to the Secretary General of theUnited Nations. Other analysts noted the need to develop structural explanations of how state agencies and political parties, through public policy-making for social welfare, foster or erode the conditions necessary for the production and institutionalization of social capital relations (Lowndes and Wilson 2001; Rothstein 2001; Kumlin and Rothstein 2005). The initial enthusiasm of international organizations, like the World Bank, Internation Monetary Fund (IMF), and United Nations (UN), over applying social capital concepts to create programmes for economic development and democratization (Schuurman 2003) apparently has been supplanted by scepticism that civil society alone can alleviate problems of underdevelopment without substantial state involvement.

Policy Domains

Applications of Inter-organizational network perspectives are particularly fruitful for developing theories and conducting empirical analyses of policy domains. A policy domain comprises the interest groups, legislatures, and governmental executive agencies involved in setting agendas, formulating policies, advocating positions, organizing collective political actions, and deciding on proposals to deal with such substantive policy problems as health, education, labour, and social welfare (Laumann and Knoke 1987; Burstein 1991). In advanced societies, the enlargement and technical complexity of many policy domains compelled greater participation by professionals, consultants, and research experts. Kenis and Schneider's (1991) definition is comprehensive:

> A policy network is described by its actors, their linkages and its boundary. It includes a relatively stable set of mainly public and private corporate actors. The linkages between the actors serve as channels for communication and for the exchange of information, expertise, trust and other policy resources. The boundary of a given policy network is not in the first place determined by formal institutions but results from a process of mutual recognition dependent on functional relevance and structural embeddedness.

Policy domain researchers seek to explain the formation of Inter-organizational networks and the results of policy influence activities for interest groups, governments, and the policy domain as a whole.

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Comparative policy network analysts examine the historical origins of national differences in domain structural relations among state institutions and organized interest groups, and their consequences for policy processes and outcomes (Börzel 1998). Alternative policy network models proposed by British, German, and American scholars reflect transformation in their national polities towards the end of the twentieth century. British political scientists conceptualized a ‘policy community’ of self-organizing groups from government bureaucracies and related pressure organizations (Wilks and Wright 1987; Jordan 1990; Rhodes 1990; Marsh and Rhodes 1992), for example, Marsh and Smith's (2000)dialectical model of policy network change involving mutual relations among structure, agency, contexts, and policy outcomes. They applied the model to explain shifting British agricultural policy since the 1930s. During the Conservative governments of Prime Ministers Thatcher and Major, which emphasized privatization and market-based solutions, British interest groups enjoyed increased policy influence, as revealed by their extensive informal relations within policy communities. Policy-making power shifted from entrenched corporatist subgovernments, which had consensually controlled policy agendas, towards more volatile interest group intermediation and government ministerial consultations (Richardson 2000). As the state sector became ‘hollowed out’, new intergovernmental management turned policy networks into ‘a pervasive feature of service delivery in Britain’ (Rhodes 1996). Rhodes worried that growing autonomy might thwart market competition reforms as policy networks resisted central state control.

The Germanic perspective on policy domains treats networks as a distinct form of governance, providing an alternative to both bureaucratic and market mechanisms for resolving policy conflicts (Börzel 1998). With the transformation of structural relationships between civil society and the German state, particularly after reunification, scholars explained how ‘webs of relatively stable and ongoing relationships … mobilize dispersed resources so that collective (or parallel) action can be orchestrated toward the solution of a common policy problem’ (Kenis and Schneider 1991: 21). Mutually interdependent governmental and private-sector interest organizations jointly coordinate public policy-making through their disaggregated problem-solving interactions. Because the central state possesses insufficient legitimate authority to impose its political preferences, coordinated Inter-organizational policy blocks comprise the informal institutionalized framework through which political resources can be mobilized for successful policy bargaining and collectively binding decisions (Marin and Mayntz 1991; Mayntz 1993; Benz 1995). For example, Jörg Raab

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(2002) examined the policy network governance system that emerged around the *Treuhandanstalt*, a state agency charged with rapidly privatizing East German enterprises following reunification. Both formal and informal institutional factors were especially important in forging multiple horizontal linkages among the public and private organizations with interests in shipbuilding and steel, thus enabling them to engage in effective multilateral negotiations to settle the fate of those large but inefficient companies.

An Inter-organizational perspective on policy networks informs the organizational state model applied to comparative analyses of the US national energy and health policy domains and the US, German, and Japanese labour policy domains (Laumann and Knoke 1987; Knoke *et al*. 1996; Knoke 1998). National policy-making is conducted by formal organizations, with elite individuals acting as agents for organizational principals. In every domain, a few organizations participate in many policy issues and multiple policy events. Temporary coalitions assemble to fight collectively for influence over governmental policy decisions. Communication andresource exchange networks allow domain organizations to identify a policy event's potential partners and opponents. Opposing organizational coalitions with shared policy preferences then pool their political resources and attempt to sway governmental decision-makers to select that policy option most favourable to their interests. After the decision is made, coalitions disintegrate while new events propel the formation of organized interest constellations. Despite the continual micro-level flux, national policy domains remain comparatively durable macro-systems with quite persistent participants, boundaries, and cleavage structures (Burstein 1991; Knoke 2004).

Business Groups and State Intervention

Business groups are sets of legally separate firms bound through formal and/or informal Inter-organizational relations, which are neither short-term strategic alliances nor fully integrated entities (Granovetter 2005) (see also, Lazerson and Lorenzoni this volume). Antitrust laws in the United States, although somewhat inconsistently enforced, have discouraged routinized cooperation among sets of firms (Fligstein 1990). During their more corporatist eras, European states included peak associations, such as trade unions and producer associations, as intermediaries in governance with explicit responsibilities to help decide and implement public policies binding on their members (Lehmbruch 1979; Schmitter 1989). The Japanese state's encouragement and coordination facilitated the successes of its

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postwar economic cooperation system, the *keiretsu*. A study of 197 large Japanese firms over twenty-four years (Lincoln *et al*. 1996: 67), found that member firms of the Big Six *keiretsus* had lower average profits, but less profit volatility, than non-member firms:

> Weak companies benefit from group affiliation (they recover faster), while strong ones do not (they are subsequently outperformed by independent firms). Thus, there is much less variability in the performance of *keiretsu* firms as compared to the independents.

Several East Asian societies also developed distinctive business groups, including *chaebol* (Korea), *guanxi qiye* (Taiwan), and *qiye jituan* (China). In Indonesia, the persistent need to gain protection from military generals pushed business groups in the direction of becoming large conglomerates ‘clustered around centers of politico-bureaucratic power’ (Robinson 1986: 267), especially for the important Chinese-owned groups during the Suharto period.

The state's role in the formation and development of business groups has been explored by many researchers and scholars (e.g. Keister 2000; Maman 2002; Barnes 2003; Tsui-Auch and Lee 2003). The general orientation of the state towards economic development and business interests is likely to shape the structures of its business groups. An important explanation for diversified business group formation is to avoid economic policy distortions (Ghemawat and Khanna 1998).One mechanism is that a specific country's policy framework, such as the tax code in India and many developing countries, plays an important role in encouraging group formation. A second mechanism is that the formation of business groups can influence the reduction of general competitive intensity within an economy. Even when business groups are inefficient organizational forms, they are more able to survive by gaining access to resources conferring advantages on the group's affiliates relative to non-group firms. They can use their connections to policymakers to lobby for limits on competitive intensity (Ghemawat and Khanna 1998). Generally speaking, two forms of state intervention are: (1) external restriction by law, regulations, and policy; and (2) direct involvement by shareholding, assignment of officials, and control of capital by state-owned banks. In addition, a special situation occurs when government officials and party officers directly set up their own business groups (such as in China's emerging market).

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Chinese business groups have a variety of connections to the Chinese state. Some are affiliated with the central government, and some partially owned and controlled by provincial and municipal governments. To keep to the Chinese socialist road with Chinese characteristics, the state must control the main economic features, and publicly owned property must dominate the national economy. Under this kind of state intervention, particular interfirm relations were formed in the name of the Chinese business groups. For example, in his study of the illicit asset stripping of Chinese state firms, Ding (2000) analysed some forms of the Chinese business groups. The managers could strip off a firm's best equipment or most profitable segments and turn these assets over to newly created companies. They could allocate productive assets to the relatives of the firm's employees to set themselves up as subcontractors, for example, of the state firm's *zi gongsi* (subsidiary companies), *fushu qiye* (appended enterprises), *fuzhu qiye* (auxiliary enterprises), *sanchan* (business in the tertiary sector), *fuwu gongsi* (service companies), and so on. Through these complex network methods, state-owned property flows into the manager's private cashbox. As a result, within a business group, the state firms have poor performance and productivity, and private firms present positive firm performance.

In China's transition economy, relationships of business groups to the government and party still remain important because groups need the resources controlled by both central and local governments. In the sense of resource mobilization, business structures affect firm performance. Lisa Keister's (1998) study of Chinese business groups found that interlocking directorates positively affected firm performance and productivity, due to the quicker flows of information about market conditions and technological innovations, and because member firms can more easily exchange resources. Firms in business groups with board interlocks, and those whose groups included finance companies and joint ventures, financially outperformed firms whose business groups lacked such ties. Keister showed that business groups with members connected to foreign firms also perform better(Keister 2000). Efforts to reform the Chinese financial and banking systems have been very slow, because the Chinese state tightly regulates banks, in order to control the assets of business groups and firms (Keister 2002).

International Relations

Economic and political sociologists have applied network analysis methods to model the changing economic, political, and social structural relationships

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among nations. States are conceptualized as units of analysis that simultaneously engage in numerous types of interactions, such as flows of information, financial transactions, exchanges of commodities and services, direct foreign investments, cultural ties, tourist travel, membership in intergovernmental organizations and scientific associations, diplomatic recognition and military assistance treaties, and armed conflicts. By analysing these multiplex linkages among nations, network researchers sought to identify the jointly occupied positions in the international system, the structural relations among these positions, and the changing power structure hierarchy among nations as globalization proceeds relentlessly. In this section, we review recent empirical research on international relations that has applied network concepts and methods.

In a seminal effort to model the world system, David Snyder and Edward Kick (1979) applied blockmodel analysis methods to four binary matrices of relations (exports, diplomatic exchanges, treaties, and military interventions) to identify structurally equivalent positions among 118 nations. Using 1960s data, they concluded that a ten-block solution corresponded to the pattern posited in Immanuel Wallerstein's world system theory and similar dependent development perspectives. A core position was occupied by advanced capitalist nations (the USA, Canada, Western Europe, Australia, Japan, South Africa); two or three semi-peripheral blocks contained communist and less-developed nations; and six peripheral blocks were comprised of underdeveloped African, Asian, and South American countries. Consistent with dependency and world system hypotheses, location within the periphery or semi-periphery reduced national economic growth rates from 1955 to 1970 relative to the prosperous core nations, even controlling for initial development level, education, and other factors. Subsequently, refined block-model and hierarchical cluster analyses of more recent international networks uncovered evidence that structural positions in the world system were related to: internal warfare and external military incursions (Kick 1983); to the widening income inequality between nations (Kick 1987); to economic growth and social welfare (Nemeth and Smith 1985; Kick and Davis 2001); to financial transactions in the telecommunications and credit card networks (Barnett and Salisbury 1996); and to the international division of labour and national structural autonomy (Smith and Nemeth 1988; Sacks *et al*. 2001). Between 1965 and 1980, the world system's coreposition expanded from four to ten nations, while several others graduated from the periphery to the semi-periphery, implying that the global economy facilitated economic development rather than being

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a purely zero-sum transfer of wealth from poor to rich nations (Smith and White 1992).

Applying an alternative method of role equivalence analysis, Ronan Van Rossem (1996) questioned the tripartite world system model as a general paradigm of development. His data on five international networks for 163 countries from 1980–89 found four distinct roles: core, semi-periphery, and two peripheries. But these roles were not as geographically clustered as previous structural equivalence analyses, and they exerted only small and often non-significant effects on trade and investment dependency. Some very large countries with lower development, such as China and India, also occupied the core role along with highly developed nations, reflecting their capacities to create dependencies for others while escaping dependency themselves. Van Rossem proposed a reconceptualization of the world system model. 'Rather than determining dependency and economic performance, the world system creates the environment in which dependency and development take place. Internal social, economic, and political structures and actors become vital factors in development, and can modify the effects of the international environment' (1996: 524). The loose connections between world system role and dependency could serve as a driver of change and upward mobility for the peripheral nations as well as for stagnation and exploitation by the core states.

Increasing numbers of researchers in several disciplines are applying network analysis methods to investigate central issues of globalization and international relations (e.g. Hargittai and Centeno 2001). Inspired by Manuel Castells's musings about the rise of a global network society, geographers mapped the cliques and hierarchical relations among world cities, for example, using airline passenger flows to identify the global cities crucial to sustaining the international order (Smith and Timberlake 1993, 2001; Smith 2004; Derudder and Taylor 2005). Other geographers argued for treating networks as the foundational units of analysis for understanding the global economy (Dicken *et al*. 2001). Political scientists demonstrated how transnational advocacy networks among human rights organizations could more effectively protest against abuses and free political prisoners (Keck and Sikkink 1998). Transnational coalitions of non-governmental organizations have risen dramatically as mechanisms for influencing international financial institutions to fund relief and development projects (Yanacopulos 2005*a*, 2005*b*). Political sociologists revealed how networks of corporations and elite policy groups may be forming a transnational capitalist ruling class (Carroll and Carson 2003), while transnational social movement networks

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facilitate the mobilization of civil society groups in coordinated global actions for democratic change (Smith 2004). These diverse studies barely hint at the great potential for network analysis to illuminate many facets of international relations.

Foreign Aid

Inter-organizational relations play an important role in foreign aid to developing nations. Who will receive aid from such international financial institutions (IFIs) as the IMF and World Bank? Under what conditions will patrons provide aid, how must programmes be implemented, and what are the consequences? Answering these questions involves taking into account the relationships among leading donor countries, international institutions, and recipient countries. For example, take IMF lending to Africa. Specifically, Inter-organizational relations include the relations between the political and economic organizations of leading donor countries, the IMF, and African borrowing countries. Africa has been on the front-line of IMF policy-based lending for about three decades, yet it has made little substantial progress in achieving economic growth nor in implementing the reform policies that the IMF encourages. To determine why IMF programmes rarely achieve their goals, Inter-organizational relations from a political perspective have been explored explicitly and implicitly. For example, Vaubel (1986) implicitly advanced a principal—agent interpretation, in which the IMF is the agent and its principals are those industrial countries supplying most of its lending resources. Although the principals prefer that the IMF enforce recipient accountability to their interests, the Fund has no motivation to comply because its incentives are not closely aligned with the principals' interests.

Randall Stone (2004) gave an opposite reason: the principals frequently intervened to prevent consistent IMF loan enforcement. Political conditionality that superseded the nominal financial conditionality undermined the credibility of the loans-for-reform contract, and ‘borrowers know that their access to financing really depends upon connections with donor-country patrons’ (Stone 2004: 577). To show this point, Stone provided a recent example in which Pakistan's access to IMF financing was suspended when it conducted a nuclear weapons test, but was restored in 2001 when Pakistan agreed to cooperate with the US-led military operation against the Taliban government of Afghanistan. In Stone's interpretation, to measure African countries' relation with the advanced industrial countries—in fact, the relations of patronage—Stone (2004) analysed three variables: foreign aid flows, membership in post-colonial international institutions, and voting

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in the UN General Assembly (Barro and Lee 2003). The ties between African nations and the USA, France, and Great Britain were especially important. France and Britain were the major African colonial powers and remain the only ones with sufficient clout as donors to the IMF to appoint their own executive directors. By contrast, the USA plays an important role in Africa because of its unique position as the only global superpower.

Stone argued that, although donor nations give aid for many reasons, the distribution of aid across countries reflects the donors' relative priorities. Membership inpost-colonial international institutions is more significant in revealing that donors favour some countries over others. For example, South Africa was readmitted to the Commonwealth after the end of *apartheid*, while Zimbabwe was recently expelled after the Mugabe government came under severe international criticism for confiscating white farmers' land-holdings. Members are expected to respect human rights and pursue recommended economic policies, and in return they receive benefits of foreign aid and trade preferences. France has pursued the most consistent and vigorous policy of nurturing ties to its former African colonies and has applied an explicit carrot-and-stick approach to foreign aid. Stone (2004) uses the similarity of African votes in the UN General Assembly to measure their political affinity for potential foreign patrons. If the borrowing countries received large amounts of US aid, belonged to French or British post-colonial international institutions, or had voting postures in the UN similar to France, IMF programme conditions were enforced less rigorously. Not only were foreign aid flows impacted by relations between donor countries and African borrowing countries, but the patrons also interfered with policy implementation. Therefore, Stone (2004) concluded that the IFIs must become independent of the donor nations, because continual interference by those principals leads to failure of the IFI agents to enforce lending programme requirements.

Another recent examination of the origins and the lending policies and practices of two regional development banks (the Inter-American Development Bank (IDB) and the European Bank for Reconstruction and Development) further demonstrated how global politics played an important role in developing IFIs and how the relationships between regional banks and donor and client countries became politically distorted (Barria and Roper 2004). Concerns over the spread of communism in Latin America in the 1950s led to the creation of the IDB. After the Soviet Union collapsed, democracy and human rights became more central, and constrained lending to post-communist regimes. Thus, international politics drove the terms

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of economic transitions in those countries most needing foreign aid. In such cases, the power inequalities in economic resource dependence and other relationships influence Inter-organizational relations and organization performance. However, according to Fukuyama (2004), even though the IMF and other IFIs are nominally independent, when borrowing countries lack a strong and effective central state, foreign aid cannot lead to improvements and may even worsen matters. But, the IFIs cannot bypass the recipient national governments and local institutions to implement grassroots programmes directly. That strategy, by further weakening central state capacity, would only worsen conditions in the long run. Therefore, Fukuyama argued, international financial institutions like the World Bank and IMF should help borrowing nations to strengthen their state capacities and improve the skills of their public administrations in implementing foreign aid programmes.

Researching Inter-organizational Political Relations

This section discusses methodological issues in designing Inter-organizational political network research projects, data collection procedures, and network analysis. The central question is how researchers can expand, improve, and integrate the analysis of Inter-organizational relations by explicitly using political perspectives.

Some methodological pitfalls are uneasily resolved in designing research to analyse Inter-organizational political networks. First, Inter-organizational political relations appear to be purposive activity that contributes to organizations' political goals of obtaining greater power. Thus, analysts often consciously or unconsciously treat an organization as a rational actor; that is, an organization is analogous to a person. Second, under certain constraining conditions, organizational choices and decisions that are intended to reach a particular objective may result in unexpected consequences. Furthermore, inside every organization are interest groups with their own, frequently conflicting, organizational goals that may make an organization clearly distinguishable from an assumed unitary rational actor.

Designers of Inter-organizational political network research, data collection procedures, and network data analysis methods must consider at least two broad aspects—the choices made inside an organization and the environmental constraints on the realization of those choices—which together have real effects on Inter-organizational relations. The former includes the number of actors, unitary versus multiple conflicting goals (usually arising from common, conflicting, or mixed interests), the degree of rationality attributed to organizational decision-makers (on these three

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elements, see Bendor and Hammond 1992), and similar or different means of obtaining goals. Environmental constraints on goal attainment include organizational resources, external regulation by other organizations, and positions in Inter-organizational networks.

Regarding organizational decision-making, Allison's classic *Essence of Decision* (1971; see also Allison and Zelikow 1999), a case study of the 1962 Cuban missile crisis, explored three models of decision-making in general, and of foreign policy-making in particular. Allison contrasted three ‘conceptual lenses’ for explanation of foreign policy decisions: the rational actor model, the organizational process model, and the bureaucratic politics model. The rational actor model explains national choices as purposive goal-directed behaviours. This approach to international relations postulates that the government of a sovereign state behaves as if it were a unitary actor. The organizational process model (relabelled as ‘organizational behaviour’ in 1999) explains foreign policy outputs as the products of bureaucratic routines, programmes, and standard operating procedures. The bureaucratic politics model explains foreign policy outcomes as the result of bargaining gamesamong players in positions. According to Bendor and Hammond (1992), the internal logics of all three of Allison's models are very problematic. We cannot explicate those problems here, but note how they reveal methodological issues in the analysis of Inter-organizational relations. Allison's models and Bendor and Hammond's rethinking of them provide a thoughtful benchmark for further critical thinking about alternative approaches to Inter-organizational political relations.

Different assumptions inevitably lead analysts to construct different explanatory models. We are concerned that researchers think through the implications of three key assumptions: First, an organization may be treated either as a unitary rational actor or decomposed into multiple actors. Allison's second and third models decompose governments into multiple actors, potentially bringing those models closer to reality. However, assuming Inter-organizational political relations among multiple actors is more complicated than assuming a unitary rational actor. Second, a rational actor assumption leads to a simple utility calculus. In contrast, whenever powerful subunits or interest groups inside an organization have competing goals, that organization is better treated as a non-unitary actor. In such cases, analysts should consider the choices of Inter-organizational relations as a result of bargaining among internal subunits. Third, based on March and Simon (1958), an organization is smarter than individuals. They emphasized organizational process, such as routines and procedures, that

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enable choice side. As Bendor and Hammond pointed out, Allison for his own purposes emphasized the constraining choice side, that is, the negative side. Organizations differ from individuals, but as Bendor and Hammond again criticized, Allison quickly moved from individual to organizational limits on rationality. Finally, choices of Inter-organizational relations are constrained not only by internal interactions (strategic games among interest groups and sub-units), but also by environmental constraints of regulations, resources, and positions in social networks.

More generally, many possible elements may produce mistakes in collective decisions. We borrow insights from Jared Diamond's (2005) explanations of how societies survive or fail. Although Diamond explored how societies, not organizations, made choices over the last 13,000 years, his road map for success can be used to check how organizations make mistaken decisions. First, a group may fail to anticipate a problem before the problem actually arrives. Second, when the problem does arrive, the group may fail to perceive it. Third, after they perceive it, they may fail even to try to solve it. Finally, they may try solve it but may not succeed. Many elements may contribute to these successive ‘failures’. Our purpose in citing Diamond's road map is to argue that organizational choices in Inter-organizational relations have many options and outcomes not assumed by the perfect rational actor model. Therefore, if researchers rely methodologically only on the motives and choices of individual organizations to explain Inter-organizational networks, they may reach wrong conclusions. This point adds yet another difficulty to designing and conducting good research projects on Inter-organizational political relations.

As mentioned above, after choices are made, success or failure in reaching goals is still constrained by such environmental conditions as organizational resources, regulation by other organizations, and positions within Inter-organizational networks. Combining choices and environments with many other elements relevant to Inter-organizational relations, we believe that interest groups, multiple organizational goals, and power sources must remain the primary concerns in studying Inter-organizational political relations.

A methodological issue relevant to data collection is the relationship between Inter-organizational networks and personal networks embedded in different organizations. Relations among persons from two or more organizations may mutually shape Inter-organizational relations. An example comes from Hughes, John, and Sasse's (2002) ruling/decision-making elites in

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Novosibirsk, Russia, who held key positions in powerful organizations (such as private firms, business associations, local/regional governments and administrations, and central/state government agencies), and the influence of these elite personal networks on Inter-organizational networks in the post-communist transition. They treated the ruling elite networks as a spatial distribution of the community power network, through which a more networked system of urban governance was shaped. Another example of personal networks influencing Inter-organizational relations is Lisa Keister's (1998) study of Chinese business groups. She pointed out that one way business group interlinks affect organizational performance is through interlocking directorates. Personal relations have important effects in facilitating interlocking directorates in particular, and Inter-organizational networks in general. In methodological terms, analysts still need to think about and figure out the connections between personal networks and Inter-organizational ties.

Political scientists and political sociologists can apply the many existing social network tools to measure Inter-organizational political relationships —such as cliques, centrality, and structural equivalence—although much room remains to improve methods of identifying and measuring prescriptive patterns of needed Inter-organizational political networks (Knoke and Yang 2008). For example, Laumann and Knoke's (1987) investigation of social choice in national energy and health policy domains featured multiple design and data collection procedures for identifying the core organizations, interviewing organizational informants, identifying domain activities and events, and measuring issue linkages.

Inter-organizational networks political perspectives cover many of the substantive areas discussed above, including participation in elections, social capital, social movement organizations, policy domains, business groups and state intervention, international relations, and foreign aid. In the current era of globalization, Inter-organizational political networks grow increasingly important in people's lives. Multinational corporations and interstate political relations are key factors reshaping the international order. In one way or another, researchers,politicians, and policy-makers can expand, improve, and integrate the analysis of Inter-organizational relations by explicitly applying political perspectives. The framework encompassing power and its three main sources can expand to new research areas and integrate future analyses exploring Inter-organizational relations.

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Conclusions

We undertook a journey from theoretical approaches to Inter-organizational political relations, to empirical research, and to research methodologies. This route allowed us to explore the nature and form of Inter-organizational political relations. While our excursion could not settle some key problems related to research design, such as how complex organizational decision-making affects Inter-organizational political networks, it sketched a map to guide scholars, researchers, even policymakers in their further work.

Applying the framework of power and its three sources, we charted five theoretical approaches to Inter-organizational political relations onto an encompassing road map. Governance networks, the first approach, emphasizes the role of regulations in power generation and distribution, such as state constitutional, legislative, regulatory, and rule-based legitimate authority. In contrast, the power structure networks approach favours networks and conceptualizes power as coming mainly from occupancy of important positions within structures of informal political networks. The social capital perspective also emphasizes network relations. In this approach, social capital constitutes a prominent conceptualization of power as persuasion or influence through social network relations. In contrast to the preceding three approaches, resource dependence theory is premised on gaining access to and control over ‘critical resources’. It definitely considers power as originating from resource inequalities in Inter-organizational networks. Finally, the policy domain networks approach to Inter-organizational relations integrates multiple bases of power in a more explicit way. Indeed, each of these five approaches cannot simply ignore any of the three power sources, but, more or less explicitly, devotes attention to all of them.

We reviewed above empirical research that includes participation in elections, social capital, policy domains, business groups and state intervention, international relations, and foreign aid. The empirical investigations conducted by political scientists and sociologists during the past two decades demonstrated applications of five basic theoretical approaches to Inter-organizational relations. For example, intergovernmental relations within a nation and international relations are determinedprimarily by the power mechanism (or three power sources: regulations, resources, and networks), but with differential weight. In the example of patronage relations in foreign aid, IMF lending to African nations is strongly affected by the resources controlled by patron countries. Although an (allegedly)

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independent organization, the IMF cannot effectively implement its decisions on the basis of relevant rules and regulations. Despite occupying a key network position between patron and recipient countries, the IMF's resources depend on patron countries. Therefore, in this situation, resources are the key source of power in Inter-organizational political relations. From this example, we argue that empirical studies must identify which of the three power sources—resources, regulations, or networks—weighs more than the others. How to apply the integrated framework in analysing specific cases is the central problem. Key tasks in solving this problem include identifying regulations, measuring resources, and mapping networks.

In conclusion, during the present era of globalization and organizational societies, a political perspective, built on the mechanisms that generate and distribute power, contributes to a better understanding of Inter-organizational networks. It provides an integrated framework and precise theoretical and conceptual lenses through which to view the broader contexts of Inter-organizational relations.

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Perspectives on Inter-organizational Relations in Economic Geography

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Abstract and Keywords

This article examines how inter-organizational relations (IORs) have been developed and analysed in economic geography during the past two decades. To make apparent the different perspectives in economic geography that are linked directly to IORs as a field of study, this article reviews and evaluates two major strands of the literature: inter-organizational networks and spatial development; and relational networks and global production networks (GPNs). Whereas the first strand of geographical perspectives deploys inter-organizational networks to explain the nature and characteristics of economic development on local and regional scales, the second body of work focuses primarily on relational networks in GPNs and places a great deal of emphasis on how inter-organizational relations are mediated through complex power relations constituted at multiple geographical scales, particularly at the global scale.

inter-organizational relations, economic geography, inter-organizational networks, spatial development, relational networks, global production networks

Introduction

Economic geography is an academic discipline that is fundamentally concerned with describing and explaining the spatial organization of economic activity (see Clark *et al.* 2000; Sheppard and Barnes 2000; Barnes *et al.* 2003). This spatiality of the economy can be analysed in

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relation to location in space, place, and scale of economic processes and outcomes. While locational analysis is often a straightforward exercise of mapping spatial differentiation, the incorporation of place and scale in the analytical lexicons of economic geography offers much more sophistication in economic-geographical interpretations. Specifically, a grounded concern for *places* allows us to explore how economic processes are embedded inextricably in the social, cultural, institutional, and political contexts of these places. A consideration of*geographical scale* permits economic systems to be seen as 'open' and simultaneously driven by a multitude of processes from the individual/household scale up to the global scale. Taken together, economic geography is an eclectic discipline that draws upon a range of cognate disciplines such as economics, sociology, organization studies, and political economy. And yet its distinctive purpose and scope remain with the *spatiality* of economic processes operating in different places and at different scales. As Clark *et al.* (2000: 3–4), emphasis omitted noted in their introduction to the *Oxford Handbook of Economic Geography*, '[d]ifference, differentiation, and heterogeneity characterize the economic landscape, and are part and parcel of the intellectual agenda motivating the field of economic geography'.

Situated in the above context, this chapter examines how Inter-organizational relations (IOR) has developed and been analysed in economic geography during the past two decades (see also Yeung 1994, 2000; Grabher, 2006: Hess and Yeung 2006*a*). To make apparent different perspectives in economic geography that are linked directly to IOR as a field of study, I have chosen to review and evaluate two major strands of the literature: (1) Inter-organizational networks and spatial development; and (2) relational networks and global production networks (GPNs). Whereas the first strand of geographical perspectives deploys Inter-organizational networks to explain the nature and characteristics of economic development at local and regional scales (see also Geddes, Chapter 8 this volume), the second body of work focuses primarily on relational networks in GPNs and places a great deal of emphasis on how Inter-organizational relations are mediated through complex power relations constituted at multiple geographical scales, particularly at the global scale (see also Lazerson and Lorenzoni, Chapter 2 this volume).

In doing so, I have two specific aims in this critical review. First, I seek to introduce readers to the diverse terrain of theoretical literature on IOR in economic geography. This diversity results from the import of key conceptual ideas from allied disciplines by economic geographers, who in

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turn put these concepts into spatial perspectives or deploy them to explain geographical problems. Partly because of this import, economic-geographical perspectives on IOR may not appear to be privileging specific economic and/or geographical concepts; there may not be core theories that dominate geographical analysis. Instead, these economic-geographical perspectives are best described as 'recombinant perspectives' exhibiting conceptual traits from leading theories in cognate disciplines. Their commonality, however, is predicated on the articulation of *place, space*, and *scale* in their explanatory apparatus. There is therefore a great deal of interdisciplinary connection between these perspectives and those in cognate disciplines. It also raises the important and, yet difficult, issue of how we judge the adequacy of these theoretical perspectives in economic geography. By tracing these interconnections, this introduction is intentionally interdisciplinary in nature, though explicit attention will be paid to conceptual developments in economic geography. Second, I assess the prospects of these economic-geographical perspectives in order to develop a future researchagenda that might interest researchers intending to articulate a geographical dimension in their research on IOR. Here, I attempt to make explicit the value-addedness of adopting economic-geographical perspectives in analysing Inter-organizational relations.

The chapter is organized into five sections. The next section reviews the emergence of the network perspective on IOR in economic geography since the late 1980s. Unlike its counterparts in organization studies and industrial economics, the network perspective in economic geography focuses specifically on the interfaces between IOR and *local and regional development*. In other words, the spatiality of IOR and their outcomes are privileged in this perspective. The third section extends this geographical focus on networks to address the rise of the 'relational turn' during the late 1990s. There is a shift from economic logic to the social and cultural embeddedness of IOR in this latter literature. In this growing emphasis on relational properties of actors and agents, I am particularly concerned with how *power* in IOR is conceptualized in this 'relational turn' and how power relations operate through global production networks (GPNs) (see also Huxham and Beech, Chapter 21 this volume, for accounts of power in IOR). The spatiality of power in IOR such as GPNs becomes the primary focus of analysis. The penultimate section assesses the prospects and future directions of research on IOR in economic geography in general and GPNs in particular. This is followed by a brief conclusion.

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Network Analysis, Inter-organizational Relations, and Regional Development

Economic geography has a long tradition of analysing the spatial relationships of business firms, though the focus on IOR among firms is a relatively recent phenomenon. During the 1950s and the 1960s, economic geography was preoccupied with the locational and behavioural patterns of firms in space (see Krumme 1969; Hayter and Watts 1983; Dicken 1990). The emergence of a Marxist radical approach in the 1970s and the 1980s led to a major theoretical and empirical reorientation of research in industrial (economic) geography. This radical literature subsumed the firm under dominant capitalist class relations such that capital's logic explains the spatial behaviour of the firm. In both strands of literature, the firm remained as the singular unit of analysis. There were virtually no efforts to analyse how similar and different firms are interrelated and how these Inter-organizational relationships might shape the space-economy.

The late 1980s witnessed the rapid emergence of the analysis of *networks of inter-firm relationships* in economic geography (Christensen *et al.* 1990; Camagni 1991, 1992; Amin and Thrift 1992; Dicken and Thrift 1992; see also Yeung 1994). This emergence echoed the then re-emerging interest in the notion of the ‘network’ form of organization in industrial economics (Best 1990; Axelson and Easton 1992), international business (Bartlett and Ghoshal 1989; Forsgren and Johanson 1992), organizational analysis (Nohria and Eccles 1992), and economic sociology (Thompson *et al.* 1991; Grabher 1993). The strength of this network approach is that ‘it treats the phenomena as a whole and allows for the discovery of relationships invisible to analysis of the discrete parts’ (Green 1993: 73). This body of literature places greater emphasis on the *network form* of industrial organization. By re-asserting the embedded role of the firm in social relations, network analysis distinguishes itself from the earlier perspectives on industrial systems (Amin 1994; Yeung 2005*a*) (see also discussions of embeddedness in Chapter 20, Bachmann and Zaheer, Chapter 9, Jones and Lichtenstein, this volume). The purpose of this network analysis is to revitalize the neglected aspects of industrial organization in space. In the following two subsections, I will first outline the rise of network analysis in economic geography and then focus specifically on how one dominant strand of literature deploys relational networks to explain local and regional development.

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Networks of Inter-organizational Relations

In general, we can identify three aspects of this emerging network analysis in economic geography (see Yeung 1994): (1) the concepts of industrial districts; (2) the evolution of networks; and (3) the spatial organization of networks. In relation to the post-Fordism and flexible specialization debate that dominated economic geography during the late 1980s and the early 1990s, the concepts of 'local milieu', industrial districts, and 'external networks' received significant research attention up until the mid-1990s (see also Chapter 2, Lazerson and Lorenzoni, this volume). A local milieu is defined as 'the territorial tank of network relationships and of common cultural or psychological attitudes' (Camagni 1992: 3). The definition of an industrial district is, however, far from easy and clear-cut. Some economic geographers prefer to define an industrial district on the basis of territorial agglomeration (e.g. Scott 1988, 1992). Others think that an industrial district has no real significance if embedded social relations, expressed in trust mechanisms, atmosphere, and firm formation, are not present (e.g. Harrison 1992; Lorenz 1993). Still, there is a sense of *spatial formation* in these different interpretations of industrial districts.

Through the process of socialization, both local milieu and external networks become complementary and mutually reinforcing operators in the industrial organization of business firms. Two reasons for their mutual co-existence are raised: (1)to avoid a decrease in its own innovative capacity; and (2) to link up to the synergy of a particular collective milieu (often known as 'place'). Inter-organizational relationships, nonetheless, do not only generate benefits. To cite the example of cooperative agreements, these relationships also come with a certain amount of costs, such as the costs of unification of distinct structures, difficulties in collaboration at a distance, and problems in defining the network pool. The spatial evolution of networks and/or towards a network form of industrial organization was analysed in Camagni (1991, 1992). Networks evolve through closer or more formalized linkages and through an upgrading or follow-up of linkages. Two critical conditions in this network evolution are important. First, there is an emergence of a learning process in cooperation capability. A firm that has enormous knowledge and experience of network relationships is likely to succeed in its subsequent network relationships (see also Chapter 23, Nooteboom, this volume). Second, a parallel investment in intangible assets is necessary and represented by a reputation of reliability in cooperation and trust accumulation facilitated by spatial proximity.

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In these geographical perspectives, network relations are conceptualized as *inter-firm relations* of externalized and institutional transactions and relationships. Firms come together in network relations *in situ* by virtue of the fact that they simultaneously compete and cooperate with each other in local and transnational platforms. In the context of analysing regional development, Cooke and Morgan (1993) have proposed three dimensions for analysing inter-firm network relations:

(1) close and long-lasting ties between producers and users, capturing learning-by-using effects;
(2) networking (and joint ventures) as a method for reaping both specialization and coordination gains; and
(3) long-run and co-operative subcontracting as far as possible, in order to promote joint technical innovations.

Using a mix of firm-level surveys and case studies, empirical research into networks as IOR in economic geography during the 1990s has offered diverse and, sometimes, conflicting findings (see a critical review in Yeung 2000). The spatial formation and territorial outcome of networks as IOR remain as the main analytical objects in these studies. The spatial forms of Inter-organizational network relations are identified in joint ventures, subcontracting, co-operative and nonequity agreements, strategic alliances, licensing and franchising agreements, ethnic and personal networks, and collaborative marketing and R&D and technology financing. Whereas business networks tend to be organized through informal ties and socialization processes, the levels of formality and bureaucratic control tend to be higher in supplier commodity chains, production networks, and innovative networks (see Chapter 3, Johnsen *et al.* and Chapter 4, Dacin *et al.*, this volume). Business networks, for example, are often based on interpersonal ties, informalinformation flows, resource sharing, and decentralized learning and knowledge. These Inter-organizational networks are often embedded in localities with very strong institutional legacies and linkages, although Amin and Cohendet (1999) question the adequacy of a firm's dependence on local tacit knowledge in the face of radical shifts in markets and technologies.

Inter-organizational networks are also found to be increasingly deployed as a sourcing and production strategy. Recent studies in economic geography have shown that power relations in supplier commodity chains tend to privilege downstream distributors and retailers rather than upstream producers and manufacturers. In the case of OEM (original equipment manufacturing) arrangements and subcontracting, there is limited evidence

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to suggest the emergence of hierarchical networks between major manufacturers and their functionally integrated suppliers. Other studies have investigated the role of 'network externalities' such as tacit knowledge and interpersonal trusts in facilitating information flows, production sharing, and diffusion of technologies. These externalities are particularly important for the (re)production of innovative networks in specific places and regions.

The above economic-geographical analysis of network relations, however, has some limitations that are taken up in the 'relational turn' and, specifically, the global production networks perspective (see later sections). First, relatively insufficient attention has been paid to the social-cultural and institutional embeddedness of Inter-organizational networks. The focus in the literature is largely on economic benefits and costs in interfirm transaction relationships (e.g. Camagni 1991, 1992; also Scott 1988, 1992, 1993). Production activities are found to assume different organizational forms *in situ.* Complex interfirm transactional relations become the analytical focus and these Inter-organizational relations serve as the basis of the proposed vertical disintegration and agglomeration of production systems in certain geographical locations. This approach remains firmly rooted in the economic efficiency explanations of the formation and evolution of IOR.

Second, *intra*-firm relationships are largely overlooked. This omission is serious because there is an increasing trend towards networks of intra-firm relationships that may displace the classical hierarchical governance relationships. The distinction between the informal local milieu and formal external networks (Ca-magni 1991, 1992) also implies that there are no networks embedded and reconstructed in localities. There is no real reason why local networks cannot emerge from the informal local milieu. Moreover, this typology of network attributes is primarily a regurgitation of the resource-dependence perspective of network analysis (see Chapter 14, Lotia and Hardy, this volume). Its main problem lies in its inability to show the causal powers of individual business organizations and their interrelationship within specific time–space contingent contexts. This inherent spatiality of power becomes the analytical focus of the 'relational turn' as well.

Third, earlier network analysis in economic geography is concerned with the empirical outcomes of the networks (e.g. co-operative arrangements), not their causal formations and social constructions. Firms are thus atomized in this form of network analysis (see Chapter 11, Kenis and Oerlemans, this volume). In short, any understanding of the nature and dynamics of network relations in the sociospatial organization of business operations must take

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into account the notion of power and power relations. As argued by Dicken and Thrift (1992: 285–6, emphasis in original), the organization of production chains and production systems through business organizations needs to be conceptualized ‘as a complex set of *networks* of inter-relationships between firms which have differing degrees of *power and influence’*. I will elaborate on this idea in the next section on the ‘relational turn’.

Relational Assets and Regional Development

Notwithstanding the above concern with Inter-organizational networks in industrial districts in economic geography, regions and regional development had emerged as one of the leading research themes by the mid-1990s. In this burgeoning literature, Inter-organizational relations take a different theoretical ‘framing’. While the earlier network analysis emphasizes economic costs and efficiency in inter-firm transactions and collaborations, this focus on regional development takes a ‘softer’ approach to IOR. As the cornerstone of what might be termed a ‘relational turn’ in economic geography (Bathelt and Glückler 2003; Yeung 2005*b*), this literature deploys the concept *relational assets* to analyse the role of social and institutional relations in shaping local and regional development. This research moves away from a neoclassical economic analysis of local and regional development that focuses primarily on how economic factors of production and other resource endowments shape the absolute and comparative advantages of specific localities and regions.

Drawing upon institutional and evolutionary perspectives (for the latter, see also Chapters 12, Lomi *et al.*, this volume), this relational assets approach attempts to explain local and regional development as a spatial outcome of the resurgence of regional economies characterized by Storper (1997: 26) as the ‘holy trinity’ of *technology, organizations*, and *territories* (see also Bathelt and Glückler 2003; Bathelt *et al.* 2004; Tallman *et al.* 2004). Territorial development is theorized to be embedded in networks of relational assets and spatial proximity particularly at the local and regional scales such that ‘territorialization is often tied to specific interdependencies in economic life’ (Storper 1997: 20). IOR form a critical component of these specific interdependencies. This shift from neoclassical notions of *comparative advantage* to institutionalist notions of *relational assets* illustrates how different relational thinking (neoclassical versus institutionalism) might lead to differentconceptual themes and explanatory factors to be explored (comparative advantage versus relational assets). Instead of exploring inter-firm transactional relations embedded in agglomerations, economic

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geographers have advocated several interrelated concepts to explain the spatial origins and impact of relational assets: ‘institutional thickness’ (Amin and Thrift 1994); ‘untraded interdependencies’ (Storper 1995; Storper and Salais 1997; Tallman *et al.* 2004); ‘learning regions’ (Asheim 1996; Maskell and Malmberg 1999; cf. Hudson 1999); ‘associational economies’ (Cooke and Morgan 1998); ‘collective order’ (Scott 1998); and ‘local buzz’ (Bathelt *et al.* 2004).

Amin and Thrift (1994), for example, argue that a locality can stimulate the growth and competitiveness of business organizations, if it possesses elements that contribute to the ‘institutional thickness’ arising from local agglomerations and strong IOR. Some of these elements of local agglomerations are (1) strong institutional presence defined by the large number of interrelated institutions and organizations; (2) high levels of interaction amongst these institutions in a local area; (3) development of sharply defined domination and coalitions through collective representation; and (4) development of a mutual awareness. Effective cultivation of these elements of ‘institutional thickness’ is central to the generation of success within what they call ‘neo-Marshallian nodes’ in global networks (Amin and Thrift 1992). Some of best examples of these nodes filled with Marshall's idea of cooperative atmosphere are Silicon Valley in high-tech development, City of London in global finance, and the Third Italy in precision machinery. To Amin and Thrift, what is most important is not the mere presence of institutions *per se*, but rather the processes of institutionalization, i.e. the institutionalizing processes that both underpin and stimulate a diffused entrepreneurship among different organizations, ranging from business firms to pro-growth institutions and research institutes. Collectively, this theoretical emphasis on relational assets offers a variety of non-economic factors such as local rules, reflexive knowledge, conventions, and contexts that explain the agglomeration of firms and organizations in specific locations, the development of strong Inter-organizational relations, and, subsequently, the occurrence of local and regional development.

Furthermore, this geographic literature extends beyond inter-firm network analysis and examines the *geographical outcomes* of networking among firms and institutions. These recent studies have shown that spatial agglomeration and the formation of territorial production networks are clearly important and, yet, often overlooked aspects of network analysis (Malmberg *et al.* 1996; Malmberg and Maskell 1997, 2002; Maskell and Malmberg 1999; Phelps 2004). Theoretical arguments in this ‘relational turn’ are situated in the contemporary intellectual and policy debate

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about globalization and its multifaceted implications for local and regional development (Cox 1997; Yeung 1998; Kelly 1999; Olds *et al.* 1999; Peck and Yeung 2003; Dicken 2004). There is, however, a significantly wide spectrum of recent empirical studies, some in favour and others against these theoreticalarguments for agglomeration tendencies (e.g. Harrison *et al*. 1996; Gertler and DiGiovanna 1997; Pinch and Henry 1999; Martin and Sunley 2003; Tallman *et al.* 2004; cf. Forrant and Flynn 1998).

Too much 'institutional thickness', as it turns out in specific local contexts, is not necessarily always a good thing. Bennett (1997: 332) cautions that '[a] dense network or strong institutional structure is no use economically if it is anti-growth'. Similarly, Scott (1998: 110) argues that 'not all forms of institutional thickness provide an automatic guarantee of economic dynamism. Indeed, institutional thickness can be a positive hindrance to development and growth where stubbornly dysfunctional attitudes and habits are firmly locked in to the local economic system'. He has cited the case of the Los Angeles jewellery industry to justify his cautionary claim (see also Berndt (1998) for the case of Ruhr firms in Germany). Other researchers have also argued that there may be contradictions in the politicization of local and community-based economic initiatives, for example competition among localities, local differentiation and organizational fragmentation of economic agencies within localities (Eisenschitz and Gough 1996; Cox and Wood 1997; MacLeod 1997; Ward 1997; Huggins 1998; Raco 1998; Grabher and Ibert 2006). 'Institutional thickness' is a double-edged sword insofar as firm growth and regional development are concerned. It may lead to lock-in effects that may stifle Inter-organizational collaborations and renewal.

Power, Relational Networks, and Global Production Networks

While the above relational assets framework has contributed to the 'relational turn' in economic geography and placed Inter-organizational relations (particularly firm—institution relations) as its central analytical focus, its spatial locus of analysis remains largely in local and regional development and its analytical anchor in endogenous (often non-economic) growth factors. Since the early 1990s, however, another strand of perspectives on IOR has emerged that unravels *relational embeddedness* in all kinds of networks among economic actors—individuals, firms, and organizations (see also Chapter 11, Kenis and Oerlemans, this volume). Some economic geographers emphasize *Inter-organizational networks* in order to understand industrialization, production, and territorial development. Drawing upon Polanyi's (1944) notion of differential embeddedness between

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economy and society in pre-capitalist and capitalist times and its recent reformulation in 'new economic sociology' (Granovetter 1985; Guillén *et al.* 2003; Smelser and Swedberg 2005), Dicken and Thrift (1992: 283) argue for the case of studying different organizationalforms and processes: 'the importance of organization as a cognitive, cultural, social and political (and spatial) framework for doing business has increasingly come to be realized. Indeed, nowadays, organization is often equated with "culture", envisaged as a set of conventions'.

In retrospect, the concept of embeddedness and its import into economic geography represents a telling move away from studying the social relations of production and spatial structures in the radical political economy of the 1980s (see Massey 1984; Gregory and Urry 1985; Storper and Walker 1989; Sayer and Walker 1992), towards a broader conceptualization of the socio-spatial organization of production, prefiguring the extensive discussions that have taken place since the early 1990s around network paradigms, associational economies, and relational geographies (see Storper 1989; Camagni 1991; Cooke and Morgan 1993, 1998; Grabher 1993, 2006; Yeung 1994, 2000, 2005*b*; Dicken *et al.* 2001; Hess 2004; Hess and Yeung 2006*a*). This emphasis on networks and their associated power relations has also facilitated the rediscovery of the firm in economic geography (Taylor and Asheim 2001; Yeung 2005*a*), in part because it establishes an alternative analytical path between the methodological individualism of narrowly firm-centric approaches (e.g. industrial location models and the geography of enterprise approach) and the strong sense of structural determinism that is evident in studies of geographical industrialization and uneven development (e.g. the Marxist radical approach).

The recent 'relational turn' in economic geography has shed important light on the role of power and power relations in shaping IOR. The empirical realization of these different forms of emergent power depends on specific spatial contexts. The process of connecting different discrete categories necessitates an appreciation of the tension between these categories. What is often lacking in the earlier form of relational economic geography is analytical focus on the tension and power relations *between*—not within—such categories as actors, firms, organizations, institutions, and so on. Focusing on the inherent tension in IOR and its manifestation through differential power relations also allows us to incorporate actor-specific *practice* into our analysis of contemporary economic change. This section first examines how emergent power has been theorized in the recent 'relational turn' in economic geography (see also Dicken *et al.* 2001; Yeung

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2005*b*). It then shows how power and power relations can be used to develop a particular analytical framework that addresses IOR beyond the local and regional scales—the global production networks (GPN) framework (see also Henderson *et al.* 2002; Coe *et al.* 2004; Hess and Yeung 2006*a*).

Emergent Power in Relational Networks

If relationality, such as that between different organizations, is constituted through interactions, interconnections, and tensions, then there is clearly a great deal ofheterogeneity and unevenness in these relational processes. This heterogeneity and unevenness do not refer to the socio-spatial *outcomes* themselves. Instead, I refer to the inherent heterogeneity and unevenness in the constitution and configuration of IOR that in turn produce concrete outcomes. There are thus different *forms of power* embedded in different configurations of IOR. Allen (2003) has analysed the relations between spatiality and power at a general level and developed a relational notion of the 'spatial assemblages of power' in which spatiality is imbued with power *and* power is intertwined with spatiality (cf. Lefebvre 1991). To understand how power is unleashed through heterogeneous IOR, we need to unpack its causal nature and concrete forms. Power is a particularly difficult and slippery concept in social science. Lukes (1986: 17) concludes that

> there are various answers, all deeply familiar, which respond to our interests in both the outcomes and the location of power. Perhaps this explains why, in our ordinary unreflective judgements and comparisons of power, we normally know what we mean and have little difficulty in understanding one another, yet every attempt at a single general answer to the question has failed and seems likely to fail.

Following Allen's (2003: 2) conception of power as 'a relational effect of social interaction', I define power as the relational effects of the capacity to influence *and* the exercise of this capacity through actor-specific practice. It is thus defined in neither simply positional nor practical terms because it is encapsulated in *both* position and practice. As such, power is both a relational and an emergent construct manifested through practice. Power is a *relational* attribute because its effects are experienced through the process of its mobilization and practice. For example, we think of an organization as powerful or having power when we know of prior outcomes arising from the structures of relations in which this organization is embedded. This organization can be deemed to possess a *capacity* to act within those structures of relations. Its power is dependent on the fact that this capacity

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is exercised eventually and successfully. Power is therefore not an inherently possessed quality as in the Weberian concept of bureaucracy and ‘iron cage’ (Weber 1947; see also Clegg 1990), the resource-dependency school of organization theories (Pfeffer and Salancik 1978; Pfeffer 1981, 1992; see also Chapter 14 by Lotia and Hardy, this volume), and the structural power school of global political economy (Strange 1994). Power is also not an organization-specific property as in social network analysis (Burt 1982, 1992, 2004; Emirbayer and Goodwin 1994; Kilduff and Tsai 2003; see also Chapter 11, Kenis and Oerlemans, this volume). In this latter literature, an organization's power in a network is a function of its positionality or strength of association. But the structure of a network tells us little about the qualitative nature of the relations among organizations that are far more important than structures *per se*.

Instead, I see power as the emergent effects of *social practice* among actors in different organizations who have the capacity and resources to influence outcomes(compare with discussion in Chapter 21, Huxham and Beech, this volume). Social actors are thus critical in the mediation of power as relational effects, although they do not possess power *per se*. Theorizing overlapping contexts and rationalities of actors, Ettlinger (2003: 157) argues that theories privileging network relations are ‘insufficient to explain how different types of connections among different types of actors make a difference, and do so in different [spatial] contexts’. A relational view also conceptualizes power as an *emergent* attribute such that the sum of heterogeneous relations is much greater than that of individual parts. The emergence of power from these sets of relations represents a particular kind of causal effect because the presence of their constitutive parts (e.g. actors, organizations, or structures) precedes any concrete effects or outcomes. Revisiting the two concepts mentioned in the earlier section, the emergent power of ‘relational assets’ and ‘institutional thickness’ is clearly greater than the sum of individual assets or institutions in a particular region. The sheer presence of local assets (e.g. technological competencies) or local institutions (e.g. pro-development coalitions) does not necessarily constitute an emergent effect propelling superior firm performance and regional development. The territorialized relationships between organizations and space are also highly intertwined in the sense that firms produce places through their place-based activities *and* places produce firms via prevailing sets of local institutions, rules, and conventions (see Dicken 2000; Dicken and Malmberg 2001; Hudson 2001; Bathelt *et al.* 2004; Tallman *et al.* 2004).

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Inter-organizational Relations and Global Production Networks

How might then the ideas of embeddedness and emergent power be developed in a geographical perspective that takes the global economy as its analytical subject? This is the place for the global production networks (GPN) perspective that is explicitly grounded in the relevant geographic concepts and literature. The GPN perspective focuses on Inter-organizational relations and yet places explanatory emphasis on emergent power in relational networks. Over the last five years, considerable progress has been achieved in developing the GPN perspective for analysing territorial formation and economic development in the global economy. This genre of theoretical development has shown the continuing unevenness of the spatiality of production and consumption, the differentiating role of structural and institutional conditions at various spatial scales, and the differentiated responses and strategies of firms, non-firm organizations, and government bodies shaping the global economy across space and time. Drawing upon Hess and Yeung (2006*a*), I briefly trace in the following subsections the historical antecedents of the GPN framework and assess the state of the art of this GPN-inspired literature.

As indicated in the Introduction, the GPN framework has a diverse set of intellectual precursors—mostly from outside the discipline of economic geography. Broadly, we can identify four highly influential antecedents in relation to their historical contexts: (1) the value chain framework in strategic management since the early 1980s; (2) the networks and embeddedness perspectives in economic and organizational sociology since the mid-1980s; (3) the actor-network analysis in science studies since the mid-1980s; and (4) the global commodity/value chain analysis in economic sociology and development studies since the mid 1990s. Table 18.1 provides a summary of these four strands of literature that predates the GPN framework in economic geography. With hindsight, as the concept of ‘value chain’ was gaining prominence in different research and policy circles through the pioneering work of Porter (1980, 1985) during the early 1980s, explaining the spatial uneven development of capitalist economies was the ‘big issue’ confronting radical economic geographers (e.g. Harvey 1982; Massey 1984; Smith 1984). Interestingly, while both strands of literature took the concept of ‘value’ seriously, there was little cross-fertilization at the conceptual level. At around the same time, the geography of enterprise approach was concerned primarily with territorial systems of business enterprises and their industrial linkages (e.g. Hamilton and Linge 1979, 1981, 1983). The value

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chain framework eventually found its way into economic geography through the work of Dicken (1986) and subsequently a large body of literature on transnational corporations and regional development.

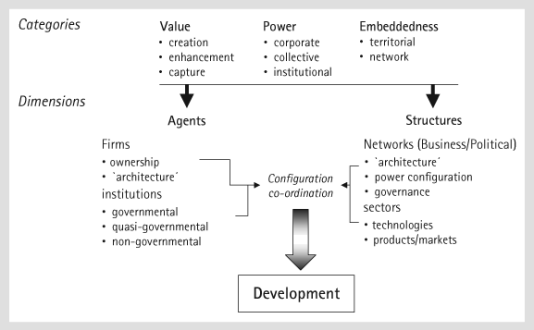

Fig. 18.1 The global production networks framework

Source: Henderson *et al*. (2002: fig. 1).

In retrospect, the value chain framework associated with Porter's work has provided a crucial but contested analytical concept for the GPN framework — especially in relation to *value* and its uneven creation over space. This explicit concern with how value is created, enhanced, and captured in different spatial configurations fundamentally underpins the theoretical framework developed by researchers associated with what Bathelt (2006) calls the 'Manchester School' of global production networks (e.g. Henderson *et al.* 2002; Coe *et al.* 2004). Figure 18.1 illustrates the key conceptual elements of the GPN framework. Here, value is defined in both Marxian notions of surplus value and more conventional understandings in terms of economic rent. The GPN framework thus brings together different strands of the analysis of value in an integrated form. Another important contribution of the value chain framework to the development of GPN work is that it recognizes the conceptual inseparability between manufacturing and service activities in constituting economic production. In the original version of Porter's value chain, both kinds of economic activities are central to value chain processes. While some economic geographers have long argued for this integral understanding of production in relation to social divisions of labour (see Sayer and Walker 1992), its theoretical significance has become much more magnified through the GPN framework because we simply cannot understand manufacturing activities without a concomitant analysis of how these value activities are organized through a wide

Table 18.1 Antecedents of the global production networks framework

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Historical antecedents	Main disciplines	Key concepts	Major authors	Relevance for the GPN Framework in Economic Geography
Value chain framework since the early 1980s	• Strategic management	• Stages of production • Competitive strategies • Competitive advantage	• Michael Porter	• Spatial (re)organization of production activities • Importance of value as a concept in GPN • Production as both manufacturing and service activities
Networks and embeddedness perspectives since the mid-1980s	• Economic sociology • Organization studies • Strategic management	• Inter-organizational relations to business formation and performance • Intertwined relationships between	• Ronald Burt • Mark Granovetter • Carlos Jarillo • Jan Johanson	• Lead firms and their embedded networks • Networks as relations stretching

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		economic action and social structures	• Nitin Nohria • Walter Powell	across space • Value creation, enhancement, and retention in networks
Actor-network analysis since the mid-1980s	• Science and technology studies • Poststructuralism in social science	• Heterogeneous relations • Control from a distance • Actants as humans and non-humans	• Michel Callon • Bruno Latour • John Law	• Networks and relations as foundation in GPN analysis • Power relations among actors in GPNs
global commodity and value chain analysis since the mid-1990s	• Economic sociology • Development studies	• Commodity production as a sequential chain • Value creation in chain organization	• Dieter Ernst • Gary Gereffi • John Humphrey • Hubert Schmitz	• GPN's spatial configurations and economic development outcomes • Institutional influence on GPNs

Source: Hess and Yeung (2006*a*)

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range of service imperatives (e.g. finance, logistics, and retail). What is more, considering the importance of services in the modern world economy enables research on service-sector GPNs an important task in its own right (see also Coe 2004; Wrigley *et al.* 2005).

This deep concern with the *Inter-organizational relations* in GPN activities — manufacturing or service-related—brings us to the second historical antecedent of the GPN framework (see Table 18.1). Since the mid-1980s, networks and embeddedness have come to dominate the lexicon in economic sociology, organization studies, and strategic management (see Guillén *et al.* 2003; Smelser and Swedberg 2005). Sociologists have been interested in social network analysis since the 1920s and the 1930s (Kilduff and Tsai 2003). This genre of work focuses on social interaction as the foundation of society. It was not until the mid-1980s that the idea economic action being embedded in networks of ongoing social relations was resurrected by the work of Granovetter (1985). Following Karl Polanyi's work, Granovetter argued against the atomistic reading of economic relations in transaction cost economics associated with Williamson (1975, 1985). Since then, this idea of embeddedness and networks has strongly reverberated in management and organization studies (see discussion in Chapter 20, Bachmann and Zaheer, this volume). An enormous range of theoretical and empirical studies has focused on how network embeddedness can enhance business formation and firm performance (Dacin *et al.* 1999).

While this theoretical development in networks and embeddedness has profoundly impacted upon economic sociology and management studies, its diffusion into economic geography remained relatively slow until the early 1990s (Peck 2005; Grabher 2006). In particular, Dicken and Thrift (1992) have made a strong case for economic geographers to take networks and embeddedness seriously in the geographical analysis of firms and their productive activities. This initiative towards networks and relations in spatial formations provided the disciplinary platform for what has subsequently emerged as the ‘relational turn’ in new economic geography (Bathelt and Glückler 2003; Yeung 2005*b*). Specifically, a group of economic geographers have taken the embeddedness of economic actors as the central analytical focus in their research (Grabher 1993; Yeung 1994; Hess 2004). By the late 1990s, the concept of embeddedness had become one analytical cornerstone of the GPN framework (Dicken *et al.* 2001; Henderson *et al.* 2002; Coe *et al.* 2004).

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What might seemingly be missing in an embeddedness framework that relies on the structural analysis of network relations, however, is the role of *geographical agents* such as firms. This concern with the disappearance of actors in the 'sea' of network relations has compelled economic geographers to understand better the nature and properties of networks and their constituents. As indicated in Table 18.1, the work of actor-network analysis in science and technology studies since the mid-1980s becomes highly useful here (Law and Hassard 1999). The geographical adaptation of this analysis through the work of Thrift (1996) and Murdoch (1997), among others, is critical in the development of an actor-specific version of the GPN framework in Dicken *et al.* (2001). In particular, actors such as the firm are theorized in the GPN framework not as individual agents *per se*, but as a constitutive part of the wider network through which emergent power and effects are realized over space (see earlier section on emergent power). This conception of actors and their power relations improves on the earlier geographical work in industrial systems that focused primarily on economic linkages among firms.

What, then, does this relational framework focusing on networks mean for analysing the global economy? This is where the final strand of literature concerning the global commodity/value chain analysis (GCC/GVC) makes the greatest impact (see Table 18.1). Influenced by Wallerstein's world-system framework, in which different countries are sorted in a cascading order of core, semi-periphery, and periphery economies, the GCC/GVC analysis gained prominence after the mid-1990s, following the work by Gereffi and Korzeniewicz (1990, 1994). Together with other researchers in development studies (e.g. Dieter Ernst, John Humphrey, and Hubert Schmitz), they have constructed an analytical framework that focuses on the *global* scale (Gereffi *et al.* 2005). The GCC/GVC analysis, in particular, has been shown to provide enormously important insights into a wide range of economic development issues such as industrial upgrading,technological and employment change, market expansion, trade patterns, and so on.

The GCC/GVC analysis, however, does suffer from some significant shortcomings that can be remedied through the GPN framework (see Dicken *et al*. 2001; Henderson *et al.* 2002; Coe *et al.* 2004). First, while the chain concept in the GCC analysis brings multiple geographical scales, particularly the global scale, to the forefront of its analysis, the *geography* of GCCs remains weakly developed and under-theorized—no doubt a reflection of its intellectual origin in sociology. The issue of territoriality is highly aggregated in the GCC framework, identifying the spatial units of analysis as either

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core or periphery. This is where the GPN framework makes stronger claims because it deals with how actors and organizations in various GPNs are anchored in different places and multiple scales (from the national to the local scale). A more recent refinement of the GPN framework in Coe *et al.* (2004) has made an explicit analytical link between GPNs and (subnational) regional development—a core issue for economic geographers since the 1980s.

Second, the institutional dimensions of the GCC/GVC analysis seem to be hijacked by its privileging of governance structures. The former includes the role of state policies and institutional conditions in shaping development outcomes in different places and regions. This line of analysis has been reinvigorated in the 'new regionalism' literature in geography since the mid-1990s (see MacLeod 2001), although, until recently, the precise connection between regional development and GPNs remains underdeveloped (see Coe *et al.* 2004). GCC/GVC analysis places much greater emphasis on alternative governance structures that are associated with the peculiar configuration of GCCs/GVCs in different industries and sectors. For example, in the clothing industry, the key driver is argued to be global buyers who dictate the terms of garment manufacturing. In the automobile industry, lead firms (assemblers) drive the entire GCC/GVC through their assembly plants located in different regions and countries.

The Value-added of GPN Research

As we have seen, the analysis of global production networks and how they relate to socio-economic development at various spatial scales has come a long way over the last few years. There is now a growing body of literature that draws on this framework to answer the main questions of this strand of research, namely: How are GPNs constructed and how do they evolve? What are the underlying governance structures driving this evolution? Who, ultimately, benefits and loses through incorporation in or exclusion from GPNs, and in which places? In order to answer these questions, it is useful to think along the conceptual lines described in Figure 18.1 and consider the dimensions ofvalue, power, and the embeddedness of individuals and organizations (see also Johns 2006).

Recent work in economic geography has shown that cultural diversity and embeddedness are very much part of Inter-organizational economic activity on a transnational or global basis (Hess 2004; Wrigley *et al.* 2005; Coe and Lee 2006; Wrigley and Currah 2006). Depending on an organization's societal

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embeddedness and cultural background, power asymmetries, network configurations, and governance modes may vary greatly within the same universalistic category of transnational production systems, for example buyer-driven commodity chains or modular networks (Gereffi *et al.* 2005). Working on supply chains in the Shanghai automotive cluster, Depner and Bathelt (2005) show how German companies try to overcome problems of operating in an unknown institutional and cultural environment that has different norms, rules, and *modus operandi* (Gertler 2004). Despite this evolving body of research, culture and non-firm institutions are—with the exception of the GPN framework—still treated as externalities in much of the existing conceptual literature on transnational systems of IOR. For example, Gereffi *et al.* (2005: 99; emphasis added) argue that 'we feel confident that the variables internal to our model influence the shape and governance of global value chains in important ways, *regardless* of the institutional context within which they are situated'. This neglect of institutions such as the state or NGOs, at the local as well as regional and national scales, poses a significant analytical problem.

Recent accounts of the state of the art in GCC analysis call for a better recognition of the cultural, political, and institutional environments in which GPN firms operate (Smith *et al.* 2002; Bair 2005; Yeung 2007). Liu and Dicken (2006) is a good example of GPN research that takes the role of the state and other non-firm institutions seriously. Utilizing the automobile industry in China as a case study, the authors explore the power of the Chinese state to embed foreign investors in this sector for the benefit of the national economy. Their notion of 'obligated embeddedness' indicates that embeddedness does not describe a benign world of cooperation between different organizations without any power asymmetries (Sayer 2001). Weller's (2006) work on the embeddedness of GPN in Fiji's garment industry reinforces this view by analysing the development of GPNs and their transformation as a dynamic process characterized by the interdependencies between trust, embeddedness, and power at multiple spatial scales. Unlike much of the GCC/GVC literature, where governance structures are conceptualized primarily along the ideas of power as a capacity and resource, Weller also highlights the importance of a relational view of power (Allen 2003; Yeung 2005*b*).

In a similar fashion, Hess and Coe (2006) examine the role of power and embeddedness in shaping the organization and spatiality of GPNs in the mobile telecommunications industry. The entanglement of power and embeddednessbecomes particularly obvious when investigating the

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standard-setting process in this industry. Technological standards can be considered as a main tool to appropriate value for network members (O'Riain 2004) and to gain control over particular nodes in telecommunications value networks. How the process of standard setting is played out between different actors and organizations, however, does not follow universal rules of transaction cost economies, but depends to a large extent on the societal embeddedness of the actors and organizations involved, i.e. their cultural background and historical development in particular institutional contexts (Hess 2004).

Prospects and Future Directions

After a critical review of network analysis in economic geography up until the early 1990s, I concluded that

> It is perhaps time for a reconstruction of the geography of business organisations and production systems on the basis of a 'bottom—up' and network relation approach which seek to construct the social formation of network relations at the intra-, inter- and extra- firm levels and to examine the role of these network relations in understanding the landscape of the capitalist global economy.
>
> (Yeung 1994: 43)

As reviewed in the above sections, the ensuing conceptual developments in economic geography that focus on IOR have certainly gone well beyond my call to place network relations centrally in geographical explanations of the capitalist global economy. What then are the future prospects and challenges to research on IOR? I intend to address them in relation to three dimensions: ontological challenges, epistemological issues, and methodological concerns.

As the 'economic' is increasingly reconceptualized in 'new' economic geography to incorporate social and cultural dimensions (see Thrift and Olds 1996; Thrift 2000), the *ontological challenge* lies in integrating both material and socio-cultural dimensions of IOR. For example, how should future GPN research address the mutual interdependencies of the social/cultural and the economic, and agency and structure (see also Bathelt 2006)? A way forward might be to try and reconsider some fundamental insights from different intellectual currents in economic geography, namely political economy, actor-network theory (ANT), and 'new economic geography', the latter often used as a synonym for the 'cultural turn' in the discipline. Political economy has much to offer in terms of explaining the structural and institutional

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preconditions of human action, while ANT as a poststructuralist concept helps us focus on the agency dimension in producingIOR. The ‘cultural turn’—albeit largely ignoring the material and economic basis of contemporary capitalism—is helpful in integrating the socio-cultural dimension of economic exchange and value creation, enhancement, and capture in IOR.

Related to these ontological challenges, geographical research into IOR is also confronted with certain *epistemological* problems, particularly with regard to its theoretical foundations. As noted in Table 18.1, for example, the GPN framework owes its theoretical ideas much more to economic sociology and network analysis than orthodox economics. This phenomenon is certainly not accidental because, as observed by Peck (2005), economic geographers seem to ‘play out’ much more with sociologists and organizational theorists than hard-nosed economists. In doing so, there is a danger in GPN-related work of over-emphasizing social relations stretched across space at the expense of economic transactions that *constitute* the very foundation of Inter-organizational networks, particularly GPNs. As stated earlier, we should not lose sight of the fundamental economic *raison d'être* of each GPN. The challenge to future research into IOR rests with our continual commitment to the analysis of the spatial creation, enhancement, and capture of *value*—defined as surplus value and economic rent—in different configurations of IOR.

This continual focus on the economic and development outcome of IOR in the global economy points us to another epistemological challenge—the broadening of our existing conceptual frameworks (e.g. GPNs) to incorporate varieties of capitalism within their analytical orbit. A significant body of literature in comparative international political economy has confirmed that the economic organization of capitalism varies across different countries and regions (Whitley 1999; Hall and Soskice 2001). For example, the intellectual foundations of the GPN framework in network analysis and GCC/GVC frameworks do not provide a ready-made solution to this epistemological problem. In the network literature, capitalism is clearly too much a structural phenomenon to be accounted for. In the latter framework, capitalism remains essentially as the backdrop through which GCCs/GVCs operate seamlessly. Put simply, how does the GPN framework account for the persistent divergence in different national economies in terms of business and industrial organizations, institutional structures, and levels of articulation in the global economy? These differences in the economic organization of capitalisms need to be theorized successfully in future epistemological development of IOR research for it to be a powerful

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analytical tool for understanding contemporary globalization and economic development.

Apart from ontological and epistemological challenges, geographical research into IOR suffers from a relatively underdeveloped *methodological foundation*. For example, despite the GPN framework's apparently sophisticated theoretical outlook, we still do not have a systematic set of methodological tools to operationalize the framework. Equally, we find it hard to operationalize such ‘soft’, and somemight say ‘fuzzy’ (Markusen 1999), concepts as ‘relational assets’ and ‘institutional thickness’. While a process-based methodology has been argued to reduce the ‘methodological shortfall’ in practising new economic geography (Yeung 2003), there is no explicitly articulated methodology for doing IOR research in economic geography. There are several methodological traits of IOR research in economic geography though. First, there is a strong preference for a qualitative interview-based approach to collecting empirical data on the *mechanisms and processes* of IOR. This preference for interviews with key actors in different organizations has many scientific advantages in relation to the richness and explanatory power of observations (see Clark 1998; Yeung 2003). However, it falls short of delivering a rigorous analysis that can give the ‘big picture’ of different IOR on a global scale.

Second, multi-site research seems to provide a better set of data for *triangulation* purposes. Typically, an economic geographer will trace the entire Inter-organizational relation or a large portion of it in order to focus strategically on some key sites within this IOR, for example where the lead firm operates and where some of its key suppliers and markets are located. This ‘tracing the IOR’ method can be very rewarding, but it is equally challenging methodologically. There is therefore a need to coordinate geographical research into IOR that span different countries and/or regions. This methodological challenge is immense but can be overcome with cross-national coordination of research funding and activities.

Third, GPN-inspired work tends to rely much less on *quantitative data*. This inherent distrust of quantitative data such as trade and production statistics is unfortunate as empirical research in the GCC/GVC analysis shows their significance and usefulness in providing a broad picture of the composition and operation of different transnational systems of production and consumption in the global economy (see Feenstra and Hamilton 2006). GPN researchers should perhaps incorporate more explicitly quantitative data and relevant statistical tools into their analysis (see also Sheppard 2001).

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Conclusion

This chapter has critically reviewed the two major strands of economic-geographical research on Inter-organizational relations during the past two decades. In retrospect, much progress has been made in this genre of research in terms of conceptual framing and empirical richness. In conceptual terms, there is no doubt that these perspectives on IOR have gone beyond their intellectual antecedentsto incorporate important spatial and scalar variables in their analysis. Consequently, these perspectives are quite capable of helping us understand the role of IOR, particularly networks, in local and regional development. Empirically, these economic-geographical perspectives have enabled us to connect events, activities, and processes between different organizations in different places. This 'spatial stretching' of IOR is perhaps the single most important conceptual contribution. From the early network analysis in the late 1980s to the 'relational turn' in the late 1990s and the emergence of the global production networks framework in the early 21st century, economic geography has seen a continual research interest in IOR. The future for IOR work in economic geography thus remains bright. Given the interdisciplinary interest in IOR, as indicated by various chapters in this Handbook, there will be important and still fruitful opportunities for economic geographers to engage with the wider social scientific audience in developing distinctive conceptual and empirical insights into the complex nature, evolution, and outcomes of Inter-organizational relations.

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Steve Cropper, Chris Huxham, Mark Ebers, and Peter Smith Ring

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Theories of Contract and their use in Studying Inter-organizational Relations

Peter Smith Ring

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Abstract and Keywords

This article discusses the ways in which the law of contract has been used and might be useful in understanding inter-organizational relations (IORs). In virtually all instances, when the representatives of two or more organizations conclude that their organizations will collaboratively work together towards some set of common and individual ends, they have to reach an agreement. In much of the social science literature dealing with IORs, scholars appear to be assuming that these agreements are ‘contracts’. In discussing the construct of a contract, this article begins by exploring how this concept has been addressed in the social sciences. The focus here is on sociology, psychology, economics, and management. This article concludes with a discussion of an agenda for future research on the subject of contracts in both the social sciences and in the law as it relates to IORs and inter-organizational entities.

inter-organizational relations, social sciences, contracts, sociology, psychology, economics, management

Introduction

In this chapter I will discuss the ways in which the law of contract has been used and might be useful in understanding inter-organizational relations (IOR). This isno easy task for unlike other theory addressed in this section of the Handbook, legal scholars generally have not focused explicitly on

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IOR. Nor have social scientists made significant use of legal theories of contract in addressing collaborative relationships between organizations. Given this, I believe that it will be helpful to provide some initial definitions of some social science-oriented terms that I will be employing with some frequency in this chapter in the event that legal scholars find their way to its contents. Similarly, for social scientists not familiar with legal theory looking for guidance from what follows, I will offer some definition of legal concepts and terms.

I will start by outlining a premise that underlies the following discussion. In virtually all instances when the representatives of two or more organizations conclude that their organizations will collaboratively work together towards some set of common and individual ends, they have to reach an agreement. In much of the social science literature dealing with IORs, scholars appear to be assuming that these agreements are 'contracts'. There also appears to be an operating assumption at work that these contracts have some degree of legal standing on which the parties can rely if, for example, after negotiating their agreement they get into disputes over the meaning of terms and conditions laid out in their agreement. But, if there is a question whether one or more of the parties have lived up to their agreement(s), a legal system can only help if the agreement is, in fact, an enforceable contract. Thus, from a legal perspective, an awareness of legal theories of contract is central to understanding IORs.

Many social scientists, however, have used the term contract in ways that would make these assumptions untenable. When the concept was being used simply to describe the general nature of governance mechanisms, this use of the term contract did not present serious conceptual problems. Increasingly, however, social scientists are employing the construct of contract in contexts in which they are explicitly addressing the legal implications of the term. As a consequence, if the construct of contract is to be employed by social scientists in discussions of IORs, then they ought to take cognizance of its legal meaning.

As those who have read elsewhere in this volume (particularly in Part III) have discovered, a rich and diverse set of disciplines, and a variety of theories derived from these disciplines, provide the foundations for understanding the dynamics of Inter-organizational entities (IOEs): for example, the motivations to form them, the processes by which they emerge/evolve, the agreements reached by the parties, the structures of the IOEs, how they are managed, and why and how they are terminated/

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dissolved. These same disciplines and theories less frequently provide a basis for understanding what binds the agreements, their nature, how they come into being, how they are adjusted, breached, adjudicated, and concluded.

In discussing the construct of a contract, I will initially begin by exploring how the concept has been addressed in the social sciences. My focus there will be on sociology, psychology, economics, and management. I will then take up a discussion of contract as it derives from the common law. I will conclude the chapter with adiscussion of an agenda for future research on contract in both the social sciences and in law as it relates to IORs and IOEs.

Discipline-based Views of Contract

As indicated, this section of the chapter focuses on the disciplines of sociology, psychology, economics, and management and how students of organizations have used these disciplines to address the concept of contract. These four have been chosen not because they are the only disciplines in the social sciences that address legal aspects of IOEs, but as a matter of necessity given the constraints inherent in producing a manageable discussion. Thus, I ignore contributions from political science, anthropology, communications studies, philosophy, and—in applied moral philosophy—ethics.

I begin with a discussion of the work of John R. Commons (1924, 1934). Two factors have motivated me to start this section of the chapter in this manner. First, and more importantly, Commons has much to say about relationships between the law, legal systems and economic exchanges (see, generally, Van de Ven 1993). Second, Commons defies easy classification from a disciplinary perspective. He never finished his Ph.D. studies. He held a position in sociology at Syracuse University for a period of time. The work he tends to be known best for among management scholars, written while at Wisconsin, deals with economic exchanges, but from a legal perspective. He was also a superb labour historian.

In his 1924 book, *Legal Foundations of Capitalism*, Commons set out his thoughts on transactions in chapter 4. In some respects, he refined his thinking in *The Economics of Collective Action* (1950). Commons discusses three types of transactions: rationing, managerial, and bargaining. The last is our focus in this chapter, although it is interesting to note that his discussions of managerial transactions have not had as much influence on those relying on so-called psychological contracts as might have been

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expected. Commons notes that, conceptually, all economic exchanges will involve a minimum of six parties: two potential buyers and two potential sellers, and a set of institutional guarantors—a judge and a 'Supreme Court'. He observes that there are 'four inseparable economic facts in bargaining transactions … transfers of ownership by sovereignty, the monetary prices to be paid in acquiring ownership, and the two debts of performance and payment created by the transaction (1950: 53)'. For scholars interested in the processes by which economic exchanges evolve (see e.g. Gray 1989; Zajac and Olsen 1992; Ring and Van de Ven 1994; Doz 1996; Ariño and de la Torre 1998; Doz *et al*. 2000), Commons provided a solid foundation. He argued that bargaining transactionstook place over three phases: (1) negotiational psychology (inducements, intentions, purpose); (2) commitments for future action (agreements, contracts, obligations, rules of action); and (3) execution of the commitment (administration, sovereignty). And he defined the basic unit of analysis in economic exchanges as the transaction, laying the groundwork for a later generation of institutional economists (e.g. Williamson 1975), as well as for sociologists and, to a lesser degree, psychologists.

Sociology-based Perspectives of Contract

Sociologists have made a number of important contributions about the roles of law, legal theory, and contracts in studies of IORs and IOEs. For example, the nature and meaning of property rights and their roles in an economy have been nicely laid out by Campbell and Lindberg (1990). Lie (1992) provides an understanding of the dynamics of exchange in contexts that do not always approximate those of competitive markets that have been and still are relied upon by many economists and management scholars. Abbott (1988) and others have explored the roles of professionals in societies, including lawyers. More recently, Suchman and Cahill (1996) have explored the roles of lawyers in facilitating start-ups and their relationships between their entrepreneurial clients (and their firms) and venture capitalists (and their firms), which frequently take on aspects of an IOE. Suchman (1995) reports on the growing level of standardization of venture capital financing in the Silicon Valley and accompanying contractual norms and their comparison with those to be found in other industrial 'districts'.

Given that sociologists study the institutional nature of law, there is a paucity of work by sociologists exploring contracts, contracting, or the law of contracts *per se* as they relate to economic exchange in general or even more particularly in relation to Inter-organizational relationships. One

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possible explanation lies in the early research on these questions undertaken by Stewart Macaulay. Macaulay is not a sociologist; he was educated as a lawyer. But, as he has reported (Macaulay 1995), he never practised law and had never been much involved in business. The genesis of his melding of legal studies with the social sciences clearly was fostered by the ‘law in action’ tradition that existed (and still exists) at the University of Wisconsin Law School (influenced undoubtedly by Commons's presence on the campus).

In his seminal research on the role that contracts play in economic exchanges, Macaulay observes that contract long has been of interest to sociologists, economists, and lawyers. But not being a social scientist he makes no reference to research streams that he may have had in mind. He did, however, define what he meant by contract in terms that were more social science in their orientation than legal. Contract referred to ‘devices for conducting exchanges’ (1963: 56). Contractdid not mean ‘a writing recording an agreement’. Instead, it involved ‘rational planning of the transaction with careful provision for as many future contingencies as can be foreseen and the existence or use of actual or potential legal sanctions to induce performance of the exchange or to compensate for non-performance’ (1963: 56). Perhaps as he was writing for a social science audience, it was not an overtly ‘legal’ definition of the term.

Macaulay (1963) reported that the businessmen he interviewed relied on formal contracts as a basis for laying out all of their expectations, or for dealing with conflicts arising from their business deals far less frequently than was thought to be the case by scholars working at that time. In short, he found that businessmen frequently planned their relationships in incomplete ways. Careful planning was more likely to be found in significant transactions. In more ‘routine’ cases, standardized forms were employed.

His self-described ‘tentative’ findings were subsequently replicated by Beale and Dugdale (1975) in the UK. While one can only speculate about why certain kinds of research questions failed to be explored by scholars in the wake of these counterintuitive findings, it seems likely that the combined findings at the very least created an impression among sociologists that, empirically, issues related to reliance on contracts in business contexts had been ‘settled’.

Perhaps sociologists of his era also concluded that if the written contracts that were concluded between firms were not relied upon to any great extent

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in settling disputes that arose thereafter then why bother to explore other issues that clearly were implied in Macaulay's findings such as:

- in the contracts that were written, what kinds of terms and conditions were deemed more or less essential by the parties?
- when writing contracts, did house counsel or retained counsel ‘draft’ different kinds of contracts?
- did the presence of lawyers as part of a negotiating team produce differential results in the kinds of terms and conditions that were to be found in contracts?
- since Macaulay's data came only from manufacturers operating in the State of Wisconsin, it is possible that what he was observing were regional effects (see Lazerson and Lorenzoni, this volume).

A renewed interest in the role of contracts by sociologists emerged from studies of industries as globally far-flung as Italian knitware manufacturers (Lazerson 1988, 1995) and Japanese car makers (Dore 1987, 1983; Sako 1992). These scholars found that reliance on interpersonal trust was more evident than reliance on formal (legal) contracts. And each demonstrated the importance of a legal system to the functioning of economic exchanges and IORs. Dore's findings are particularly interesting. What he found in Japan was very different from more ‘western’ contexts. He described some of his major findings in language more reminiscent of a marriage contract than a business contract. For example, governance of inter-firm relationswas ‘moralized trading relations of mutual goodwill’. They reflected relations that were ‘more like marriage than a one-night stand’. But ‘rules of chastity vary’ and ‘divorce is possible’ (Dore 1983: 464). Clearly, there is an implication that the arm's-length kinds of relationships that were characteristic of the time in the USA and in the UK, given their common law approaches to contract, were not the norm in Japan. Who one partnered with, and how those partners were treated, were critical to successful business relationships. Sako (1992) was able to provide a much clearer picture of the differences in her comparative study of these practices in Japan and the UK.

Lazerson (1988: 340) opines that: ‘The strategies of Italian small firms would appear very different if tomorrow the entire legal structure promoting artisanal firms was withdrawn. This is also true for the special labor laws that make some organizational choices more attractive than others.’ He found that reliance on written contracts was very rare and even rarer was it to find contracts that had been drafted by lawyers. The practice was to use standardized forms that, essentially, contained so-called ‘boiler-plate’ provisions. More pointedly, the aversion to reliance on written contracts was

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so strong that when potential partners approach these small-firm owners with a contract, it was viewed as a signal of distrust and those parties were to be avoided whenever possible. He concluded that the more continuous and long-term exchange relations are between firms, the less likely it is that these economic relationships will need to be formalized in legal ways: by contracts.

Lazerson's findings are consistent with those of Macaulay (1963) and foreshadowed those that Uzzi (1996, 1997) provided in his study of the garment industry in New York City (NYC). In Lazerson's study, firms that were unwilling to be flexible about terms related to price or quantity ran the risk of facing the same kind of treatment when the shoe was on the other foot. Uzzi's study produced very similar results.

Uzzi explored aspects of structural embeddedness in his study of garment manufacturers in the ‘women's better dress sector’ in NYC. Exchanges took place at arm's length. However, those exchanges that were more critical took place between business people who could be trusted to produce. These ties, apparently, were not based on contracts. These closer, interpersonal, ties also facilitated transfers of more proprietary information between the parties.

Perhaps it is because of the nature of their discipline that sociologists have found the study of economic exchanges within contexts such as ‘districts’ very attractive. Regional economies, in which many forms of IOEs and many types of IORs are to be found, have been characterized as a ‘web’ of economic exchanges that, over time, have become routinized in their nature. In the vast majority of cases, these exchanges do not take place within markets, as most economists generally define markets (Romo and Schwartz 1995). This regional approach to IORs has produced a significant literature that one can find addressed in comprehensivefashion in Lorenzoni and Lazerson (this volume). Consequently, I will now turn my attention to contributions about contracts from another of the social sciences: psychology.

Psychology-based Perspectives of Contract

Research scholars relying on psychology have only more recently begun to use contract in relation to a variety of intra-organizational issues. The early and surprisingly less influential work on so-called psychological ‘contracts’ (Argyris 1960; Levinson *et al*. 1962; Kotter 1973; Kanfer *et al*. 1974) provided some of the initial insights into the contractual nature of

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relationships between individuals and the organizations in which they were employed. But these foundations appear to have lain dormant until Nicholson and Johns (1985) took up the question of trying to further explain the nature of employee—employer relationships. Their notion that these ‘contracts’ reflected unwritten, and, at times, barely articulated, expectations that each side held about the other remains, today, the bedrock for studies of the psychological contract.

As we shall see, however, these could not be considered contracts in any legal sense of the term. Moreover, this early work appears to have been based on an unstated assumption that individuals on the ‘employee side’ of those contracts had a wide range of choices about employment opportunities. Thus, they were assumed to be autonomous economic actors, and, as such, they could freely ‘contract’. If they did not like the proposed terms of employment with a particular employer, they would seek better terms elsewhere. In much of this literature, the psychological contracts that were attributed to their relationships with employers, however, were generally described as unwritten and largely non-verbalized sets of expectations and assumptions about each other's prerogatives and obligations. These two conditions are enough to raise objections about the use of the concept of contract in such contexts. These expectations of what each party would give to and receive from the relationship varied in their degree of explicitness; the parties were often only marginally aware of their exact nature (Kotter 1973). These expectations addressed areas such as norms, work roles, the nature of the work itself, social relationships, or security needs. Nonetheless, a contract, as defined in legal theory, requires the parties to reach a meeting of the minds, among other things. Non-verbalized expectations hardly meet this standard. More to the point, organizations, particularly in the USA, require key non-executive managers and employees to sign legally enforceable contracts outlining a wide variety of conditions of employment and what these individuals can and cannot do when their employment contracts end.

As economic relationships evolve over time, including those that we define as being conducted within an IOE, new experiences would modify the psychologicalcontracts that existed between the parties (see Ring and Van de Ven 1994). Individuals who felt that their expectations were unmet had three basic options: attempt to ‘renegotiate’, continue the relationship in an alienated manner, or sever the relationship (Thomas 1976). But the fact remains that many of the ‘agreements’ that are the subject of this research are not contracts and this is why parties whose expectations have not been

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met have very little recourse other than to hope that they may find a more receptive ear to their complaints about the ways in which they are dealt with by the organizations that employ them. Dabos and Rosseau (2004*a*, 2004*b*) seem to take cognizance of this in their discussion of the value of the 'balanced psychological contract', which assumes an ability to negotiate terms and conditions of employment on an ongoing basis. In point of fact, one might argue that this is precisely the way one would have to think about psychological contracts between the various participants within and across the organizational members of an IOE as it evolves over time.

The concept of a psychological contract has gained traction and is employed to explain a wide variety of intra-organizational phenomena. Denise Rousseau and her students and colleagues have produced an extensive body of research which is neatly summarized in Rousseau (1995) and again in Rousseau (2005). The work of Rousseau, Ho, and Greenberg (2006) holds out particular promise for those seeking to employ the psychological contract construct in contexts involving IORs. They provide a strong case for the importance of the idiosyncratic nature of employment terms. These kinds of terms would arise more clearly in the case of the employees of an organization assigned to work within an IOE while remaining on the 'payroll' of their own organization. Expectations about performance in the IOE would most certainly take on the colour and texture of idiosyncratic terms. In large measure, however, the research on psychological contracts has not been extended to IORs. One exception is the work of Koh, Ang, and Straub (2004) in which they concluded that living up to expectations arising from psychological contracts between managers of customer and supplier firms increased the likelihood of success over and above those that were associated with the kinds of formal contracts between the firms, the duration of the relationship, or the size of the contract.

The last of the 'pure' social science perspectives on contract that I consider in this chapter is the one that has been relied upon most frequently by those who have explored the role of contract in the context of IORs: an economic perspective. As such, the section that follows is even more selective in its use of the extant literature than the preceding two.

Economic-based Perspectives of Contract

Coase (1992: 717) observes that 'when we move from a regime of zero transaction costs to one of positive transaction costs, what becomes immediately clear is thecritical importance of the legal system in this new

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world. This is because what is traded are not physical entities but the rights to perform certain actions—and those rights are established by the legal system.'

It is not surprising then that economists, more so than virtually any other group of social scientists, have found it useful to employ the concept of 'contract' in their theories. For example, the concept of contract is among the conceptual cornerstones in economic theories such as agency (see e.g. Fama and Jensen 1983), incomplete contracts (see e.g. Posner 1981; Hart and Moore 1999), the so-called property rights theory of the firm (see e.g. Hart and Moore 1990), or transaction cost economics (TCE) (see e.g. Coase 1937; Williamson 1985, Hennart, this volume).

Many of these economists explored exchanges between economic actors that, indeed, were defined by and 'governed' by a legally enforceable contract (e.g. Goldberg 1976). But economists had to make assumptions about economic actors to develop their theories and their models. Thus, these assumptions—driven by a desire to develop good theory, i.e. replete with parsimony—could not match the world in which economic actors actually contracted with each other; nor was it possible to deal with many of the essential elements of a 'contract' parsimoniously.

One possible explanation for economists using the views of contract to be addressed in this section, as opposed to legal definitions addressed later, lies in the empirical fact that economic exchanges rarely are undertaken by individuals who have an ability to look into the future with absolute clarity and who also can be counted upon to faithfully live up to their promises. If economic exchanges were always conducted by individuals with these attributes, then their economic exchanges would be very efficient and there would be no real need for contracts under most circumstances. On the other hand, legal scholars generally do not have to make assumptions about the people who contract because they rarely engage in hypothesis testing. Thus, early economists found little in legal theory, particularly neoclassical contract law, to support the kinds of assumptions that they needed for their modelling.

Economic exchange is not as economically efficient as it might be. Almost all exchanges will involve futures rife with uncertainty. All economic actors will experience fallible memories. And, unfortunately, some economic actors will turn out to be unreliable: they will not, or cannot, live up to promises they have made. Thus, modern exchanges involve a wide variety of contingencies that cannot be fully and adequately anticipated. Moreover, as exchange

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crosses political, cultural, legal, and linguistic boundaries, information that will be critical, perhaps even essential, to the proper functioning of the exchange cannot be effectively communicated by the parties. Even worse, problems that economists describe as moral hazard arise: information that can be communicated honestly is communicated falsely. In such circumstances, contracts that the parties negotiate are described as being incomplete from an economic perspective.

Economists generally assume that the contracts they describe will be written. But legally enforceable contracts can be oral. If this is the case then problems such as incapacitation, infallible memories, or opportunistic behaviour surface once more (and even more forcefully). For example, economists seem to assume that the value-creating activities that the parties are trying to undertake, and the objectives that they are trying to accomplish, are known and can be easily articulated, i.e. with relatively low cost and in detail in the (written) contract. Needless to say, this assumption ignores the fact that some parties to IOEs might be inclined to make verbal agreements and to operate on the basis of handshakes and that these verbal agreements, in fact, might (or might not) be legally binding.

Economists, and others who have derived their theory from economists, describe a wide variety of ‘contracts’ that are derived from a number of economic theories. A review of the literature suggests that these contracts have different purposes and that the parties who rely on them are seeking to accomplish differing economic objectives (Ring 2006). One of the most widely cited types of contracts in the economic literature is the discrete contract, frequently defined as the vehicle by which market governance occurs. Other constructs found in the economics literature include general clause contracts. General clause contracts are also referred to as incomplete long-term contracts (see Bernheim and Winston (1998) for a discussion of incomplete contracts). Other economists (and management scholars as well) have come to rely on comprehensive or contingent claims contracts (Beamish and Banks 1987; Crocker and Masten 1988; Hill 1990; Parkhe 1993; Shane 1994; Godfrey and Hill 1996; Ring 1997). Finally, many economists rely on the term neo-classical contract.

The factors that appear to distinguish these various constructs are not legal dimensions. Rather, the differences are a function of the assumptions that the economists make about economic actors and the conditions surrounding their economic exchanges. These assumptions include those related to the rationality of the actors, the frequency of their exchanges, or the nature

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of the assets being exchanged. Assumptions about risk aversion or the inclinations of the parties to rely on public versus private ordering in dealing with dispute resolution also play roles in the ways in which economists refer to contracts in their theorizing (see Ring 2006).

Management-based Perspectives of Contract

As I have just addressed three disciplines that frequently are the 'home' disciplines of management scholars, and provide the foundations for management research, my objective in this section is to address the work of other scholars who explore contracts in the contexts of IORs and IOEs while relying heavily on thesedisciplines. For that reason, rather than covering ground already well cultivated, I refer readers to Ariño and Reuer (2006) and Contractor and Lorange (2002) for a number of excellent discussions of the roles that contract plays in IORs and IOEs. The Ariño and Reuer text discuss the role that contracts play as 'blueprints' for the nature of the relationship that the parties to an IOE contemplate (Mayer 2006; Ryall and Sampson 2006); as a basis for learning and institutionalizing that learning (Argyres and Mayer 2006), a point made earlier by Ring and Van de Ven (1994); and how contracts that address fewer of the concerns of the parties ex ante are more likely to end up being renegotiated ex post contract (Ariño *et al*. 2006).

Formal (Contractual) versus Informal (Trust) Governance of IOEs

The question of what is the 'best' approach to governing an IOE has been the subject of much of the research by management scholars dealing with IORs (see the discussions in Hennart, this volume and Bachmann and Zaheer, this volume) and contract issues are bound up in these questions. There are many ways to govern the same type of IOE. Initially, the issue was framed along lines of reliance on formal mechanisms such as contract versus reliance on informal mechanisms such as trust (e.g. Ring and Van de Ven 1992; Sitkin and Roth 1993; Poppo and Zenger 2002; Bachmann and Zaheer, this volume). Deakin and Wilkinson (1998) provide an excellent overview of this issue with specific reference to country-level differences. Dyer and Singh (1998) suggest that working with partners with whom a focal firm has developed close relationships over time can serve as a trade-off to reliance on very detailed contracts designed to spell out a plethora of responsibilities and obligations.

Ness and Haugland (2005) used economic and psychological views of contracts, based on management, marketing, and legal scholarship. They

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looked at the written contract between firms engaged in IORs in their study and also found that the presence of formal controls enhanced the emergence of trust between the parties. Gnyawali and Madhavan (2001) explored networks in which formal contractual ties existed. The cooperation among organizations in the networks they describe involved cooperating around ‘flows of assets, information, and status’. They concluded that contracts can deal with flows of assets that are tangible more easily than those that are intangible (e.g. brand loyalty).

Gulati and Garguilo (1999) found that among the firms they studied, emphasis was placed on looking for partners that were trustworthy and with whom an organization could rely on trust when engaging in economic exchanges. They found that the firms in their study got information on ‘good’ partners from existing networks. Relying on Ring and Ven de Ven (1994) and Doz (1996) they argued that underpinning the formality of contracts were interpersonal relationships the penetrated each organization's boundaries and provided a basis forgreater reliance on trust. This enabled the parties to exchange more proprietary information.

There is a problem in the trade-offs between reliance on trust or contract (Moran and Ghoshal 1996). They argued that in some contexts even discussing reliance on contract may be viewed by one or more of the parties to an IOE as a sign of distrust. Similarly, Jap and Ganesan (2000) note that seeking to include lots of terms and conditions in a contract may be viewed as a further signal to a prospective partner that an ability to rely on trust is absent.

The Substance of Contracts

In large measure, both the conceptual and the empirical research dealing with contract that had been conducted prior to the turn of the century rarely addressed what contracts were actually composed of, i.e. what kinds of terms and conditions appeared in the final contract. Ring and Van de Ven (1992) were a very early exception, outlining both the formal legal requirements of a contract and also a number of managerial requirements. But their guidance was provided in a footnote and thus may have escaped the attention of many management scholars. More recently, Campbell and Reuer (2001) provide a set of prescriptions, grounded in the law, on issues that have to be taken into account in drafting contracts for IOEs involving business firms operating in international contexts. In less legalistic terms, Bamford *et al*. (2004) make a similar case.

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One of the more contentious arenas involved in negotiating terms and conditions in IOE contracts arises out of efforts by the parties to deal with protection of intellectual property rights. Merges (2005) argues forcefully that the combination of the law of contract and property rights provides a ‘better’ approach to the facilitation of economic exchanges, particularly when they such exchanges intellectual property (IP) that is critical to value creation. Slowinski and Sagal (2006) discuss a number of approaches to dealing with the patent rights that they viewed as essential to value creation and value capture in China when the legal system of that country and norms of behaviour with and by ‘western’ firms were still being developed.

Learning to Contract

As Argyres and Mayer (2006) and Mayer and Argyres (2004) have demonstrated, it is possible for the parties to IORs to employ contracts and contracting processes as a basis for learning: both how to contract and how to improve the likelihood that their contracts effectively govern their relationships. They concluded that contracts, rather than ‘oral communications or memos’ were the sources for what had been learned in, and from, their prior contracts. Azoulay and Shane (2001) in a study of franchising by new entrepreneurs provide evidence that when contrastingthose who succeed with those who fail, experience with contracts, based on initial endowments with information about contracting, is critical. The endowments are obviously the result of prior learning about contracts and contracting. And for those who have had no experience, there are always ‘experts’ available to provide assistance. For example, Lerner and Merges (1998) discuss a firm, Recombinant Capital, whose business is selling information about contracts in the biotech industry.

Learning from earlier contractual relationships is clearly a critical element of identifying more efficient (measured by transaction costs) and effective forms of governance mechanisms by parties to IORs (measured by relational quality—Ariño and de la Torre 1998; Ariño *et al*. 2001). These efforts are perhaps made easier by the fact that the parties to the contracts they studied were all business organizations. But what happens when parties contract across sectors of an economy? Ring and Rands (1989) and Ring (1997) describe how the parties at 3M and NASA found that a common basis in compatible concerns about national competitiveness provided a basis for going forward. And as they learned, they moved from a relatively simple Memorandum of Understanding (MOU) to a more complex two-year JEA (Joint Endeavor Agreement) to an even more complex ten-year JEA.

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Needless to say, one can best learn from contracts if negotiations actually produce a legally enforceable contract, or some other form of legally enforceable agreement, and that contract, to some extent, is paid attention to by the parties as their relationship evolves over time. The ideal set of circumstances would be the case in which the parties were able to foresee most of the significant contingencies and plan for them with some degree of accuracy, thus minimizing the likelihood of conflict. We have seen that there is sound economic contract theory that supports an argument that this is not likely to happen. And we have seen that some early empirical evidence from sociologists indicated that even when they have contracts, business people try to work out their differences without resort to (costly) institutional guarantors (i.e. courts).

Contracts and their Breach

So what happens when the planning of the parties that is manifested in their contract(s) fails? Contracts are, in the best of all worlds, efforts by parties to an exchange to prevent legal disputes from arising. But if events intervene and disputes do arise, the contract may provide a basis for resolving the dispute; either by a court, an arbitrator, or a mediator (see e.g. Edelman and Suchman (1997) for an excellent discussion of alternative dispute mechanisms) or the parties themselves (see e.g. Williamson (1985) on private ordering; Tesler (1980) on self-enforcing agreements).

The question of what actually happens when parties act opportunistically during negotiations is well understood in the law, but less so by management scholars. Inpart the legal ‘answer’ is a function of what the parties have actually promised to do, or not to do. Non-disclosure agreements frequently lay out these obligations. They are contracts. And they are designed to deal with the problem that Arrow (1962) first described from an economic point of view: parties can't put a price on information until it is known; but when it becomes known there is no need to ‘buy’ it.

Some management scholars have begun to address the question of how protection of intellectual property rights (IPR) can be undertaken in the course of contracting (see, generally, Fitzpatrick and DiLuilo 2005). Their approach is complemented by a more formal discussion of the legal aspects of these kinds of contracts in Tanenbaum (1997) and Sanders (2003). Frequently at issue is resolution of what have been described by Lerner and Merges (1998), building on the work of Aghion and Tirole (1994), as ‘control rights’. For management scholars interested in understanding the

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wide-ranging nature of control rights, or looking for an excellent source of independent variables, the Lerner and Merges work is essential reading. Ring, Lenway, and Nichols (1994) explore how these kinds of control rights found their way into an IOE that enabled Honeywell to exit from its computer business in the late 1980s.

Similarly, as Ring and Van de Ven (1992, 1994) have argued, maintaining a relationship is of paramount importance as it grows over time. Thus, pursuing legally enforceable rights may have the effect of damaging that relationship. Analogizing to marriage contracts, Bernstein (2003) refers to the extra-legal promises that cannot be enforced by courts as being of the essence of the relationship. He includes loss of reputation and giving up benefits that might have been obtained by being able to have a future relationship with the partner that has been offended. An ability to rely on reputation bonds in the future, with a present partner or another, is not a product of a contract, although it may be the product of the processes of contracting and living within the spirit of an agreement in efficacious ways.

Legal Perspective of Contract

Just as there are a variety of perspectives regarding contract based in sociology or psychology, or economics, so too are there a number of perspectives of contract based in legal theory. Williamson (1985: 161) acknowledges that ‘the possibility of many pertinent contract laws goes unremarked’.

The various branches of contract law provide significant insights into the meaning and nature of contract (see e.g. Llewellyn 1935; Gilmore 1974; Macneil 1974, 1978, 1980; Fried 1981; Hillman 1988, 1998). These various branches of contract law and theory have been described by Hillman (1988) as the ‘Contract as Promise’ approach to contract theory (see e.g. Fried 1981), the ‘Death of Contract’ approach (Gilmore 1974; but see Speidel 2000), relational contract theory (or ‘thecontract law is unsuitable’ approach, see e.g. Macneil 1974, 1978, 1980, 2000), empirical contract theory (or ‘contract law is irrelevant’; Macaulay 1963, 1968, 1985), and critical contract theory (or ‘contract law is indeterminate and legitimizing’; Feinman 1983; Unger 1983). Those studying the various roles of contract in investigations of IORs may find that their work is facilitated by an understanding of the foundations of these various theoretical approaches to the evolution of contract law.

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One of the clearest and simplest views on the nature of contract law is provided by Hillman 1998: 103–4): '[C]ontract law is a complex set of rules and principles that, on the whole, facilitate the formation and performance of private agreements and promises and ensure some degree of fairness in the contracting process'. In the context of this Handbook, the 'private agreements' and 'promises' that are referenced by Hillman frequently constitute the mechanisms of governance and design of Inter-organizational relationships for the vast variety of IOEs that have appeared on the business landscape during the past two decades.

Contract law in the USA is based primarily at the state level; i.e. there is no single uniform national law of contract. There are two exceptions to this general assessment of the law of contract in the USA. The first is the Restatement (Second) of Contracts (1981) of the American Law Institute (ALI) and the second is the Uniform Commercial Code (UCC), which covers many instances involving the sale of goods. The latter is a product of the ALI and the National Conference of Commissioners on Uniform State Laws. Neither of these bodies has legal authority, but the UCC has been adopted as law in virtually all states. Article 2 of the UCC deals with matters specifically related to contract law.

The still dominant view relied upon by the courts of the USA in determining whether or not a contract exists and is legally enforceable is the promise-based theory of the Restatement (Second) of Contracts. The Restatement approach requires courts to consider three core questions in establishing liability: was there a promise, was the promise part of an offer and acceptance, and was the promise supported by consideration or induced reliance? (See Restatement (Second) of Contracts (R(2)C) (1981: 1–5, 71, 90). R(2)C, s. 1: 'A contract is a promise, or set of promises, for breach of which the law gives a remedy, or the performance of which the law in some way recognizes as a duty'.

For a contract to be legally binding, institutional guarantors (e.g. the courts) must be able to establish four essential elements. First, a contract must reflect an agreement between parties with the capacity to enter into a contract, what I will describe as legally competent persons. For example, minors cannot be bound to a contract, although contracts involving minors are generally described as voidable (they made be found valid if the minor so desires). Second, a contract must be based on consideration, which briefly can be defined as the rights, interests, profits, or other forms of benefit accruing to one party or some detriment, disadvantage, responsibility, or

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loss assumed by the other party. Third, it is essential that bothparties agree to the same thing in the same sense, i.e. that they enjoy a ‘meeting of the minds’ on the essential terms and conditions of the contract. This mutual consent must be evident in the language that the parties employ, or from their words or actions. Reaching mutual assent is complicated as transacting parties must cope with the necessity for factoring flexibility of action into their economic relations to control for the uncertainty they face because of their inability (due to bounded rationality) to define (1) all possible states of nature; (2) the nature of the obligations they are willing to accept from each other; or (3) how the legal system will respond to their planning. Fourth, that which the parties promise to do or not to do in their contract must be valid subject matter. The subject matter of the agreement also must be something that does not violate notions of public policy or the law. Thus, parties that contractually agree to engage in antitrust violations will not have that agreement upheld in the event that one or more of them breaches (see Notes 2006).

The intentions of the parties engaged in economic exchanges must be manifested, orally or in writing, in such a manner as to demonstrate the existence of these four legal requirements. When an institutional guarantor can establish that these four primary ingredients are present, the contract can be remedied upon breach. Conversely, when a legally recognizable contract is formed, performance of its terms will be considered, in some way, as a duty (see, generally, Restatement (Second), Contracts 1981).

To serve as an effective governance structure in an IOE, a contract ought to express the current (at the time of negotiations) intentions of the parties about (*a*) what they will provide each other in the future in exchange for access to resources; (*b*) how they will design and manage the production functions that will make use of those resources; and (*c*) some sense of when and under what circumstances their relationship will end. For the purposes of my arguments, a contract exists when there are ‘relations among partners to the process of projecting exchanges into the future’ (Macneil 1980: 4). Most recently Macneil has defined contract to mean ‘relations among people who have exchanged, are exchanging, or expect to be exchanging in the future—in other words exchange relations’ Macneil (2000: 877). Very clearly, these definitions cover what organizations, and their agents, intend with most IORs. They also cover the conduct that is associated with the cooperative or collaborative behaviour that is associated with IORs. Macneil, of course, is best known among legal scholars (and many social scientists) as the

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developer of the theory of relational contract. Within the framework of this theory, what are relational contracts?

Speidel (2000: 823–4) observes that:

> Most commentators agree that relational contracts have at least three distinguishing characteristics. First, the exchange relationship extends over time. It is not a 'spot' market deal. Rather, it is more like a long-term supply contract, a franchise or distribution arrangement,or a marriage. Second, because of the extended duration, parts of the exchange cannot be easily measured or precisely defined at the time of contracting. This dictates a planning strategy that favours open terms, reserves discretion in performance to one or both parties, and incorporates dispute resolution procedures, such as mediation or arbitration, into the contract. The inability of the parties to 'presentiate' the terms of their bargain at the time of negotiating a contract shifts the focus to circumstances and conduct that occur ex post contract. Third, in the words of Lewis Kornhauser, in a relational contract the 'interdependence of the parties to the exchange extends at any given moment beyond the single discrete transaction to a range of social interrelationships. (Footnotes omitted)'.

I would argue that the essential elements of virtually all IORs are to be found in these three characteristics of relational contract. But that does not mean that IORs can be governed by relational contracts or that IOEs can be created by them. And there is an enormous body of contract theory in law review articles dealing with the varieties of relational contract theory, much of which goes unnoticed by management and/or social science-based scholars.

US courts, however, rarely rely on theories of relational contract in reaching decisions in cases in which the parties have been unable to resolve their conflicts by resort to private ordering. Harrison (2004) has concluded that the same result holds in courts of the UK. At times, the courts may reason as though they were relying on a theory of relational contracting, as in a case with which I was intimately familiar based on my own research—Oglebay Norton Co. v Armco, Inc., 556 NE 2d 515 (Ohio 1990). In 1989 I began a longitudinal study of the processes involved in managing IORs with the cooperation of the management of the Oglebay firm. This study lasted well into the mid-1990s. For an excellent analysis of the Oglebay case, see Speidel (2000). Given that contract is not generally explored by the courts in

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relational terms, in the remainder of this discussion I will focus on what the courts will enforce as contract.

One of the critical differences in neoclassical contract law (and theory) is that the context within which the bargaining takes place can be investigated by the courts if they are called upon to enforce the contract. In reaching these determinations, the courts are likely to rely heavily on the actual contract and on evidence provided by the parties as to what they intended to agree to in the course of their negotiations. Here, the divergence from relational contract theory occurs. Another big assumption in neoclassical contract theory, and law, is that the courts can ‘get it right’ in determining if a breach has occurred, who caused the breach, what the parties had intended as a consequence of their negotiations, or what an appropriate remedy might actually be in the case of breach. In different ways, these assumptions have been challenged by a variety of legal scholars. But they generally have been ignored by social scientists. Social scientists have tended to assume that courts have no problems in dealing with the meaning of written contracts.

Concluding Remarks

I hope that readers of this chapter will have come away with a fresh perspective on the roles that legal theories of contract can play in our understanding of IORs and IOEs. More importantly, I hope that it is equally clear that the discussion in this chapter deals with only a very small segment of the vast amount of research on contracts, both from legal scholars and from social scientists, that is relevant to our understanding of IORs and IOEs.

Given this last statement, a caveat of sorts, I am loath to make many suggestions regarding where research, solidly grounded in legal theory, and/or research combining legal theory and one or more of the social sciences might go to shed more light on IOEs or IORs. Consequently, I will offer only one.

It relates to contracts, particularly written contracts. I hope that the concept's relevance to IOEs and to IORs has been demonstrated in the foregoing discussion. Despite Macaulay's (1963) ground-breaking work, it is my belief that social scientists have failed to live up to its promise. Recent scholarship on contract, undertaken by management scholars, has begun to look at the contracts themselves. Thus, there are signs that change may be in the wind.

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To my colleagues I would offer a couple of suggestions. We need to know more about who actually 'writes' the contracts: what are the roles of the individuals that propose, plan, and will run an IOE or manage IORs? And who are the lawyers and what are their roles? When are house counsel relied upon and for what? When and what kinds of attorneys are retained, and for what purposes, in the drafting, renegotiating, or enforcement of a contract? When the parties to IORs are from different jurisdictions, what kind of thinking and decision-making goes into deciding what contract law will control?

We also need to get into the current 'black box' that defines the negotiations surrounding IORs or IOEs. How are contracts actually 'constructed'? What goes into the making of a 'meeting of the minds'? Do psychological contracts actually precede legally enforceable contracts as suggested by Ring and Rands (1989). What aspects of consideration are more or less difficult to reach agreement on and how does all this relate to what the economists describe as incomplete or contingent claims contracts?

Finally, those social scientists seeking to develop better theory about the role that contracts, written or oral, can play in IORs and the governing of IOEs need to start reading what contract scholars have to say about contract theory. In an era of easy electronic access to law reviews, there is no excuse for not reading the theory of contract as well as the law of contract. Similarly, we should not leave it to the law professors to provide the really interesting empirical work on the roles that contracts can play in Inter-organizational relations.

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Steve Cropper, Chris Huxham, Mark Ebers, and Peter Smith Ring

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Key Topics In Inter-organizational Relations Research

Introduction

This part of the Handbook focuses on a series of key topics that repeatedly appear in the various literatures dealing with Inter-organizational relations. ‘Topics’, in the way that they are presented in this part, may be thought of as conceptual slices through the field of Inter-organizational relations (IOR) research. They are issues—such as trust, power, leadership, legitimacy, facilitation, evaluation, and so on—that appear to have (or have been shown to have) significance in the context of relations between organizations. Hypothetically, it is possible to conceive of a ‘complete set’ of such topics providing a ‘complete’ account of IORs. In practice, of course, ‘completeness’ is unattainable, but the principle, as a defining characteristic of ‘topics’, remains sound.

Needless to say, given the variety of manifestations that are employed in studying IORs reflected in Part II above, as well as the variety of theoretical lenses of IORs revealed in Part III, the range of topics that have been the subject of research by scholars seeking to increase the knowledge base of IOR far exceeds our ability to cover the terrain in this part of the Handbook. The volume of possibilities is such that ‘topics in IOR research’ could easily justify a whole Handbook of its own. This part, more than any other in the Handbook, is an incomplete account of the area.

In selecting topics, we aimed to include issues that clearly were central to discussions of IORs. We also sought topics that could be addressed across most of the manifestations contained in Part III. Finally, we picked

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topics that, in our view, could only be addressed in useful ways (to scholars and practitioners alike) by exploring them through multiple theoretical lenses. Our eventual selections— embodied in chapters on trust, power, social capital, change and time, learning and innovation, approaches to intervening, and approaches to evaluation—do satisfy these criteria.

But even this collection excludes topics that also would have satisfied the criteria. Some of the excluded topics, at least to some degree, are partially covered in other chapters of the book. Discussion of partner selection can be found in Dacin, Reid, and Ring's chapter on strategic alliances and joint ventures. Issues relating to legitimacy of IORs are introduced by Provan and Sydow within the topic of evaluation. Risk is discussed within the topics of learning and innovation (Nooteboom) and trust (Bachmann and Zaheer). Culture appears in the context of Inter-organizational projects (Jones and Lichtenstein). Other topics are simply too sparsely researched to date. Perhaps the most significant of these relate to communication, goal negotiation, and identity, all of which are frequently mentioned inIOR research, and emotion, accountability, rupture and repair, and ethics; highly relevant though far less often mentioned.

We asked authors in this part to cover the variety of theoretical perspectives and manifestations relevant to their topic. As with the authors of all chapters, we also asked them to include their own perspective on the area. Thus, all of the topics covered in this part have a particular slant. Inevitably, this means that some aspects of each topic are covered more fully than others. In the remainder of this Introduction, we indicate the central thrust of each chapter and signal other places in the book where aspects of the topic are discussed, including some that are less developed here.

The first four chapters of Part IV relate to inherent characteristics—relating to trust, power, social capital, and time—of Inter-organizational entities (IOEs) that influence the effectiveness and path of the relationship. Bachmann and Zaheer's approach to discussing trust is rooted in a comparison of economic and sociological approaches to the subject. Drawing principally on literature derived from a commercial sector perspective, they make an argument that is relevant across all sectors. They contend (contrary to the position taken in some economic perspectives) that trust is significant in Inter-organizational settings, characterizing it as a basic coordination mechanism. They take a view of Inter-organizational trust that implies it is closely linked to interpersonal trust. Drawing on structuration theory and newer approaches to institutional theory, they argue for an interpretativist

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approach to the understanding of the subject. Reliance on trust has distinct functions in coordinating differing manifestations of IORs, and an ability to rely on trust is viewed as being an embedded feature of a society.

Trust is addressed in several other chapters in this Handbook. Readers will find the basis for an alternative—transaction cost—theoretical view of trust in Hennart's chapter and more behavioural-based approaches to trust or trust building in the chapters on social psychology (Schruijer) and intervention approaches (Gray). The role of trust in relation to contract is addressed in Ring's chapter. Geddes draws extensively on public sector literature for his discussion of trust building in local and regional partnerships.

In the chapter on power, Huxham and Beech integrate insights from research on IOR power across several dimensions. Overall, their focus is on the use of power. They first introduce three perspectives on the reasons why power may be used in IORs. They follow this with a discussion of sources of power identified in the various literatures, and introduce the notion of power at the micro level. Their discussion leads towards a view of power as dynamic, shifting continuously between partners at both macro and micro levels. Because their concern is with integration, they do not discuss, in depth, each of the theoretical bases from which power is researched. However, quite detailed theoretical commentary on power appears in several of the chapters in Part III. Power is a central concern in critical theory (Lotiaand Hardy, this volume), so that chapter is obviously important in this context, but the chapters setting out political (Knoke and Chen) and economic geography (Yeung) perspectives also have much to say about this topic.

Nahapiet, in her chapter on social capital, explicitly concerns herself with multiple dimensions of relationships, both structural and connectionist, that, she asserts, are often kept separate in other studies. Her approach to social capital thus distinguishes itself from the exclusively (or at least, largely) structural perspective of network studies and the relational perspective of trust and identity researchers. In her view, social capital takes a resource-based perspective—viewing connections as both a resource and providing access to resources. She concludes that social capital research, typically, has sought to elucidate the performance consequences of social connections, both positive and negative. Other contributors to the book have considered social capital in specific contexts. Nooteboom addresses the role that social capital can play in learning and innovation while Kenis and Oerlemans employ the concept in their contribution on social networks.

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Cropper and Palmer review theories of and research into change, dynamics, and time. Research into change in IOR is substantial but it has largely been a hidden concern, framed according to the theoretical perspective on IOR in use and also lacking the focus on planned change that is provided in organizational studies by the organizational change and development literatures. Research into IOR dynamics has more clearly established some distinctive lines of theory development and, in a more limited way, has started to accumulate findings: it is an area perhaps ready for critique before further development. Finally, the initiation of research into time in IOR is very recent. Cropper and Palmer sketch out the variety of ways in which time and temporalities have started to enter as questions to be addressed— starting both from theories of temporality and from the specific character of IOR, as the chapter on project-based IORs by Jones and Lichtenstein in Part II suggested.

The topic which forms the subject of Nooteboom's chapter, learning and innovation, is of a rather different character from those above, since these are not only characteristics of IORs but also, often, desired outcomes. Nooteboom set out to survey the complex field of alliances and networks designed to help produce innovation and sources of learning, without claiming to be exhaustive. In particular, he looks at two issues: first, competence (which is clearly central to innovation) and learning, observing that learning is all about developing competence; and, second, governance—i.e. the management of relational risks. In his arguments, he employs economics, sociology, and cognitive science, first summarizing the constructivist, interactionist view of knowledge employed in the chapter. He then explores the governance side of relations, in a review of relational risks and instruments that can be employed to manage them. Finally he analyses sources of novelty in IORs, focusing, in particular, on the role of variety and cognitive distance as both an opportunity for competence and a problem for both competence and governance.Issues related to learning and innovation are so pervasive in studies of IOR that they appear in virtually every chapter in this Handbook.

The topics in the final two chapters—approaches to intervention and evaluation—differ in type again. Both may be conceived as relating to the management of IORs. Gray takes an unusual approach to the discussion of intervention approaches, but one that very usefully moves the field forward. She integrates approaches deriving from many different arenas, by delineating underlying theories and linking these to the approaches. Her central thrust is around the tasks that interveners carry out in order

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to promote IOE effectiveness. Since this chapter is concerned with the process of collaborating across organizations, there is a clear synergy with the chapter on the management of IORs (Hibbert *et al.*, this volume) and there would be merit in reading the two chapters alongside one another. Interestingly, many of the theories that Gray draws upon are not specific to IOR and so are not covered in Part II. However, the chapters on evolutionary theory (Lomi *et al.*) and social networks (Kenis and Oerlemans) provide extended discussions of two of the theories she draws upon.

Provan and Milward argue that despite the prevalence of IORs in organizational life, and despite the vast amount of research that has been conducted on the topic, discussions of evaluation remain complex. They observe the difficulty in determining with any precision what specific outcomes result from an IOR and what outcomes might have occurred in the absence of an IOR. This problem, they argue, is compounded by the prevalence of different theoretical perspectives for explaining IORs and by questions about the appropriate level of analysis. Their intent here is not to resolve these fundamental differences in perspective. They present a general discussion of the rationale for evaluation, and then discuss and categorize the various ways in which IORs have been evaluated over the years. They conclude with a discussion of the evaluation process, and how it might best be managed in light of current trends towards a collaborative approach to evaluation and the obvious path dependencies of evaluative practices.

As with the other sections, we hope that readers will be stimulated by the overviews and particular thrusts of these chapters to investigate the topics further. Exploring different theoretical or disciplinary bases for their relevance, or potential relevance, to the topic is one approach to doing this. Those covered in Part III are, in one way or another, each relevant to most of the topics, although some will have more direct relevance to particular topics than others. For example, critical theory (Lotia and Hardy) has very direct relevance to power, while the managing perspective (Hibbert *et al.*) includes power and empowerment as one of many thrusts. Another way of extending understanding of a topic is though consideration of it in the context of particular IOR manifestations. Thus the manifestations chapters in Part II can be seen either as a further source of perspective on the topic or as introductions to contexts in which the topic could be further researched. For example, each of the manifestations chapters has something to say about learningor innovation so would be worth visiting to gain perspectives on that topic. Some are very obvious study contexts for this topic; industrial networks (Lazerson and Lorenzoni), for example, are

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often set up precisely to stimulate innovation. Others that are notionally less obvious—say, community and voluntary sector partnerships (Mandell and Keast)—may nevertheless be interesting novel areas for study in which there is clear potential benefit of research for practitioners operating within the context.

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Trust in Inter-organizational Relations

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Abstract and Keywords

This article takes issue with the notion that calculativeness and not trust dominates inter-organizational relationships (IORs), and lays out a series of arguments in support of trust. While it principally addresses the role of trust in inter-organizational business relationships, much of what is covered here applies as well to relationships between organizations more generally, including those in the public and non-profit sectors. This article shows that trust is different from calculativeness in nature and that the concept of social embeddedness provides a more realistic perspective for analysing relationships between organizations. It is believed that a detailed examination of the role of trust in IORs from both the economic and sociological perspectives paves the way to a deeper understanding of the issues in this context. In turn, such understandings should help identify appropriate research questions to investigate better empirically the precise role of trust in IORs.

calculativeness, trust, inter-organizational relationships, non-profit sectors, social embeddedness

Introduction

Research on trust in Inter-organizational relationships has received a great deal of attention in the past fifteen years or so (see e.g. Kramer and Tyler 1996; Lane and Bachmann 1998; Bachmann *et al.* 2001; McEvily *et al.* 2003;

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Bachmann and Zaheer 2006). However, considerable theoretical debates remain about the role and value of trust in relationships between business organizations. Most of these controversies are due to the sometimes conflicting assumptions and premises of different disciplinary approaches within the business and management literature. In general, the concept of trust to characterize Inter-organizational relationships, particularly in business contexts, evokes strong feelings among scholars with economics backgrounds on the one hand, and sociologists on the other.

Williamson, one of the most prominent economists today, radically excludes the possibility that trust plays a role in business relationships, which he describes as generally ‘calculative’ rather than based on trust (1993). In fact, Williamson argues that not only is there no room for trust relationships between economic actors, but that it is best to assume that others *cannot* be trusted, since the cost ofdiscovering just who is trustworthy and who is not is relatively high (Williamson 1985). Thus, rather than trust, opportunism rules supreme in Williamson's world of business. However, as many organizational scholars have shown, the conceptual framework of Transaction Cost Economics (TCE) as such does not exclude the possibility that trust plays a major role in the coordination of business relationships (e.g. Bradach and Eccles 1989; Bromiley and Cummings 1995). Rather, it seems that Williamson's deep-seated epistemological assumptions, which are rooted in conventional economic theory, lead him to conclude that there is no place for trust in TCE.

In this chapter, we take issue with the notion that calculativeness and not trust dominates Inter-organizational relationships, and lay out a series of arguments in support of trust. While we principally address the role of trust in Inter-organizational business relationships, much of what we cover applies as well to relationships between organizations more generally, including those in the public and non-profit sectors.

We will show that trustis different from calculativeness in nature and that the concept of Social Embeddedness (Granovetter 1985) provides a more realistic perspective for analysing relationships between organizations. We believe that a detailed examination of the role of trust in Inter-organizational relations from both the economic *and* sociological perspectives paves the way to a deeper understanding of the issues in this context. In turn, such understandings should help identify appropriate research questions to better empirically investigate the precise role of trust in Inter-organizational relations.

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We will start our argument by looking more closely at Williamson's approach because it has most clearly articulated economists' opposition to the notion of trust. At the same time, we also draw on some of TCE's assumptions to make the case *for* the role of trust in business relations. In the course of our discussion, we examine too the trust positions of Coleman, a sociologist who stands for Rational Choice (RC)—a strongly calculative approach to trust; and of Granovetter, a sociologist who provides ample room for trust within his Social Embeddedness framework. Contrary to the beliefs of many economists (see e.g. Lyons and Mehta 1997; Camerer and Fehr 2006), and even some sociologists, we ourselves adopt the position that the use of trust does *not* imply that one is acting in a manner counter to one's self-interest. In fact we argue that, to the contrary, *not* using trust is detrimental to one's long-term self-interest. Further, consistency with self-interest *does not* automatically imply calculativeness or opportunism. Rather, it seems a theoretically fruitful approach to assume that 'knowledgeable' social actors are guided in their behaviour by 'good reasons' (Bachmann 2001), and that the interactions between them are shaped by institutional arrangements in which the latter are embedded. This assumption connects to sociological perspectives on the role of trust in Inter-organizational relationships that are rooted in phenomenological theory, interpretativist methodology, and epistemological realism (Giddens 1976).

Our argument is organized as follows: *First*, we will show why trust, contrary to Williamson's view, is not negligible in Inter-organizational business relations. In fact, we will look at a number of reasons why trust should be seen as a basic coordination mechanism in everyday social life, in Inter-organizational relations of any kind, and specifically in relationships between business organizations. *Second*, we will examine the fundamental theoretical premises of the concept of trust and contrast it to calculativeness. Critically analyzing Coleman's (1990) approach, we will argue that calculation is in categorical terms different from trust. *Third*, we will show that both trust and calculativeness are mechanisms that can only be fully understood when they are analysed as being embedded in their socio-economic environments. In this context, we will argue that calculativeness and trust each have distinct functions in coordinating different forms of Inter-organizational relationships. Following on from these insights, we will, *fourth*, demonstrate how New Institutionalism (e.g. Powell and DiMaggio 1991) and, *fifth*, Giddens's (1984) Structuration Theory can be utilized to further develop the interpretativist approach to analysing trust in Inter-organizational relations. On this conceptual basis we will look at three more specific areas in the debate

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on trust in relationships across organizational boundaries: the literature on relational governance, socio-legal studies, and the research on trust in cross-cultural organizational relationships. In all these fields of investigation we suggest that the interpretativist sociological approach to trust in Inter-organizational relationships is more insightful than a calculative perspective along the lines of Williamson's and Coleman's arguments. In the *conclusion* of this chapter we summarize our argument.

Transaction Cost Theory and Trust

In Williamson's view, the notion of trust should be reserved for close family and friendship ties, while relationships in business contexts are to be described as being ‘calculative’ by their very nature. Trust is meaningless or even detrimental in the world of business because the risk of massive losses would simply be unacceptably high if firms, or businesspeople, were to trust each other. Thus, as already touched upon in the introduction to this chapter, Williamson is firmly opposed to the notion of trust, arguing that ‘… it is redundant at best and can be misleading to use the term “trust” to describe commercial exchanges for which cost-effective safeguards have been devised in support of more efficient exchanges’. ‘Calculative trust,’ he proclaims, ‘is a contradiction in terms’ (1993: 463).

From our point of view trust, whether in relations between business organizations or any other type of social relationships, can be defined as the expectation thatthe counterpart will behave in a reliable, predictable, and fair manner, particularly when the potential for opportunism is present (Zaheer *et al.* 1998). Against this background, at least three arguments can be put forward to challenge Williamson's assumption that trust is negligible in business relationships. *First*, as Mayer, Davis, and Schoorman (1995) argue, while trust and risk are related, and indeed there is no question of trust where risk is not involved, it is the *willingness* to take the risk rather than the risk itself that constitutes trust. Of course, Williamson may respond that the willingness is derived directly from assessing whether the net expected value of the action is positive, and in this sense the issue reverts again to one of calculativeness. However, to employ one of Williamson's fundamental assumptions, under conditions of bounded rationality (Williamson 1975, 1985) it is impossible to make an accurate assessment of either the risks or the payoffs of many situations (March 1994; Kramer 1999). Thus, in a large number of cases where the probabilities and the payoffs do not overwhelmingly favour the acceptance or the rejection of risk, the large grey area that covers the ground from positive to negative expected values can

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only be overcome by a ‘leap of faith’ (Lewis and Weigert 1985; Möllering 2006), which is nothing but trust. It is the willingness to actually take that ‘leap of faith’ in the face of unclear expected benefits that comprises trust. Put differently, trust is the decision to favour the positive rather than be held back by negative expectations when either is possible.

A *second* issue relates to the contingencies in business relations. Also in this context, Williamson's assumption of bounded rationality and the attendant implication of incomplete contracting are relevant. Williamson (1993) uses an example of a contract between Nevada Power Company and Northwest Trading Company which lays out the conditions under which arbitration is to take place. Here, Williamson suggests that the contract is able to adequately fulfil the role of ‘voice’ in the voice-and-exit model of Hirschman (1970), and so again a situation obtains that leaves little or no room for trust. However, the literature on incomplete contracting, or the impossibility of completely contingent contracting, is a condition which Williamson (1975, 1985) uses to derive a number of conclusions about discriminating governance choices. He argues that many business relationships will almost certainly encounter unexpected contingencies which by definition *cannot* be foreseen. The role of trust becomes evident under such circumstances when an opportunistic partner can exploit the weakness of the focal party. The TCE solution to such uncertainty involves putting in safeguards, such as hostages, or as a last resort, vertically integrating the other party and resorting to fiat to control possible opportunism. However, such safeguards are not only heavy-handed; they are also expensive. Rather than relying on explicit safeguards, if a party can trust a counterpart not to take undue advantage of it when unexpected contingencies arise, the cost of Inter-organizational governance will be much reduced. Trust in such cases requires the expectation that the other party will negotiate fairly when circumstances warrant (Zaheer *et al.* 1998). In competitive situations, the firms thatare able to systematically employ lower cost governance solutions will tend to be selected due to their greater efficiency (Dei Otatti 1994). Firms that are not able to trust will, at the same time, routinely incur greater costs and will consequently be selected out via competitive pressures, leaving only the firms that are able to trust standing (Hill 1990). Thus, trust, rather than distrust, will tend to dominate the conduct of successful Inter-organizational relations.

A *third* issue, related to the earlier two, concerns the complexity of the interactions that comprise business relationships. It involves, for example, chains of interrelated decisions, which defy easy calculation. Putting it differently, many business decisions are made in the face of uncertainty,

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rather than risk. Uncertainty, as Knight (1921) pointed out, characterizes a situation where no probability distributions can be ruled out, and thus are hard to assess (see also Bachmann 2001). Additionally, business situations may involve ‘unknown unknowns’, creating further complexity. Contracts or, for that matter, calculations, are of little help under these conditions. Such cascading complexity also applies to Inter-organizational relations, leaving trust as often the only solution to successfully conducting extended exchanges in these circumstances. Inter-organizational relations consequently are compelled to rely on trust in another party's willingness to fulfil the explicit clauses of the contract (Sako 1992), to ‘backfill’ formal contracts and to use trust to undergird a series of ‘implicit contracts’ (Sull 1999), even within a single exchange relationship. Calculativeness, in such situations, would be far too computationally impenetrable a mechanism to be feasible.

Against the background of these considerations, while it can be argued that trust indeed plays a major role in business relationships, it is also important to note that there exists an important role for calculativeness too. However, the line of demarcation is not, as Williamson suggests, to be found between different spheres of relationships, i.e. the private sphere versus the sphere of business. At least two business domains where calculativeness, rather than trust, may be the primary mechanism in decision-making processes can be identified: (1) we argue that early-stage relationships can be based on calculativeness, and (2) we suggest that certain types of business relations, i.e. those based on one-shot decisions, are more likely to be based on calculativeness.

*Relationship Stage*Lewicki and Bunker (1996) propose a stage model of trust, where the first stage is calculative but later stages become less so. In similar vein, Rousseau *et al.* (1998) and Child (1998) suggest that calculative trust can make the transition to relational trust, which derives from repeated interactions, and which further can become identity-based trust at its limit. Thus, once the initial calculation has been borne out, this view holds that parties do not need to recalculate every time they are considering an interaction with the exchange partner. Rather, trust allows them to economize on calculativeness, confident about the positiveintentions of the other party. Calculativeness may indeed rule initially in social as well as business relationships, but it gives way to experience-based trust (Blau 1964) and ‘goodwill trust’ (Sako 1992) as the relationship evolves.

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One-shot Decisions The argument and examples that Williamson provides are often restricted to one-shot dealings or transactions, and it is possible to see that calculativeness can play a major role in such circumstances. Where the risks of a single decision in a business relationship are relatively easily quantifiable, it is possible to use calculativeness rather than having to rely on trust. In particular, where the business relationship does not extend beyond the present, the role of trust does not become salient (Barney and Hansen 1994). Macneil (1980) refers to this type of relationship as ‘classical contracting’. However, many relationships do not fall into this category. Long-term partnerships in supply chains as well as in horizontal exchanges tend to follow the model of ‘relational contracting’. Often this type of cooperation can be found where the degree of ‘asset specificity’, to use Williamson's expression, is high and the products and services exchanged are relatively complex.

Much of Williamson's perspective on trust seems to be attributable to his preferred definition of trust, associating it with ‘passion’ and seeing its place exclusively in private relationships. Thus, he concludes that trust is ‘nearly non-calculative’. This view of trust too is questionable. As quite a few researchers have suggested, trust can also be seen as a cognitive concept that is connected to the problem of the predictability of interactions (e.g. Lane 1998). Along the lines of this argument, institutional-based trust appears as a mechanism to guide business partners’ behaviour. Williamson, by contrast, views institutional and cultural factors as variables that may influence business relations but in essence have nothing to do with trust. They appear, in other words, as factors that are intrinsic to a calculative actor's decisions. However, if every time any element that is factored into a decision of whether to engage in some kind of exchange relationship with another party is construed as calculativeness, whether based on social norms, institutional rules, or even past experience, then the presence of calculativeness becomes non-falsifiable and is therefore not a very useful concept.

The relationship between trust and institutions is analysed, for example, by Lane and Bachmann (1996), who present the example of supplier relations in Germany, where a strong institutional context provides a safeguard that enables trust to be taken for granted. In this view ‘institutional based trust’, to use Zucker's (1986) terminology, or ‘system trust’, to refer to Luhmann's (1979) preferred expression, is a form of trust where calculation plays only a minor role. Where this form of trust prevails economic actors trust each other in the light of general norms and rules that exist in the given business

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system. In such a perspective, businesspeople or organizations trust each other because they have ‘good reasons’ (Bachmann 2001)to believe that they are operating in a business environment where the propensity of unpredictable behaviour is relatively low (see Chapter 13, Hennart, this volume for further discussion of TCE theory and IOR).

Trust and Rational Choice

Coleman's major work (1990) is part of an effort to build a comprehensive social theory on the notion that social actors' behaviour can be described as being exclusively based on rational decisions. Coleman represents an approach which— within social theory—is known as Rational Choice (RC). Within this conceptual approach trust, in some sense, is viewed similarly to what the TCE framework suggests. However, Coleman is far from neglecting the relevance of trust in any type of social relationships, including relations between economic organizations. In contrast to Williamson, Coleman defines trust as calculative behaviour *par excellence*. A trustor, he argues, draws on a mathematically representable calculation that includes three variables: the chances that the trustee will behave in a trustworthy manner, the potential gain for the trustor if this turns out to be true, and the trustor's potential loss if the trustee does not fulfil his or her expectations.

As an analogy to trust, Coleman (1990) suggests imagining a situation where someone places a bet, for example on a racehorse. A trustor is thus seen as an actor who carefully calculates the chances that he/she will make a profit by predicting the future behaviour of a potential trustee. This, however, is a highly questionable approach from our point of view. At least two reasons can found as to why this analogy puts the discussion of the nature of trust on the wrong track: *First*, where social actors are considering placing a bet, they clearly know what the potential loss and the potential gain is, and they also know the odds. And, if someone places a bet on a racehorse he/she puts in a relatively small sum of money buying the chance to win a relatively large sum of money. On the basis of all the previous bettors' behaviour, the odds are calculated and displayed at the race-track, and all information that one possibly can get is accessible to all potential bettors. To know more than the freely available and public information that everyone receives is considered fraud. In this situation, trust is not necessary at all as no incomplete or vague information needs to be dealt with. In situations where trust is involved, by contrast, the odds and the potential losses and gains are typically not known, at least not in precise terms. Moreover, as Deutsch (1962) pointed out, the value of what is put at risk is high in the case of trust while it is typically low

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where bets are taken. Trust, in other words, requires a ‘leap of faith’ (see above), which is not necessarywhen social actors place a bet in a tightly defined situation such as is characteristic of gambling.

Second, a bet presupposes that the object on which the bet is placed does not react to the fact that a bettor puts money on it. If dice are thrown and a bet is placed on how they fall, the intrinsic rules of the game provide for the absence of interdependence between the two events. Again, it would be called fraud if that was not the case and if the betting was based on loaded dice. The same situation would hold if a racehorse or jockey reacted in any way to a bettor's behaviour, or if the drawing of numbers was manipulated in a lottery. In the case of trust, by contrast, the trustee is free and even expected to react to the trustor's assumptions and expectations about his/her future behaviour. In other words, a situation in which trust may be used as a principal coordination mechanism presupposes the existence of *two* free-willed subjects, one on either side of the trust relationship. This is an unavoidable condition of the possibility that trust may play a role at all in a business, and indeed in any social, relationship (Luhmann 1979). Where actors' behaviour is totally determined by extrinsic factors or where pure luck decides, trust is simply an irrelevant category.

The RC-based approach appears to conflate calculation with trust, ending up with a conclusion which, in its consequences, is not very far from Williamson's position. While Williamson suggests that trust is meaningless in business environments, Coleman diminishes the meaning of trust in that he defines it in such a way that it is present wherever social actors make decisions that are directed into the future. In his view, all kinds of possible decisions follow one and the same pattern. They are dictated by the general assumption that all social actors can be understood as creatures whose behaviour can be predicted by use of the following simple mathematical equation: $p/(1 - p) >$ or $< L/G$ (Coleman 1990: 99), where p is the probability that the trustee behaves trustworthily, L is the potential loss if this is not the case, and G the potential gain for the trustor if the trustee is willing to reciprocate. If $p/(1 - p)$ is greater ($>$) than L/G, then it is predicted that the potential trustor in fact is willing to invest trust in the trutee's future behaviour; if $p/(1 - p)$ is smaller ($<$) than L/G, then a potential trustor would refrain from trusting a potential trustee.

At least, Coleman provides a place for institutional arrangements that reside in the environment in which exchanges take place. He thus admits that there may be ‘structures in which it is in the potential trustee's interest to

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behave trustworthily' (Coleman 1990: 111). However, these institutional structures only appear as *parameters* in Coleman's mathematical equation. Potential trustors may, for example, double the chance that their trust investment pays off if certain structural factors exist in the environment in which the actors' relationships are situated. However, due to his epistemological premises, Coleman is far from accepting any kind of qualitative 'embeddedness' (Granovetter 1985) of social actors' decision-making processes. In this respect Coleman's and Williamson's perspectives converge, irrespective of thefact that the latter sees no room for trust in business relationships at all whereas the former conflates trust with calculation and sees it as a major element in any type of relationship so long as assumptions about the future behaviour of the *alter ego* are made. In effect, both approaches view trust as calculation and ignore other forms of rationality that may be the driving force behind a trustor's behaviour.

The Social Embeddedness Approach

From an Economic Sociology point of view, Granovetter (1985) introduced the concept of Social Embeddedness as a counter to both the 'undersocialized' and the 'oversocialized' conceptions of economic behaviour. Economists tend to adopt an undersocialized view of economic behaviour by not recognizing that actors are also connected to each other by motives other than those that are directed to the individual accumulation of material resources. Following Hirschman (1982), Granovetter notes that such a view originates from the idealized model of perfect competition, originally espoused by Adam Smith, wherein any social contact between buyers and sellers was essentially supposedly anti-competitive and a frictional drag on competition. Even more than classical economists, it seems that neoclassical economists see social atomization as the defining characteristic of perfect competition. Granovetter finds this view not very helpful but he is equally dismissive about how classical sociology (e.g. Marx, Durkheim, etc.) tends to improperly portray social actors as being subject to social determination by ascribing the bulk of their behaviour to broad socializing influences, such as social class or other societal structures, leaving little room for variation arising from the specificity of individual relationships.

In contrast to these undersocialized and oversocialized views of human behaviour, Granovetter proposes the notion of embeddedness, which occurs when 'departing from pure economic motives, continuing economic relations often become overlaid with social content that carries strong expectations of trust and absence from opportunism' (1985: 490). Granovetter further

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argues that neither institutional arrangements nor generalized morality as such are to be seen as the origins of trust in society, but rather the actors' very concrete social relationships. However, Granovetter recognizes that embeddedness is not an absolute category. ‘Networks of social relations penetrate irregularly and in different degrees different sectors of economic life’ (1985: 491), allowing for the presence of malfeasance and opportunism.

From our point of view, the notion of embeddedness and the role for trust that Granovetter sees as arising on the basis of this concept seems by and large to betterreflect the empirical reality, and has been acknowledged as such by a significant stream of socio-economic literature (e.g. Grabher 1993; Uzzi 1996).

However, while we are in broad agreement with the embeddedness notion, we take strong exception to Granovetter's suggestion that embeddedness, or trust, means that one is ‘departing from pure economic motives’ (1985: 490). We rather adopt the position that not only is trust consistent with economic rationality, but that pure calculativeness is actually *detrimental* to long-term economic well-being. In our view, calculativeness makes too limited a calculation of self-interest, and thus leaving out a wide range of potential outcomes which are longer term or complex. Research and arguments from several fields and levels of analysis in fact show that superior economic outcomes tend to be related to non-calculative forms of trust building in Inter-organizational relationships (see discussion in Chapter 11, Kenis and Oerlemans, this volume of relational and structural embeddedness).

At the Societal level, political scientists, most notably Fukuyama (1995), have argued that high trust societies are likely to be economically better-off because, among other things, trust is a ‘lubricant’ which eases the friction of economic dealings. Trust at this societal level clearly has a taken-for-granted rather than a calculative flavour. As touched upon above with reference to relatively strongly regulated business systems, such as for example Germany, institutionally embedded trust can enable businesspeople and organizations to enter relatively freely into contractual relations without needing to carefully ascertain the likelihood of default in each case (Bachmann 2001).

Specifically in the context of Inter-organizational relationships, Dei Ottati (1994), Bromiley and Cummings (1995), and others point out that non-calculative trust enhances economic efficiency by reducing costs related to Inter-organizational exchanges. Within and across organizations, negotiation researchers note that trust allows the negotiating parties to

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explore a wider range of options, thereby reaching agreement more often and enhancing economic well-being for both parties (Walton *et al.* 1994). Even in the decontextualized and ‘undersocialized’ setting of economic trust experiments, research suggests that cooperation or trust— although seemingly contrary to the type of behaviour associated with self-regarding individuals—actually makes both the self-regarding individuals *and* the trustors better off (Camerer and Fehr 2006). For example, in the ‘ultimatum game’ US$100 is to be distributed between two players. The first makes a single offer to share the US$100, which is either accepted or refused by the other player. In theory, even an offer of US$1 should be accepted, but in experiments the accepting players usually refuse ‘unfair’ offers, even though it is seemingly ‘irrational’ to do so, preferring an equitable outcome rather than an unjust division. Typical accepted offers are in the 40s (Camerer and Fehr 2006).

In sum, we argue that far from being the contradiction in terms that it appears to be at first sight, volumes of research at multiple levels of analysis suggestthat not only is trust conducive to achieving superior economic outcomes, and thus consistent with economic rationality, but that it is scarcely of the calculative kind.

New Institutionalism

The sociological version of New Institutionalism is not to be confused with institutional economics. The latter draws on some of the same academic heritage as Commons's (1950) institutionalism, but goes on to argue for discriminating between alternative institutional arrangements based on transaction costs (Coase 1937; Williamson 1975, 1985) and makes a case for the role of economic efficiency in governance. A considerable amount of space has been devoted to this body of theory earlier in this chapter. New Institutionalism in sociology, by contrast, has become a strong basis for a part of organizational theory and sees its origin in a landmark article by Powell and DiMaggio (1983). This article pointedly invokes the legendary sociological ‘iron cage’ of yore, signifying powerful institutional constraints on social behaviour. Fundamentally, DiMaggio and Powell's institutional theory posits the existence of constraints on (organizational) behaviour deriving from coercive, normative, and mimetic sources. The most interesting of these, from an organizational theory perspective, is the last, where the authors argue that when faced with uncertainty organizations will strive for legitimacy by mimicking in form and behaviour the most legitimate organizations in their environments.

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The sociological version of New Institutionalist theory is related to our discussion of trust insofar as the institutional basis for trust is an inherent element of the trust that exists between organizations in a given institutional setting (Zucker 1986; Lane and Bachmann 1996; Bachmann 2001). Zucker (1986) traces the history of the development of trust-creating and supporting institutions in the American economy in the 19th and early 20th centuries and suggests that the existence of trust in US business relationships by virtue of these supporting institutions was at least in part responsible for the economic success of the country. In a recent development of these ideas, Wicks and Berman (2004) argue that organizations invest in trusting Inter-organizational relationships depending on the presence and degree of 'trust support mechanisms', including industry, institutional, and socio-cultural norms. Since the creation of trust is costly, the 'right' degree of investment will yield higher performance for business relationships.

The idea that institutionalizing processes operate at levels of analysis below that of the society or industry to create norms of trust within the Inter-organizationalrelationship itself is also developed in the literature. The classic work of Macneil (1980) and his notion of relational contracting laid much of the groundwork for this approach (see also Chapter 19, Ring, this volume). Macneil describes the relationships between two contracting parties as evolving over time into a 'mini-society' with its own expectations and 'relational' norms including trust. Along these lines, and drawing on Berger and Luckmann's (1966) symbolic interactionist perspective, Ring and Van de Ven (1994) theorize about how trust becomes institutionalized in the Inter-organizational relationship over time, while Zaheer, McEvily, and Perrone (1998) empirically demonstrate the presence of institutionalized Inter-organizational trust between organizations, which transcends the level of individuals' interaction.

Broadly speaking, institutionalized trust structures, whether originating from cultural norms, institutional mechanisms in the environment of the relationship, or, at lower levels of analysis, from the past history of the involved actors' behavior, generate expectations of behaviour to which individuals operating in organizational contexts conform or at least orient their behaviour. By behaving in accordance with the constraints of institutionalized structures as well as the enabling channels of acceptable business behaviour, individual and collective (i.e., organizational) actors continuovsly regenerate the constitutive expectations as structures in a manner suggestive of Giddens's Structuration Theory.

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Trust and Structuration Theory

Giddens's major work (1984) suggests a social theory which has room for ‘knowledgeable actors’ who have reasons for what they are doing and who orient their behaviour to the social environment in which their interactions are embedded. Contrary to TCE and RC, Giddens's Structuration Theory (ST) does not imply that social actors always base their decisions on calculation. It is suggested that this is the exception rather than the rule. In normal circumstances, it is assumed that social actors follow heuristics and routines rather calculation, one of the reasons being that a calculative approach to decision-making would often be not very economical in terms of the time and effort that would need to be invested (see also Luhmann 1979).

From this theoretical perspective, the ‘leap of faith’ plays a major role in many situations. In his book on the ‘consequences of modernity’ (1990), Giddens argues that in highly differentiated modern societies lay-people frequently need to rely on experts without any chance of fully understanding or effectively monitoring their behaviour. Medical experts, nuclear scientists, bankers, university professors,air traffic controllers, and so on are all specialists who lay-people have little choice about trusting or not trusting. Clearly, a calculative approach does not help much under such conditions. Following this perspective and somewhat counter-intuitively, we would argue with Giddens that complex modern societies require a higher degree of trust from social actors than any form of pre-modern society. Calculativeness, by contrast, is a relatively useless approach for lay-people in highly differentiated societies as their knowledge base is often too limited to make this a viable strategy. Only for experts who know their field well is this an option at all.

While ST is designed to explain social behaviour generally, some scholars have found this theoretical approach to be particularly useful in the context of Inter-organizational relationships. Sydow (1998), for example, has shown how trust becomes an intrinsic element of the structuration process of virtually all relationships within and specifically between organizations. In this process, the institutional arrangements of a given business system ‘channel’ (Giddens 1976) the behaviour of individual actors, who find these legitimate, meaningful, powerful, and trustworthy. In turn, these institutional arrangements gain their legitimacy, meaning, power, and trustworthiness in that they are continuously reproduced by social actors who acknowledge their value by letting their behaviour be guided by them. Trust, in this perspective, is deeply embedded in the social practices that govern the

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relationships among individuals and businesses as well as other types of organizations. Calculativeness, from an ST point of view, is a relatively rare condition within the overall non-calculative framework of social practice. With this perspective, social factors become visible as a central category in the analysis of Inter-organizational relationships. Trust, as a phenomenon that does not necessarily collapse into economic logic, is acknowledged as an important element in relationships between organizational actors.

The Relational Governance Approach

The notion that Inter-organizational trust and governance display a close relationship, as relational governance, is an idea that harks back at least as far as a paper which introduced the term (Zaheer and Venkatraman 1995), and more broadly, to even earlier work by scholars such as Sako (1992) and Helper (1991). In essence, the concept suggests that trust serves as a substitute for hierarchy, as an 'organizing principle' (McEvily *et al.* 2003) or 'coordination mechanism' (Bachmann 2001) similar in function to hierarchy or price (Bradach and Eccles 1989). Trust plays this kind of role in Inter-organizational relationships by limiting opportunistic behaviour. The higher the degree of specific investments in the relationship, thegreater is the degree of trust that would be needed to safeguard the investments (Zaheer and Venkatraman 1995; Poppo and Zenger 2002). The idea is that trust is a more efficient, i.e. cheaper, governance mechanism than hierarchy.

The competitive value of relational exchange, or of trust-based Inter-organizational relationships, has also been further detailed in the strategic management literature. Barney and Hansen (1994), for example, lay out the theoretical rationale for why trustworthy organizations may gain a competitive advantage in the marketplace relative to organizations that are less trustworthy. The authors argue that organizations that are able to establish a reputation for trustworthiness may perform better by virtue of being able to attract better partners than organizations that are viewed as less trustworthy. Galaskiewicz and Zaheer (1999) develop the idea that a network may serve to establish a positive trusting reputation for an organization under conditions of uncertainty, creating a valuable resource which may lead to competitive advantage. In an influential work, Dyer and Singh (1999) spell out the theory underlying the competitive potential available from relational exchange, in essence arguing that many efficiency advantages accrue from higher levels of relational quality. Of course, as Barney and Hansen (1994) also show, investing in the development of reputation and trustworthiness only makes sense as long as the goods and

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services exchanged are *not* plain and simple, and easy to buy and sell in one-off transactions.

In this context, it could be argued that such relational governance may in fact be based on calculative decisions. However, if recent research by Saparito, Chen, and Sapienza (2004) holds, a clear empirical distinction between calculative and 'goodwill' trust seems adequate, as these authors demonstrate that even after controlling for calculative trust goodwill trust played a positive role in enhancing the loyalty of bank customers irrespective of the level of service that they were actually offered. Thus, trust and trustworthiness should be seen as socio-psychological phenomena that exist well beyond the realm of pure calculation. Also, contemporary marketing literature confirms this view very widely. In a similar vein, research on trust in the public and non-profit sectors makes reference to the 'collaborative advantage' (Huxham 1993; Huxham and Vangen 1996) that accrues to parties relying on trust.

The Socio-legal Literature

The analysis of the relationship between formal contracts and trust is of interest to the relational governance literature but, in a more narrowly focused form, is also rooted in the tradition of socio-legal studies. Macaulay (1963) was one of first to examine Inter-organizational relationships from a socio-legal point of view andcame to the conclusion that contracts and trust have at best nothing to do with one another (see also Chapter 19, Ring, this volume). At worst, detailed contracts can be detrimental to building trust in a relationship. Trust, as Beale and Dugdale (1975) posit, grows 'beyond contract'. Both studies are limited in their perspective, since they focus on a manager's individual decision-making process, and they largely ignore the social environment in which their decisions are embedded.

Arrighetti, Bachmann, and Deakin (1997) take a different approach. In their research on Inter-organizational relationships a comparative perspective is chosen to study contracting practices in the context of their specific environment. On the basis of this approach, Arrighetti *et al.* (1997) find that in business systems characterized by a high level of regulation contracts are not invariably used as a tool to impose power on the weaker side of a business relationship and thus do not necessarily have negative effects on the process of building trust. Rather, it is argued that contracts in the context of a high level of institutional regulation have a reassuring function and thus can indeed be conducive to developing trust in a business relationship. More recent research (Luo 2002; Poppo and Zenger 2002) confirms this argument

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and sees contracts more as complements than as substitutes for trust. However, these contributions seem to be not very sensitive to the issue of the 'embeddedness' of coordination processes between organizations. A differentiated view needs to focus on the conditions under which trust goes hand in hand with contracts and the circumstances where the opposite seems more likely to occur. In this context, Bachmann (2001) suggests that trust and contracts are complements where—and only where!—the institutional regulation of business systems is strong and Inter-organizational relationships are deeply embedded and shaped by them. Where this is not the case, for example in the British business system, which is based more on individualism and oriented to the model of 'liberal capitalism' (as opposed to 'coordinated capitalism'; see Hall and Soskice 2001), 'interpersonal trust' is the dominant form of trust. The latter is much less easy to combine with detailed contracts than what has been identified as 'institutional based trust'. If this holds true, the specific purposes and social practices of using contracts play a decisive role and can hardly be captured by a calculative approach to understanding the phenomenon of trust.

Trust in the International and Comparative Management Perspective

The literature on international joint ventures and other forms of Inter-organizational cooperation suggests that the establishment and development oftrust across national or cultural borders can be a difficult process (see Chapter 4, Dacin *et al.*, this volume). The issue, as Zaheer and Zaheer observe, is that 'not only do the levels and degree of trust differ across international borders, but also the very nature of trust can vary in different national contexts' (2006: 21). Differences in value systems, culture, and institutions affect the degree of trust that exists in organizations in different countries (Ariño *et al.* 2001). For example, Child and Möllering (2003) note that in China businesspeople automatically bestow trust on family members, while those outside the family do not generally enjoy much trust. Such trusting norms raise problems for Inter-organizational relationships when they occur between organizations from different national contexts because the lack of trust from, for example, the Chinese partner in a Sino-foreign joint venture may result in misunderstandings, unfulfilled potential, and ultimately in lower performance on for the firms in the Inter-organizational relationship.

The institutional sources of such national differences in trust have been studied, for example by reference to supplier relations (Lane 1995; Lane and Bachmann 1996; Bachmann 2001). In this context it was found that system-wide trust is supported by the institutional context. These

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studies demonstrate that trust in the Anglo-Saxon context is much less underpinned by institutional structures than is typically the case in highly regulated Continental European countries. The latter results in a greater propensity for exchange partners to develop trust on the basis of individual experience or indeed to use alternative coordination mechanisms such as power to guarantee an effective mode of coordinating Inter-organizational relationships.

Research on trust in other national contexts provide ample empirical support for the varying institutional foundations of trust in different societies. Hagen and Choe (1997) argue that the apparently high levels of trust in Japan are in fact supported by institutionalized practices that promote long-term relationships and sanctions against opportunistic behaviour. In similar vein, Dyer and Chu (2003) find that Japanese automobile suppliers trust their buyers more than do their US or Korean counterparts. Huff and Kelley (2003), in a seven-nation study, conclude that trust in Inter-organizational relationships is higher in some Asian countries when the partner is seen as part of the in-group. In contrast, in US business relationships, the level of trust is found to be overall higher than in many other countries, and specifically members of the out-group are trusted to a greater extent than they are in Asian countries.

Such differences in the degree and sources of Inter-organizational trust across national boundaries raise questions as to the appropriateness of seeing trust as a concept which holds the same or a similar meaning when the partners to Inter-organizational exchanges are from different national contexts. Empirical research has so far typically limited itself to using the same instrument to measure trust across borders, rather than making a more nuanced assessment as to whether the concept itself varies from country to country. The task for researchers is to uncover systematically the differences in the sources, meaning, degree, and outcomes of Inter-organizational trust in different national contexts, and to get to grips withthe challenges, both theoretical and substantive, that occur when exchange partners are from contexts where trust differs in degree and meaning. To establish a better understanding of the meaning of trust in different national business system contexts, advanced methodologies, such as the construction of repertory grids, may be useful (for an introduction to this methodology in an organizational context, see e.g. Clases *et al.* 2003).

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Conclusion

From our point of view, both trust and calculativeness are embedded features of society. Williamson, Coleman, Granovetter, the New Institutionalists, Giddens, the Relational Governance literature, Socio-legal Studies, and the literature on International and Comparative Management, all these authors and approaches take pains to tackle the details of this issue, each in their own way. The key question here deals with the pervasiveness of specific kinds of behaviours in the business context: Which is the dominant metaphor that explains the bulk of business relationships, at least in Western society? Put differently: Do people behave 'as if' they are opportunistic, or as if they are trusting? Or: Do we get a better understanding of the working of business relationships by using trust or using opportunism as the assumption guiding research?

Camerer and Fehr (2006) cite evidence from experimental economics studies that essentially divide the world into two types: 'self-regarding' (i.e. self-interested) individuals, and 'reciprocators'. The former type represents the classic, rational, economic (read: opportunistic or calculative) individual, while the latter are 'other-regarding' (i.e. trustors). One of the central observations of this study is that trustors exhibit a 'predisposition to reward others for co-operative, norm-abiding behaviours as well as punish others for norm violations, *even if they gain no individual economic benefit from their acts*' (2006: 47, emphasis added). Experiments demonstrate that, strangely enough, reciprocators prefer fairness, even though this may be seen as acting against their pure economic interests, rather than accept an unfair outcome. The so-called 'ultimatum game' illustrates this idea nicely. Moreover, depending on the sequencing of the ultimatum game, the presence of a reciprocator can change the behaviour of the self-regarding individual, inducing the latter to cooperate, and *making both players better off*.

Thus, not only many empirical field studies but also socio-psychological experiments have revealed the presence of large numbers of individuals in the general population who would prefer to reach equitable outcomes rather than promoting their narrow, short-term, self-interest. The point we are making here is that even in an artificial laboratory environment, devoid of social context and relationships,human actors orient themselves towards upholding social norms, which in turn direct individuals towards cooperative outcomes through trusting behaviour. Is it hard to believe that the embeddedness of social behaviour in real-life society and economy, with

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long-standing social relations and networks, will serve to enhance human beings' inherent tendency to cooperate and trust? Seen from a sociological point of view, rational self-interest-seeking behaviour can certainly be found in many contexts, whether economic or non-economic. But in line with Giddens (1984) as well as the concept of Social Embeddedness, the Neo-institutionalist approach, and many empirical studies of the role of trust in organizational research, we propose that such behaviour occurs in situations where actors are detached from their ordinary everyday routines. Thus, self-interest-seeking behaviour is much more the exception than the rule, irrespective of whether business or any other types of social relationships are considered.

Even developed economic markets seem to follow this logic (Baker *et al.* 1998; Beckert 2002). Real-world markets appear to function on the basis of organizational network structures, trust, and reciprocal favours and not only on the basis of pure competition and atomistic self-interest, as Abolafia's (1984) study of socially driven behaviour in the Chicago Mercantile Exchange so tellingly revealed. Atomistic, calculative, narrowly self-interested behaviour appears to be a mostly theoretical concept, possibly useful as a heuristic device, which has little in common with a realistic understanding of the empirical world.

Trust, as we see it, is not about acting in a manner contrary to one's self-interest. Dasgupta (1988) puts it this way: ‘You do not trust a person to do something merely because he says he will do it. You trust him only because, knowing what you know of his disposition, his available options and their consequences, his ability and so forth, you expect that he will *choose* to do it’ (1988: 50–1).

The concept of Social Embeddedness, Structuration Theory, New Institutionalism, and a large number of empirical studies on relational governance, trust and law, as well as on trust in international contexts, bring socio-economic theory closer to reality. While TCE remains far too much oriented to the orthodox premises of economic theory, RC represents a sociological strand of theory building which defines trust in such a way that it disappears as a distinct social phenomenon. By contrast, the concept of Social Embeddedness, Structuration Theory, and New Institutionalism leave room for both rational self-interested behaviour and trust-based exchanges. Clearly the problem of the reverse error, namely the above-mentioned concept of the ‘oversocialized’ individual (Granovetter 1985) has been recognized. Such a perspective, in which actors are deprived

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of their free will, would equally suffocate the chance to understand the phenomenon of trust in relationships among individuals and organizations because the concept of trust intrinsically builds on social actors choosing an option to behave 'in the face of other possibilities' (Luhmann 1979). Nevertheless, the concept of Social Embeddedness, which treats trust as a deep-seated social 'organizing principle' (McEvily *et al.* 2003)or 'coordination mechanism' (Bachmann 2001) which plays an important role in specific social and economic contexts, rather than just as an existent or non-existent phenomenon by assumption, appears to better reflect the empirical reality; with the important proviso that rather than being a departure from 'pure economic motives', trust behaviour is manifestly a requirement to enhance long-term economic well-being, consistent with enlightened self-interest.

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Steve Cropper, Chris Huxham, Mark Ebers, and Peter Smith Ring

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Inter-organizational Power

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Abstract and Keywords

Researchers view the significance of power in a variety of ways. Some see this as vested in organizations' need for control in their relationships with others. Others regard power — the power to achieve ends more effectively through joint action — as an important positive outcome from a productive relationship between organizations. For a third group, the significance of power is embodied in the term ‘empowerment’. The perspectives on power in the inter-organizational relationship (IOR) literature also vary across many other dimensions. This article identifies, compares, and integrates views across several of these. Its overall perspective is on what research says about the operation of power in IOR settings: the processes through which things are influenced, what power is used for, and how it can be appropriated. Before introducing these dimensions, however, this article provides a brief overview of some of the IOR contexts in which power issues are raised.

power, empowerment, organizations, research, IOR literature

Introduction

It is perhaps not surprising that the wielding of power, which can be characterized as the ability to influence, control, or resist the activities of others, arises as an issue in the context of many varieties of research in Inter-organizational relations. Power is necessarily a relational concept—

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it has to involve at least two parties—so it would be expected to feature as a central issue in Inter-organizational settings. Researchers, however, view the significance of power in a variety of ways. Some see this as vested in organizations' need for control in their relationships with others, so that activities and outcomes align with their own sense of purpose. Others regard power—the power to achieve ends more effectively through joint action—as an important positive outcome from a productive relationship between organizations. For a third group, the significance of power is embodied in the term ‘empowerment’. Their interest in the topic lies in the notion that collaborative Inter-organizational relationships are a means through which members of traditionally less powerful groups or organizations (e.g. community groups or labour groups) in society canbe supported to equalize or even reverse the power imbalance between themselves and traditionally more powerful actors (e.g. public agencies or employers).

The perspectives on power in the IOR literature also vary across many other dimensions. In this chapter we identify, compare, and integrate views (often, contrasting views) across several of these. Our overall perspective is on what research says about *the operation of* power in IOR settings: the processes through which things are influenced, what power is used for, and how it can be appropriated. Before introducing these dimensions, however, we set the scene by providing a brief overview of some of the IOR contexts in which power issues are raised.

Theoretical Roots of IOR Power Research: Resource Dependence and Beyond

Resource dependence theory (RDT) is commonly thought of as providing the earliest perspective on IOR power (Pfeffer 1972; Aldrich 1976; Pfeffer and Salancik 1978). Drawing on theoretical models of power, including Emerson's (1962) notion of power dependence and exchange, and the then nascent open systems theory, RDT focused on the ‘interdependence’ of an organization with other organizations in its environment. It argued that organizational power could potentially be gained from transactions with ‘external actors’ and conversely, that the latter could create external *constraints* on an organization. These constraints would have several consequences. They would limit the autonomy of an organization and thus affect its profitability. Furthermore, when the demands from external actors were inconsistent with each other, this would often create irresolvable dilemmas. Beyond this, external actors would also effectively exercise power on internal decision-making. They might, for example, affect the power

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balance between divisions or departments within an organization, by shaping their reputation or market power.

Pfeffer and Salancik's argument was that organizations would tend to react to such pressures, by managing their environments. They therefore saw the various manifestations of Inter-organizational entities (IOEs) as responses to this. For example, an organization might seek to co-opt, merge with, or form an alliance with another in order to modify either the power relationship with it, or the power relationship with other external actors. The theory sought to predict the circumstances in which any particular type of IOE might be the response.

A recent development of RDT is Casciaro and Piskorski's (2005) exploration of the notion of interdependence, in which they argue for the importance of conceptual separation of its constituent constructs, power imbalance and mutual dependence, since they have opposite effects on an organization's ability to absorbthe sources of external constraint. Casciaro and Piskorski's work is, however, an exception; while resource dependence theory has remained prominent, it has, by Pfeffer's (2005) own admission, been little developed since its early days. As he points out, one argument is that the similarity to aspects of both institutional theory and transaction cost economics (Hubbard and Weiner 1991; Hennart, this volume) renders it redundant. The other distinct problems are that it assumes a view of power as commodified—i.e. that power is like an object that can be gained, exchanged, and so on—and it assumes a highly agential perspective in which actors can decide to do things like ‘manage their environment’. Such assumptions are criticized by more recent developments in conceptualizing power, such as post-structuralism, the influence of which will be discussed later in this chapter.

More recent work on power in IOR derives from several *theoretical perspectives* on IOR. In this Handbook power is discussed in some depth in the chapters on political theory, economic geography, and critical theory. However, concerns with power can also be found in work with theoretical roots in the resource-based theory of the firm (Medcof 1997), discourse analysis (Hardy *et al*. 1998), public policy (Thurmaier and Wood 2002), public management (Agranoff 2001), community development (Mayo and Taylor 2001), and social psychology (Schruijer *et al*. 2001). We focus on all of this work later in the chapter. In contrast to RDT, the focus in these contributions is frequently on the power relationships between organizations

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that are members of IOEs, rather than on IOEs as a response to power-related problems.

Inter-organizational Settings for Power Research

Concerns about power are also raised across the range of Inter-organizational *manifestations*. The particular focus of interest varies with the context. For example, several authors focus on ‘community empowerment’, through which members of traditionally less powerful communities (e.g. residents' associations, patients' groups) are supported to take over the decision-making authority (from e.g. government agencies) for their community. Some see this as a policy issue, concentrating on the degree to which partnerships enable a transfer of power between the initially more and less powerful parties involved (e.g. Couto 1998; Hardy *et al*. 1998; Byrne 2001; Milewa *et al*. 2002; see also Mandell and Keast, this volume), while others focus also on ways of supporting the empowerment process (e.g. Himmelman 1996). Evaluation of policy is also relevant in cross-sectoral relationships such as outsourced public services, where a significant issue is whether the private sector partner holds too much of the power in what is essentially an arena that should be accountable through public governance mechanisms (Grimshaw *et al*. 2002; see also Knoke and Chen, this volume).

Other authors are concerned with various public or community sector relationships, including, for example, those concerned with health and locality issues. Issues here often relate to the balance of power between the organizational actors (e.g. Provan *et al*. 1980; Thurmaier and Wood 2002), but the power to resolve conflict is also raised (e.g. Diamond 2002). Once again, some authors are also concerned with process support. In this case, however, support is for sharing power (e.g. Crosby and Bryson 2005*b*).

In commercial contexts such as international joint ventures the focus tends to be on gaining managerial control over a partner or using power to maintain stability (e.g. Yan and Gray 1994; Inkpen and Beamish 1997). Bjorkman and Lu (2001), for example, specifically focus on which partner's human resource practices are adopted in the partnership and the way that relates to the balance of power between the partners. Power has been of particular interest in research on (predominantly private sector) supply chain relationships. Some are particularly concerned with the power relationship between manufacturers and retailers (e.g. Brown *et al*. 1983; Bloom and Perry 2001) but in general they are concerned with the use (or *ab*use)

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(Munson *et al*. 1999) of power to control the chain. Authors concerned with process support in this area are thus concerned with tools to explore the bases of supplier— buyer power in order to help the user to maintain control of the relationship (Cox *et al*. 2000).

Despite the variety of references to power in IOR literature, there is surprisingly little research in the area (Yan and Gray 1994; Everett and Jamal 2004). Such literature as there is that is specifically dedicated to understanding power in the IOR context is highly fragmented, and cross-referencing between that which originates from different theoretical bases is rare. The area is also somewhat confusing because concepts cannot be as neatly categorized into types as the paragraphs above might suggest. For example, the concept of *power balance* runs through almost all of the literature but, as indicated above, has different significance in different contexts. Similarly, the concept of *network power*, which relates to the power relationships between the organizational actors in a network, arises in many of the contexts described above—health and ICT (Constantides and Barrett 2006), airlines (Taylor and Kissling 1983), metropolitan partnerships (Thurmaier and Wood 2002), community organizations (Provan *et al*. 1980), business networks (Child and Faulkner 1998), and so on, but the focus of research interest varies widely from one set of authors to another.

While there are pockets of literature that are specifically concerned with power in Inter-organizational settings and which explore it in some depth, most references to power in IOR occur in research that is primarily focused on other sub-topics and which therefore treats power in less depth. In this chapter we explore and synthesize insights from both deep research and more superficial references to power and, in so doing, highlight some areas in which the research base, to date, has been extremely sparse.

Comparing and Integrating Research on Inter-organizational Power

Although, as we have indicated, research on Inter-organizational power is fragmented, there are some similarities between the approaches taken:

First, power issues in IOR research predominantly relate to the work programme, processes, and outcomes of the IOE (Gray 1989; Hardy and Phillips 1998; Newman 1998; Medcof 2001). The suggestion is that parties need power in order to have access to, and influence, agreements about joint objectives and the way in which these are actually carried out. Control over the collaborative output—whether that is in terms of equity share (Yan

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and Gray 1994) or a share in the credit (Vangen and Huxham 2003)—is also regularly raised.

Second, most researchers appear to take the power relationships between groups (e.g. Mayo and Taylor 2001), organizations (e.g. Inkpen and Beamish 1997), or whole networks or systems (e.g. Child and Faulkner 1998; Agranoff and McGuire 2001) as the unit of analysis. Relatively few make any reference to individual participants or processual flows of power.

Third, authors' presumptions about the basis of power issues appear to fall into one of two categories. Aligning with classical theories of power (Hardy and Leiba O'Sullivan 1998; Vaara *et al*. 2005), many IOR researchers explicitly presume that power issues imply a conflict of interest between organizations (e.g. Aldrich 1976; Inkpen and Beamish 1997; Hardy *et al*. 1998). They assume that parties are interested in controlling each other only in situations where they seek conflicting outcomes from their relationship. Others, however, take an approach that is distinctive to the IOR setting, appearing to be concerned with which party has the upper hand in terms of controlling or influencing outcomes at any one time, whether or not there is a conflict of interest (e.g. Yan and Gray 1994; Medcof 2001).

Fourth, a key recurring theme that seems independent of theoretical root or sectoral context is a presumption that there will be what is variously called *asymmetry, imbalance*, or *inequality of power* in all Inter-organizational relationships. There also seems to be a broad consensus that while equality of power between parties cannot be expected, collaborative relationships work more easily when there are no *major* disparities of power (e.g. Bergquist *et al*. 1995; Mayo and Taylor 2001). Issues relating to power inequities are often cited as being significant in relation to the possibility of achieving synergy in relationships that are intended to be collaborative, but it has been argued that this is an area that is, as yet, underconceptualized (Hardy *et al*. 1998; Grimshaw *et al*. 2002).

- Power is required to influence joint objectives.
- The unit of analysis is the power relationship between groups, organizations, whole networks or systems; little on individual power.
- Power issues imply either conflict of interest or just control or influence of outcomes.
- There will be asymmetry/imbalance/inequality of power in all relationships, even if collaborative.

Fig. 21.1 Dominant presumptions in extant literature

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These four areas of similarity are indicated in Figure 21.1. Beyond this, the approaches vary, though some themes are shared by several. A first impression is of an extensive diversity of insights but there are a number of dimensions alongwhich the insights can be meaningfully compared and integrated. One dimension relates to presumptions about the use of power in IOR settings. A second dimension relates to the variety of sources of power that are identified in IOR research. A third is concerned with perceptions of power, a fourth with the dynamics of Inter-organizational power, and a fifth relates to approaches to operationalizing Inter-organizational power. We discuss these—and the interrelationships between them—in the following sections.

Power in IOR Settings: Presumptions of Use

In this section we look at three perspectives on why power is important in IOR settings. In in*tra*-organizational settings, pluralistic conceptions of power commonly assume that there will be oppositional relationships between divergent interest-groups and that power will be sought and used selfishly (Lukes 2005). Interestingly, while some IOR literature does make this presumption, the in*ter*-organizational focus leads to many conceptions of power that diverge sharply from these classical presumptions. Inter-organizational power is sometimes considered in ways that are more collaborative. Some authors see it as a way of enhancing a joint endeavour while others even portray a perspective concerned with the empowerment of others. We present these three perspectives as *power over, power to*, and *power for*, as indicated in Figure 21.2.

Fig. 21.2 Presumptions of power use in IOR literature

From the *power over* perspective, the concern is with the *control* of the relationship. Conceptions of Inter-organizational power relationships that are rooted in exchange theory, transaction cost economics, or resource dependency theory usually fall in this category and do indeed focus on oppositional relationships. They are primarily concerned with gaining the upper hand over other stakeholders in, for example, securing the benefits or minimizing the losses from a relationship(e.g. Emerson 1962; Hall *et al*. 1977; Pfeffer and Salancik 1978; Provan and Skinner 1989; Medcof 2001). Strategic contingency theory, which focuses on the relationship between

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subunits within an organization, makes similar presumptions (Hinings *et al*. 1974).

Power over is sometimes conceived of as a mechanism that can be used to gain control of the collaboration when trust between partners fails (Rousseau *et al*. 1998; Bachman 2001; Bachman *et al*. 2001). The concept of *bargaining power*, which refers to the leverage that a party can gain by, for example, having the resources a partner needs, is often invoked in this context (Yan and Gray 1994; Inkpen and Beamish 1997; Bjorkman and Lu 2001; Grimshaw *et al*. 2002). The *power over* perspective is presumed in research based in a curiously wide range of Inter-organizational contexts. The references above relate to commercial joint ventures and public-private partnerships, but some of the early work was, somewhat surprisingly, based in social settings involving collaborative IORs between public agencies (Hall *et al*. 1977) and non-profit organizations (Provan *et al*. 1980).

The *power over* position implies a one-sided view of an Inter-organizational relationship; a concern by the organization that is seeking to take control to gain benefit for itself rather than for the IOE as a whole. However, not all authors see it as purely selfish behaviour; some posit the position as a response to power imbalance (e.g. Cox 2001; Mayo and Taylor 2001; Medcof 2001). As Provan and Skinner (1989) argue, participants may be concerned with protecting against a partner unilaterally grabbing control.

The distinction between '*power over*' and '*the power to*' in the context of Inter-organizational relationships has been noted by Agranoff and McGuire (2001) and Everett and Jamal (2004). The *power to* perspective is concerned with the power of an IOE to achieve its ends by helping it to function effectively (Gulati *et al*. 2000; Hardy *et al*. 2003). This perspective does not naturally sit closely with classical notions of power because it only considers one party—the IOE (rather than its constituent organizations).

Authors presume a spectrum of less or more collaborative outlooks relating to *power to* positions. At one end, power is taken to be exerted by a single party in what it perceives to be the interests of the IOE as a whole; on the border between *power over* and *power to* is an argument that power can be used by one party over anotheras a way of maintaining stability in relationships (Inkpen and Beamish 1997; Child and Faulkner 1998). A related view, however, sees the *sharing of* power as the source of stability (Pfeffer and Salancik 1978) and this, at least in some cases, can lead to high levels of performance (Yan and Gray 1994).

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At the other end of the spectrum, a collaborative perspective on *power to* considers power in the context of the strength of a collaborative network (Agranoff and McGuire 2001; Windeler and Sydow 2001). Perrucci and Pilisuk introduced ‘the locus of enduring power’ (1976: 268), arguing that for organizations to influence decision-making in the broad arena, they must draw on each other. They depicted power as ‘resid(ing) in the Inter-organizational connections that may be mobilized in specific situations’. This perspective deliberately aims to take away the negative connotations of power. Winer and Ray (1994: 33), for example, emphasize ‘the ability to do’, and suggest that collaborations can unite and extend individual power. *Power to* is often applied in the context of collaborative approaches to addressing social issues, but is equally relevant to those who are concerned with the value to be gained from industrial or supply chain networks both to the organizations involved and in terms of economic growth in the locality (Johnsen *et al*. this volume)

The perspective that we have labelled *power for* takes a step beyond even the collaborative end of the *power to* spectrum. It relates to the involvement of parties who would not otherwise have a voice. It is thus concerned with using Inter-organizational relationships to transfer power to another party or parties. Many notions of *shared power* (Crosby and Bryson 2005*b*) differ from Pfeffer and Salancik's introduced earlier and sit on the border between the *power for* and *power to* perspectives. One conception of this is ‘shared transformative capacity’, which suggests a mutual gain perspective (Bryson and Einsweiler 1991: 3). Gray's (1989) alternative conception takes ‘power sharing’ to be synonymous with ‘collaboration’, arguing that the latter implies that power to propose a solution must be shared among decision-makers. This implies that that some—but not all—power is being given away. Midgley, Munlo, and Brown's (1997) conception of shared power as implying user involvement has the same implication.

The purest conception of the *power for* perspective is encapsulated in Himmelman's (1996) concept of *collaborative empowerment*, defined as giving a partner the capacity to set priorities and control resources. This goes beyond notions of providing help such as resources or the elimination of competition to weak parties (Mock 1979) and involves actively collaborating with the latter (Couto 1998). Government pressure for user-involvement in public decision-making (Milewa *et al*. 2002) and for business involvement in community decision-making (Boehm 2005) goes some way towards this position.

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Power for is most commonly associated with social collaborations because the pure empowerment position is only meaningful as a social goal. However, less extreme notions of the *power for* position have relevance in commercial settingsif there is a requisite degree of mutual dependency (Casciaro and Piskorski 2005). For example, a large corporation may seek to empower a small or medium-sized enterprise (SME) in order to harvest the latter's specialist expertise.

While the *power for* and *power over* perspectives seem almost diametrically opposed to one another, it can be argued that enacting *power for* relies on having *power over* and that the extent to which power is ever truly handed over is questionable. Himmelman (1994, 1996) makes an important distinction between ‘collaborative betterment’, in which the less powerful party is invited into a collaborative process that is designed and controlled by the more powerful party, and ‘collaborative empowerment’, in which control is actually handed over. An argument can be made that all three perspectives on the use of power in IOR settings are at least partly rooted in the *power over* position: it is how those with power make use of it that makes the difference. Whether the seeking of power is deliberate or not, it is only those with power who have the choice about keeping it, sharing it, or giving it away. Nevertheless, we would argue that the three positions represent fundamentally different presumptions about why power matters in IOR settings and that interpreting research in this area relies on understanding these perspectives.

Sources of Power in IOR Contexts

As indicated earlier, research on power in Inter-organizational settings generally takes the power relationships between groups, organizations, or whole networks or systems as the unit of analysis. Various sources of power at these levels have been identified. They can usefully be categorized into three types, deriving from resources, relative importance, and structural considerations as indicated in Figure 21.3.

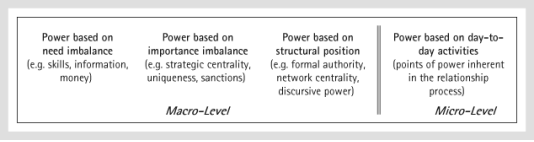

Fig. 21.3 Sources of Inter-organizational power

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The first type of power source derives from an organization having some sort of resource that another needs (Pfeffer and Salancik 1977; Medcof 2001). Bargainingpower, which is often central to *power to* notions of power, is generally seen to arise in this way. Traditional resource-dependence models see the building of collaborative relationships as a response to power deriving from resource imbalance between two or more organizations (Emerson 1962; Aldrich 1976; Cook 1977; Pffefer and Salancik 1978; Mock 1979; see also Casciaro and Piskorski 2005). Many contemporary authors, however, focus on resource power as it occurs *within* a collaborative relationship when a resource is scarce (Cox *et al*. 2000). For example, strategic alliances are often founded on the need for access by one partner to the 'essential skills' of another. Skills have been cited as a particularly important source of scarce resource power (Osborne and Murray 2000; Grimshaw *et al*. 2002). However, some argue that what really matters is who has *control of* needed resources, whatever they may be (Domberger 1998; Hardy and Philips 1998; Cox 2001). Control of the 'purse strings' (Vangen and Huxham 2003) and control of information (Yan and Gray 1994; Alvesson 1996; Inkpen and Beamish 1997) are seen as particularly relevant. Purse strings power is particularly tangible and consequently often a dominant form of power. It accounts for perceived large power imbalances in situations in which, for example, community organizations collaborate with statutory organizations or SMEs collaborate with large companies (Grimshaw *et al*. 2002; Vangen and Huxham 2003).

A second set of power sources relates to mismatches in the importance of a collaborative relationship to the partners; that is, to the level of mutual dependence (Casciaro and Piskorski 2005). If it is less central to achieving the strategic purposes of one organization than it is to another, the former is in a strong position to bargain (MacDonald 2001; Medcof 2001). One instance in which this can occur is when knowledge and skills have already been acquired from a partner during earlier phases of a relationship, so rendering collaboration less strategically important to that partner while it remains central for the other (Inkpen and Beamish 1997). Another example is when one organization's reputation is more closely staked to any collaborative output than another's (Grimshaw *et al*. 2002). Availability of alternative ways of tackling the issue, or of alternative partners, also make a particular collaboration less necessary and so similarly puts an organization in a strong bargaining position (Yan and Gray 1994). The possibility of pulling out can present a credible sanction acting against unfavourable behaviour by a partner, even if no explicit threat to do so is ever made (Emerson 1962; Casciaro and Piskorski 2005). Indeed if an organization can convince a

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partner that it has available any other sanction that it is prepared to use, it is in a powerful position relative to that organization (Bachman 2001).

The third set of power sources evident in the literature relates to the structural relationships between partners (Yan and Gray 1994). One form of structural power may be thought of as the organizational equivalent of ‘positional power’ (French and Raven 1959). IOEs are typically characterized by a lack of traditional hierarchy (Chisholm 1989; Powell 1990; Thompson 2003) and individuals fromone organization rarely have any authority over those from another. However, there are situations in which one *organization* has formally acknowledged authority over *other organizations* in the collaboration (Hardy and Phillips 1998). This is particularly relevant in situations where there is an official ‘lead organization’ specified, for example, by an external funder or government policy (Kassler and Goldsberry 2005). Designated lead organization status is clearly a source of power as it places the organization in a position to dominate decisions—or even decide unilaterally—about who to involve and how the joint objectives are formed and carried out.

Another form of structural power derives from the relationships an organization builds with others (see Kenis and Oerlemans, this volume). Organizations whose position in a network is central in the sense of having direct relationships with many other organizations are argued to be in a strong position to influence others in the network (Degenne and Forse 1999). In particular, they have the potential to draw other actors together into a coalition (Galaskiewicz 1979; Eden 1996). Centrally located actors can develop a powerful brokering role because they have the unique resource of being able to connect with many others (Thurmaier and Wood 2002). Within particular collaborations, those who have many external relationships can use these as a source of power over partners. For example, this is one source of power that local government organizations have over community organizations in social collaborations (Diamond 2002).

Finally, critical theorists are concerned with the post-structural conception of power as rooted in discourse, which transcends the traditional structural conception (Foucault 1980; Lotia and Hardy, this volume). These researchers argue that *power over* is not always overtly recognizable (McKinlay and Starkey 1998) even in situations of collaboration. It can be made to look harmless or even like a positive move towards trust building (Hardy *et al*. 1998). For example, power sharing can be no more than a means to keep partners that are not trusted close to hand. Post-structuralist conceptions

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of power often see it as being subtly exercised via *managing meaning* (Everett and Jamal 2004). Hardy, Palmer, and Phillips (2000) argue that *discursive power* of this sort is rooted in the way that key facets of situations are presented within the constitution of society (Foucault 1980), and often privilege one party (McKinlay and Starkey 1998). In this conceptualization, power is not objectified, but rather is understood as a set of flows and processes which are always in motion. This means that a lower degree of agency is presumed. That is, it is not the case that a person or an organization can get hold of, and manipulate, power. Rather, any attempts to do so are themselves a reflection of a web of power-relations that will interact with, and react to, any attempt to 'gain power'. Hence, from this perspective, the notion of 'sources' of power is problematic. Although people might assume agency and seek to gain power from a source, they are actually expressing the current flows of power which will shift to accommodate their efforts.

The set of power sources identified above should not be considered as a complete list of actual sources since we are not aware of any empirical research that claims to have investigated the area very widely. It does, however, include sources commonly referred to in the literature. Although authors typically root their work in particular perspectives, and hence often do not consider overlap with other types of power, when considered together overlaps become apparent. For example, the power rooted in scarce resources is essentially the power of sanctions; it relies on the threat of pulling out feeling real.

In the context of organizational power, Hardy and Leiba-O'Sullivan's (1998) have argued that different theoretical perspectives on power sources should not be considered as mutually exclusive alternatives but as parallel modes of operation. In the context of *inter*-organizational power, Casciaro and Piskorski (2005) have made a similar point for power deriving from resource imbalance and from mutual dependence, arguing that they need to be considered in combination. The much wider range of power sources identified here suggests that this argument can be taken much further. Specifically, it leads to a view of different types of power being available to different partners at any point in time. Thus, for example, one partner might be centrally networked and thus have access to alternative partners, thus having both structural and relative importance power, while another might have a pot of money available, thus having resource power. Other partners might have

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essential skills or discursive power, and so on. The overall power position would thus be a combination of these different power holdings.

Power at the Micro-Level: A Missing Link

The sources of power suggested in the literature so far reviewed can be seen as coming from a macro-level perspective. The sources are ‘macro’ in two senses: first, they relate to groups, organizations or networks rather than to individuals; and second, they are suggestive of a relative stability in the power relationships between the particular groups, organizations, or networks concerned. For example, it would be expected that an organization with some form of structural power—say control of purse strings—would be expected to maintain that control for a period of time—perhaps several years. This would similarly be the case for organizations with relative importance or structural power. Such power relationships would form a part of the context in which the day-to-day operation of an IOE takes place.

As we have already argued, reported research on macro-level power is surprisingly sparse as well as fragmented. At the micro-level the situation is starker. Wehave been able to locate any extant research that explicitly considers power in IOR settings at a micro-level, that is, that focuses on the day-to-day enactment of power taking place between individuals. For this reason, the focus of our own empirical research on IOR power has been principally at the micro-level (Huxham and Beech 2003*a*; Huxham and Vangen 2005).

We take micro-power to be played out in relation to determination of the direction and performance of the joint activities. While micro-power can be expected to be enacted on occasions such as meetings, workshops, and so on, when the joint aims and activities are directly under discussion, our argument is that IOEs offer many opportunities for individuals to exercise power unilaterally, without recourse to any discussion that is explicitly concerned with negotiating direction or the carrying out of jointly owned tasks. In short, we argue that micro-power is integral to the way individuals involved in (or around) an IOE carry out the processes of joint working. Thus for example, micro-power is available to those who are involved in the setting up of an IOE through who they choose to invite, the way they ascribe identity to them—and hence what they see them as representative of—and how they choose to describe the ‘entity’. Once an IOE is set up, micro-power is available, for example, to those who arrange the timing, location, format of, and paperwork for, meetings, to those who have been tasked with

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carrying out a particular activity for the IOE and, more obviously, to those who have the authority to sign off funding.

Two concepts in the extant literature bear some relationship to this notion of micro-power: micro-politics and power tactics. Micro-politics relates to day-to-day relationships and is often used as a theoretical construct to analyse situations of resistance to managerial control or imposed regimes. For example, Sharpe (2006) analyses the management practices and shop-floor resistance behaviour—such as questioning the authority of the team leader—in different sites of a multinational. Newman (2005), also taking a micro-politics perspective, examines the use of discourse by managers in public sector organizations supposedly bound to enact government policy on network governance, including for example community involvement in partnerships. She comments, among other things, on managers' use in combination of discourse appropriated from government language and discourse counter to that to legitimize, and hence persuade other actors about, new ways of working. Both of these examples are suggestive of micro-power being used to enact the politicking. Our notion of micro-power is, however, broader, including more varied opportunities for, and modes of, its enactment than just resistance behaviour or modification and use of discourse. Micro-power also bears some relationship to Kim, Pinkley, and Fragale's (2005) use of the concept of ‘power tactics’ in the context of negotiator power, since that is concerned with the ability of actors to change the power relationship between themselves. However, while Kim *et al*. identify just four types of power tactic, our notion is of an infinity of possibilities.

As indicated in the examples provided earlier, IOEs provide endless opportunities during their life-cycle for the participants to take hold of micro-power. Each such opportunity is a moment in which micro-level power is available to an individual, who may, or may not, be acting on behalf of his or her organization; we have referred to them as *points of power*. They do not always conform to typical understandings of sources of power (e.g. Lukes's (2005) one-dimensional view of power) which assume a motive and intentional wielding of it. This conceptualization sees some points of power as identifiable and able to be obtained and manipulated by actors while others are beyond the intentional control of individual agents. Through the points of power, influence is often exerted unconsciously as part of day-to-day activity, so the strong dichotomy between ‘power’ (intended influence)

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and ‘influence’ (unintended influence) emphasized by Wrong (1979) is not seen as a relevant definitional distinction.

This way of viewing micro-power sees every point at which an individual has the opportunity to take action—or influence the discourse—relating to an Inter-organizational relationship as effectively a potential momentary source of power. The various points of power represent the collection of interacting moments where power is *de facto* enacted at the micro-level in Inter-organizational relationships. They are typically not recognized as sources of power by those who enact them. As with macro-power, some individuals have structural power afforded by their position in the collaboration. However, in the Inter-organizational context, an individual's positional power generally does not relate to hierarchy in French and Raven's (1959) original sense. For example, during meetings, positional power may be granted to a convenor or chairperson, but between meetings, much of the action may be in the hands of a partnership, alliance, or network manager who may be formally independent of any of the member organizations (Sherer 2003; Spekman *et al*. 2000). The points of power notion therefore conceives of any person, group, or organization linked to an IOE as having the potential to exert power through some of the points. This means that even though there may be large asymmetries of power at the macro level, there may be many moments when the micro-power— and hence the direction of the joint activities—can be in the hands of the apparently less powerful.

Perceptions of Power: Relating the Macro and the Micro

Most research on power in IORs does not question the ‘reality’ of reported power balances. *Perceived power* as a concept (e.g. Kim *et al*. 2005) does not figurestrongly in extant IOR research but seems likely to be an important variable in understanding the way that parties behave in relation to one another. For example, from a position in social psychology, Schruijer, Taillieu, and Vansina (2001) have demonstrated that perceptions of own-group power tend to be at variance with ratings of power by other groups. Specifically, the groups they studied tended to overrate their own power compared to how this was rated by the others. In the context of interprofessional, rather than strictly Inter-organizational, groups, Fiol and O'Connor (2002) looked at the relationship between perceptions of individual and group power. They provide a framework which suggests that individuals in a group will attribute the power of an individual member who is powerful outside the group to the group as a whole and, conversely, outsiders will construct their views of the

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power associated with individual group members on the basis of the power reputation of the group as a whole.

These two contributions, though far from conclusive, highlight the likelihood of misalignment of perceptions about where power lies among the participants in Inter-organizational relationships. This is important also, in considering the way in which macro- and micro-power are related. In arguing earlier for the various types of macro-power to be regarded as parallel modes of operation, we implied that at any point in time several partnering organizations could have some form of macro-power available to them in relation to the other partners. A combination of these forms of power will therefore be in play. Our research takes this argument further still, suggesting that the macro-power context will also affect the way in which the micro-level points of power are perceived and used—consciously or otherwise—by individuals to drive the collaboration forward (Huxham and Beech 2003*a*; Huxham and Vangen 2005). For example, those who do not have direct access to financial resources may not perceive other sources of power (macro or micro) if financial power feels overwhelmingly important. However, as has been indicated above, the points of micro-power can also affect the macro power-play by allowing apparently unpowerful parties to drive agendas forward if they do act (wittingly or without perceiving that they do so) on the opportunity.

We have conceptualized the combined available sources of macro- and micro- power as a *power infrastructure*. Stakeholders can manipulate the infrastructure insofar as they are aware of it. However, they may often be manoeuvred by it as a result of their own unwitting actions and taken-for-granted ways of perceiving their relationships to each other. The power infrastructure concept—and the notion of micro-power in particular—thus stress the importance of perceptions in the way that the parties relate to each other. This is, however, an area where further research exploring the detail of the relationship between perceived power, observable power, and behaviour would be valuable.

The Dynamics of Inter-organizational Power

We commented earlier that macro-power sources are suggestive of a relative stability in the power relationships. Nevertheless, some authors suggest that changes in the balance of power do occur or can be made to occur. For example, traditional resource dependence models, which see the creating of a collaborative relationship *as a response* to power deriving from resource imbalance, take as a given that power relationships can be facilitated to

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change from a *power over* mode into a *power to* mode (Emerson 1962; Aldrich 1976).

Other authors argue, however, that the balance of macro-power changes over time even if not facilitated to do so. For example, Gray (1989) argues that if a collaborative process is working effectively, then, in time, power may be shared as partners get to know and trust each other. Mayo and Taylor (2001) put forward an alternative view, arguing that there is a tendency for power to become more unequal as time goes on because partners settle back into old routines, taking less care of collaborative relationships. Both views are concerned with shifts between *power to* and *power over*. Although making diametrically opposite proposals, both seem plausible and it is reasonable to presume that either could happen depending on the circumstances. Indeed it is possible that the balance of some forms of macro-power would move in one direction while the balance of others might move in a different direction.

Relating to this point, Gray (1989) and McQuaid (2000) have also suggested that different types of macro-power will be available at different stages in a collaboration's life-cycle. For example, network centrality may be crucial when mobilization of potential stakeholders is important, but having a key resource may be crucial at a point of delivery. We have made a similar argument in relation to points of micro-power, that as an IOE passes through different stages of its life, different processes have priority (Huxham and Beech 2003*a*; Huxham and Vangen 2005). For example, in nascent stages, points of power may be wrapped up in the writing of a statement of intent or necessary decisions about ways of working. As the IOE begins to develop, there may be many ‘getting started’ meetings with many concurrent points of power encapsulated in their design and management. There might then, for example, be stages that are dominated by an external stakeholder, when points of power might be inherent in the relationships that partners have with it. Or there might be stages that are dominated by particular activities, where points of power will be linked to the mobilization of resources needed for the activities. An important point at both macro- and micro-levels is that as different types of power become relevant over time, the holders of power are seen to change along with them.

- Micro-power changes rapidly within relatively stable, but nevertheless changing, macro-power context.
- Power changes can be facilitated.
- Power may become more or less equal over time.
- Power will change at different stages of an IOE's life.
- The holders of power change as the sources of power change.
- The holders, sources and uses change as the IOE changes.

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Fig. 21.4 The dynamics of Inter-organizational power

These aspects of the dynamics of power in IOR are summarized in Figure 21.4. However, this is an area in need of research attention. Since general IOR research suggests that IOEs frequently change membership and purpose rapidly and substantially over time as a result of transformations in the member organizations (Ebers and Grandori 1997) and external stimuli such as government policies (Huxham and Vangen 2000) (see also Cropper and Palmer, this volume), we may presume that the balance of macro-power and the availability of points of power will be affected. Taken together with the arguments about power dynamics above, this suggests that the 'overall' balance of macro- and micro-power is likely to be continuously shifting, even if a particular macro-power relationship appears to overshadow others for a lengthy period of time. In our own work we have conceived of this shifting of power between members metaphorically as the passing of 'power batons'. At the macro-level any partner could hold a particular combination of power batons for a considerable period of time, but they will inevitably have to relinquish some or all of these in time. There is clearly much scope for empirical work to investigate how this might obtain in practice in different contexts.

Operationalizing Power

- Management of *power over*:
  —diagnosis and appropriate strategie.
- Management of *power to*:
  —steps, tools, and processes.
- Management of *power for*:
  —capacity building of the weak or the relatively powerful parties.

Understanding sources of power can inform action in all three modes of use.

Fig. 21.5 Operationalization of Inter-organizational power

While many authors writing on power in IOR settings concentrate on *describing* the way power balances pertain, some take a more prescriptive approach. For some, acknowledgement of a source of power is a precursor to deeper practice-led analysis suggesting ways in which power may be utilized or managed. For example, Cox *et al*. (2000) model complex 'power regimes' in supply chains based on assessments of the relative power of buyers

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and sellers in the chain in terms of the utility and scarcity of resources. They propose this as a form of ‘diagnosis’ for an individual organization in the chain which can be followed up by applying an ‘appropriate’—either collaborative or arm's-length—relationship management strategy. Similarly, in the context of international joint ventures, Medcof (2001) makes propositionsabout levels of authoritative *versus* participative decision-making that are appropriate for differently assessed degrees of the strategic importance of a relationship to an organization.

Cox *et al*.'s and Medcof's research provides practitioners with tools through which to manage power. In both cases the situation is analysed from the perspective of one party who is essentially being advised to manage *power over* for their own benefit. Processes relating to *power over*, however, are not always so purely self-centred. Eden (1996), for example, proposes a process in which a focal party brings together weaker parties in collaboration in a way that is empowering for the latter, but which is done in order to support the focal party's goals. He comments that this relies on manipulation of the weaker parties by the stronger, focal one, but it does, in the process, develop *power for*. Others have focused on the development of tools that are more collaborative in spirit. Crosby and Bryson (2005*a*), for example, indicate many ‘resources’ for leadership in *shared power* situations including analytical tools and process designs that can be seen as examples of managing *power to*.

Himmelman (1996) takes a similar, if less developed, approach to supporting *power for*. Many authors who are concerned with operationalizing *power for* take a position that presumes that communities are less powerful than public bureaucracies and professionals and explore reasons for this and ways of addressing it. Gray (1989) argues that weaker parties must develop their capacity as stakeholders. Mayo and Taylor (2001) also focus on capacity building but argue that this needs to be for the relatively powerful rather than only for the disempowered, in order to encourage them to challenge the accepted rules of the ‘game’. Himmelman's approaches might be applied in either of these positions. The above modes of operationalizing power are summarized in Figure 21.5.

Our own approach to the operationalization of power is rooted in a view of theory as supporting reflective practice (Huxham and Beech 2003*b*). Like Cox and Medcof, we see the identification of sources—and, in our case, also of uses—of power as a precursor to understanding how to manage it. However, we do notpropose strategies for dealing with it. Our argument is

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that using power *in any of the three modes* involves understanding what is going on at both macro- and micro-levels. Thus the summary of types of power available provided in Figure 21.3 can act as a trigger for consideration of the power infrastructure of an IOE and for consequent ways of managing the situation. Several questions relating to influence on, or manipulation of, joint objectives might be asked of the situation. For example, how is power being exerted upon 'self' by others or 'the system'? How can 'self' exert power on others? How may self be viewed as exerting power by others? How can power be shared between partners? How can joint power 'to do' be exerted? How can power be temporarily or lastingly passed to other parties? How does this change over time? The power infrastructure notion, and in particular, the concept of perceived power, indicates a need to be particularly mindful of where power may be unwittingly exerted. Fiol and O'Connor's (2003) approach may also be helpful in this respect. Rooted in theory about perceptions of power, they identify factors that will inhibit or facilitate power transfers and argue that understanding these is helpful for power management techniques.

Conclusion: Developing Research on Inter-organizational Power

Our aim in this chapter was to review and analyse the concept of power as it is variously used in the literature on collaborations. As we have indicated, it is an area sparsely researched yet central to understanding how Inter-organizational relationships function. We hope that by synthesizing it in this way, understandings that are available are made accessible and usable by others.

The centrality of power in IOR is indicated by the degree to which it interrelates with all of the other topics in this part of the Handbook. Links to trust have already been noted. One connection is that trust and power can be seen as alternative forms of control mechanism. From a rather different perspective, the link is characterized by the likelihood of trusting relationships being dependent on the degree of power imbalance, more balanced relationships being more likely to engender trust. Similar arguments can be made for the relationship of power to social capital and to the ability of partners to innovate effectively through participating in IOEs. The relationship with dynamics and change is clearly spelled out by the earlier exposition of the dynamics of power. Finally, intervention and evaluation approaches see power balance and sharing as important elements to work on.

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There is clearly scope for much research on this topic. We have already indicated some areas where research would be particularly valuable and summarize these, along with other obvious gaps, here.

First, there is scope for further investigation of macro-power in different empirical circumstances. However, the synthesis here suggests that a presumption of multiple types of power sources should be the starting point. Second, the concept of micro-power warrants much further investigation. This might involve a close examination of relational processes and the individual power implicit in them as well as attention to different empirical contexts. Third, following from these, there is scope for further investigation of the relationship between macro- and micro-power.

The final sections of the chapter also suggest areas where research would be of much value. Fourth, then, research on perceptions of power in IOEs would have obvious value. Development of deeper understanding both of the way power is perceived and of the effect that has on inter-party interactions is important to understanding the nature of Inter-organizational relationships. Fifth, there is scope for longitudinal work to investigate how power changes over time and the dynamics of shifting power in the shorter term. Finally, there is clear potential for research on the operationalization or management of power in practice. One approach would be to use an action research methodology (Eden and Huxham 2006) so that attention to practice can be directly incorporated. However, it must be acknowledged that action researchers act within the power infrastructure and hence there is a need for reflexivity on their part and always the likelihood that the understanding gained may be partial. Alternative possibilities are historical analysis (McKinlay and Starkey 1998) or external perspective discourse analysis (e.g. Humphreys and Brown 2002). Whichever way it is researched, research on the operationalization or management of power will be heavily reliant on empirical and theoretical work in the other five areas.

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The Role of Social Capital in Inter-organizational Relationships

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Abstract and Keywords

A central challenge in the study of inter-organizational relationships (IORs) is to explain why and how organizations connect effectively, work cooperatively, and coordinate their activities to achieve superior performance. The strategic logic and motives underpinning the increased move to IORs in western economies include access to key resources, particularly information, markets, and technologies, advantages from knowledge and learning, scale and scope economies, as well as risk sharing. Such benefits can be viewed as both inducements and opportunities for firms. This article sets out and explores the proposition that research on social capital provides a valuable answer to the question of why some people and some organizations do better in the sphere of IORs. Specifically, scholars of social capital argue that those who do better do so because, through their connections and relationships, they are better able to access and benefit from a range of opportunities and resources that impact performance.

inter-organizational relationships, western economies, resources, technologies, risk sharing

A central challenge in the study of Inter-organizational relationships (IORs) is to explain why and how organizations connect effectively, work cooperatively, and coordinate their activities to achieve superior performance. The strategic logic and motives underpinning the increased move to IORs in western economies include access to key resources, particularly information, markets, and technologies, advantages from

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knowledge and learning, scale and scope economies, as well as risk sharing (Gulati *et al*. 2000). Such benefits can be viewed as both inducements and opportunities for firms (Ahuja 2000*b*) and they have been examined and discussed in depth elsewhere in this volume.

Here I set out and explore the proposition that research on social capital provides a distinctive and valuable answer to the question of why some people and some organizations do better in the sphere of Inter-organizational relations. Specifically, scholars of social capital argue that those who do better do so because, through their connections and relationships, they are better able to access and benefit from a range of opportunities and resources that impact performance.

From a theoretical perspective, social capital is an especially powerful lens for the study of Inter-organizational relationships. First, it is a relational theory that takes as its prime unit of analysis the connections between actors. Second, social capital is a multidimensional construct that considers and seeks to integrate several different facets of inter-actor relations, including both the structure and the quality of their ties. Third, it can be used to describe and analyse a wide range of organizations: public, private, and voluntary, large and small, formal and informal, established and emergent. Fourth, it is a construct that can be applied across several different levels of analysis, from an individual person to an organization, region, or even nation, thereby enabling study of the impact and interrelationships between these different levels. It therefore provides a valuable way to characterize an organization's complete set of relationships, including those that cross institutional boundaries (Koka and Prescott 2002). Finally, social capital has been shown to be influential in the creation and exploitation of intellectual capital—a key objective for many IORs.

For all these reasons, social capital is becoming an increasingly important perspective for the study of Inter-organizational relations. At the same time, research on Inter-organizational relations is contributing in significant ways to our understanding of social capital and its consequences, particularly in elucidating the interconnections between different levels of analysis and the dynamics of social capital. So this is a particularly fruitful research domain.

I begin this chapter with an overview of social capital—its foundations, forms, and effects. Then I consider research on social capital in the field of IOR —how it has been applied and what we have learned—conceptually and

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empirically. This leads into a discussion of the challenges in the field and important directions for future research.

Social Capital—Foundations, Forms, and Effects

There is, as yet, no generally accepted definition of social capital. Adler and Kwon view it as ‘the good-will engendered by the fabric of social relations and that can be mobilized to facilitate action’ (Adler and Kwon 2002: 17) and provide a recent review of the concept, identifying central issues and points of similarity and difference between researchers. A somewhat broader definition and one that has been influential in recent management and organization studies is that of Nahapiet and Ghoshal (1998). (See Bolino *et al*. 2002; Inkpen and Tsang 2005; Maurer and Ebers 2006.) They define social capital as ‘the sum of the actual and potential resources embedded within, available through and derived from the network of relationshipspossessed by an individual or social unit. Social capital thus comprises both the network and the assets that may be mobilized through that network’ (Nahapiet and Ghoshal 1998: 243).

The core proposition of social capital theory is that social ties constitute a valuable resource for the conduct of social affairs, enabling individuals and social groupings to achieve outcomes they could not otherwise achieve, or could only do so at extra cost (Coleman 1988; Burt 1992; Putnam 1993, 1995).

One of the influential early uses of the term was in community studies, highlighting the central importance for the survival and functioning of neighbourhoods of the networks of strong, cross-cutting personal relationships developed over time that provide the basis for trust, cooperation, and collective action in such communities (Jacobs 1965). Subsequently, the concept has been applied to elucidate a wide range of social phenomena—from individual performance and career success (Burt 1992, 2005; Podolny and Baron 1997; Gabbay and Zuckerman 1998; Cross and Cummings 2004), the creation of intellectual capital (Nahapiet and Ghoshal 1998), innovation within (Hansen 1999; Subramanian and Youndt 2005) and between organizations (Powell *et al*. 1996; Ahuja 2000*a*), to the functioning and performance of regions (Cohen and Fields 1999) and nations (Putnam 1995, 2000) and their economies (Fukuyama 1995; Cooke and Morgan 1998). Although the significance of social connections for understanding IORs has been acknowledged for some time in research on interlocking directorates (Dooley 1969; Pfeffer 1972, 1974; Mizruchi and

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Stearns 1988) and in studies of market relations (Baker 1990), social capital is coming to increasing prominence in this area of research.

It will be clear from the above that research on social capital has strong connections, indeed sometimes overlaps, with other areas of research reviewed in this volume—in particular, the discussion of networks and trust. Hence it is important here to be clear about the distinctiveness of social capital as an area of study and contributor to our understanding of Inter-organizational relationships. There are three attributes of work on social capital that, taken together, constitute its particular and distinctive contribution.

> (1) Social capital represents a resource-based perspective—viewing connections as both a resource and providing access to resources (Bourdieu 1986; Lin 2001). This resource-based perspective is central to social capital studies—but is only one of several perspectives for studying networks or trust.
> (2) Social capital research typically seeks to elucidate the performance consequences of social connections, both positive and negative. Borgatti and Foster suggest that an evaluative aspect is prominent in virtually all social capital studies, including those focusing on the so-called ‘dark side’ (Borgatti and Foster 2003: 1002).
> (3) Social capital research embraces multiple dimensions of relationships, both structural and connectionist, often kept separate in other studies. It thusdistinguishes itself from the largely structural perspective of network studies and the relational perspective of trust and identity researchers. Increasingly, researchers seek to understand the interplay between the three dimensions of social capital identified by Nahapiet and Ghoshal (1998)—the structural, the relational, and cognitive dimensions. (See e.g. Newell *et al*. 2004; Liaou and Welsch 2005; Maurer and Ebers 2006.)

In this review of the role of social capital in IORs, I set out to select studies that reflect the above attributes. However, not all of the individual studies include multiple dimensions of social capital. Moreover, as others have noted (Schuller *et al*. 2000; Farr 2004), a full picture can only be drawn by including work which is related to the substance of social capital even if it makes no explicit reference to the concept itself.

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Social Capital: Theoretical Foundations

Social capital is simultaneously an economic, sociological, and political concept and there are important differences between its leading proponents. Accordingly, its theoretical foundations are complex and vary for different writers and different streams of social capital work. Many of the founders of social science are explicitly cited as important sources including Weber, Durkheim, Simmel, and Marx (Burt 19922005; Woolcock 1998; Lin 2001). However, five areas of work have been particularly influential in the evolution of work on social capital: social exchange theory, social network studies, research on communities, economic sociology, and neo- capital theories. Although described separately here, there are strong connections between these five research streams. (See Contractor *et al*. (2006) for a discussion of the theoretical mechanisms relevant to the related but broader area of networks.)

Social exchange theory provides the core theoretical foundation for most social capital research. This substantial body of work grew from the simple observation that many forms of social interaction can be conceptualized as an exchange of benefits (Simmel 1907; Homans 1958, 1961; Gouldner 1960; Blau 1964). ‘Both social and economic exchange are based on a fundamental feature of social life: much of what we need and value (for example, goods, services, companionship) can only be obtained from others. People depend on one another for these valued resources, and they provide them to each other through the process of exchange’ (Molm 2001: 260). Social exchange theorists take as their focus the benefits that people obtain from and contribute to social interaction and the opportunity structures and relations of power and dependence that govern those exchanges (see Huxham and Beech, this volume). Social exchange theory provides many of the central ideas in social capital studies—most obviously the focus on actors and resources, exchange structures and exchange processes. It is foundational for much work in IOR (see e.g. Larson 1992; Das and Teng 2002; and Molm 2001).

Two features of exchange are especially important for understanding how social capital works: appropriability and reciprocity. Appropriability, widely regarded as a recurring feature of social life, is the idea that social connections of one type often can be used for different purposes (Coleman 1988; Adler and Kwon 2002). For example, friends, or even the friends of friends, may provide timely information about job opportunities. Colleagues

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met in one setting may prove to be valuable contacts in other spheres of life. In the context of IOR, Uzzi (1996) describes the initial stock of trust that can be appropriated from existing social relations and built upon in other settings. The significance of appropriability is that it suggests the considerable and varied opportunities that become available through social connections and hence their potential value as a resource.

Reciprocity, the expectation that exchange will be mutual, is a principle established early in exchange theory (Gouldner 1960) and evident in much research in IOR (Powell *et al*. 1996; Uzzi 1997). It is central to Putnam's work on social capital. Generalized reciprocity is described by Putnam (1993) as the principle that operates when a person does something of value for you without expecting anything immediately in return and perhaps without even knowing you, 'in the expectation that down the road you or someone else will return the favor' (1993: 37; see also Gouldner 1960). He argues that a society that relies on generalized reciprocity is more efficient, more trustful, and more open to collaboration. Baker (2000) sees reciprocity as a powerful principle underpinning social exchange across a wide range of social contexts, from international relations to the help offered by individuals to each other within an organization and including IORs. It is this principle which creates the possibility to move exchange from a world of primarily short-term, individualistic, and instrumental actions to a more social and enduring basis for exchange relations.

The potential of exchange theory expanded considerably as studies moved beyond dyadic exchange to consider complex networks of exchange in which the structure of relations, rather than the actors themselves, became the central focus (Emerson 1972; Cook and Emerson 1978). Burt's (1992) approach to social capital draws directly on these studies and on White's mathematical network analysis (White 1981). His research has drawn attention to the importance of network configuration as an important aspect of social capital and specifically to structural holes, i.e. the gaps between network clusters rather than the ties themselves, as a major determinant of the relative power and success of actors (Burt 2005). Network approaches constitute one of the most important streams of research on the role of social capital in IORs. (See e.g. Baker 1990; Powell and Smith-Doerr 1994; Uzzi 1996, 1997; Gulati *et al*. 2000; Zaheer and Bell 2005.)

Although there are differences in emphasis between researchers, most work adopting social exchange and structural network theory perspectives assumes exchange occurs through rational choice based largely on self-

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interest. It typically views social capital as an asset for the individual actor. Indeed, Burt (2000) describessocial capital as a metaphor for competitive advantage. In contrast, social capital research that draws on the concepts of community and culture emphasizes a different logic of action—less utilitarian and more oriented to mutual support and collective engagement (DiMaggio 1994; Adler and Heckscher 2006). This line of work tends to view social capital as the property of the group rather than the individual (Putnam 1993, 1995). As such, it can be a powerful enabler of inter- organizational relationships (Cooke and Morgan 1998). In their analysis of different systems of exchange, Biggart and Delbridge (2004) suggest this type can be described as communal exchange and it represents exchange based on social solidarity, shared identity, and bonds. In organizational terms it resembles the clan form of governance outlined by Ouchi (1980) and collaborative community recently described by Adler and Heckscher (2006). In the context of IOR, research showing the importance of professional ties and connections as the foundation for successful exchange is representative of this line of inquiry (Bouty 2000; Ferlie *et al*. 2005).

The fourth significant body of research that informs and incorporates much social capital research is economic sociology. Economic sociology seeks to broaden and deepen understanding of economic exchange by locating it in its wider social context. Swedberg and Granovetter (2001) identify three principles that underpin work in this tradition—one of which is core for social capital, the principle of embeddedness. Building from Polanyi (1944), embeddedness came to prominence through the influential work of Granovetter (1973, 1985) who argued that economic action is socially situated and cannot be explained adequately by either individual motives or institutional arrangements. Rather, action is embedded in ongoing systems of social relations that exert a significant influence on behaviour and performance. Granovetter (1992) distinguished between two important aspects of these social relations—the concrete personal relations that exist between specific people and the structures of these relations—and analysed the consequences of both for the production of trust in economic life. Both aspects continue to feature strongly in research on social capital, including work on IORs (Uzzi 1996, 1997; Rowley *et al*. 2000; McEvily and Marcus 2005; Hagedoorn 2006; see Dacin *et al*. 1999 for a comprehensive discussion of embeddedness).

Finally, it is evident that in adopting the concept social capital, scholars seek to focus on the value of social connections by describing them as capital. The classical economists identified land, labour, and physical capital as the

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three basic factors shaping economic growth. In the 1960s, neoclassical economists such as Schultz (1961) and Becker (1964) introduced the notion of human capital—arguing that a society's endowment of educated, trained, and healthy workers determined how productively the orthodox factors could be utilized. To physical and human capital, scholars recently added the term social capital to draw attention to the resources located in social networks and the potential returns on investments in social relations (Bourdieu 1986; Coleman 1988). There are several ways in which social capital resembles classical views of capital in that it is built over time, appropriable andconvertible. It can also act as a substitute for or a complement to other forms of capital. There are however important respects in which social capital is different and distinctive—most notably that it is embedded in the relations between people, rather than being owned by any single party. (For a more detailed discussion of the attributes of social capital as capital see Woolcock 1998; Adler and Kwon 2001; and Lin 2001.)

Forms of Social Capital

Nahapiet and Ghoshal (1998) identify three dimensions of social capital: the structural, relational, and cognitive dimensions. The structural dimension refers to the overall pattern and configuration of connections between actors and is represented particularly strongly in the influential work of Burt (1992, 2000, 2005). Supported by powerful network methods, structural perspectives constitute a robust and coherent body of work within social capital research, contributing several key concepts central to the field. In this tradition, researchers frequently make the distinction between bridging and bonding ties, the former focusing on the external connections of actors, the latter on the stronger, multiplex ties within groups. In his programme of research, Burt has placed particular emphasis on the value of bridging ties, repeatedly showing that brokers do better largely as a result of the improved vision and creativity that comes from the increased variety to which they are exposed. Brokers typically have networks characterized by structural holes, i.e. gaps between different clusters of actors. According to Burt, people on either side of a structural hole circulate in different flows of information. Thus the ‘value-potential of structural holes is that they separate non-redundant sources of information, sources that are more additive than overlapping’ (Burt 1995: 16). By contrast, network closure typically decreases variation in a group, reinforcing the status quo. He goes on to argue that by facilitating trust and collaborative alignment, closure may well be needed to deliver the value potential of brokerage.

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Relational social capital captures those dimensions which describe particular aspect of the relationships between actors, such as trust and friendship, shared norms, mutual obligations, identification, that influence behaviour (Coleman 1988). It represents a connectionist rather than structuralist approach to social networks (Borgatti and Foster 2003). While there is a substantial amount of work that demonstrates the value of relational social capital it is, as yet, less well organized into a coherent body of knowledge than research on the structural dimensions. In large part this reflects the different origins of relational constructs such as trust (McEvily *et al*. 2003; Bachman and Zaheer, this volume) and identity (Ashforth and Mael 1989; Abrams and Hogg 1990)—each of which is a substantial area of study in its own right. Nonetheless, the importance of the relational dimension is evident in IOR research (Uzzi 1996; Meeus *et al*. 2001; Singh and Mitchell 2005).

Finally, cognitive social capital is the representations, interpretations, and systems of meanings shared between actors and that enable or restrict their social exchange. This dimension reflects the idea that communities develop unique social and cognitive repertoires which both guide their interpretations of the world and influence their interactions with others differentially according to whether or not they share a common interpretive frame (Boland and Tenkasi 1995; Brown and Duguid 2001). Viewing groups as communities of knowing or communities of practice provides powerful insights into the ease or difficulty of communications between specialist and user groups, such as systems users and designers (Boland and Tenkasi 1995). Introduced by Nahapiet and Ghoshal (1998), the dimension of social capital thus far has received the least attention. However, it has been found to be important in a range of studies (Edelman *et al*. 2004; Newell *et al*. 2004; Liao and Welsch 2005), including recent work on Inter-organizational relations (Ferlie *et al*. 2005; Maurer and Ebers 2006).

Social Capital Effects

Lin (2001) offers four explanations as to why embedded resources in social networks enhance the outcomes of actions. These are information, influence, social credentials, and identity reinforcement (see also Sandefur and Laumann 1998).

First, the number, structure, and composition of contacts matter for the amounts and kinds of information an actor may receive. In particular, social capital affects the relevance, timeliness, and trustworthiness of the

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information available through social contacts, making it especially useful for activities such as job search, career progression, and early access to market opportunities (Burt 1992, 2005; Baker 2000). Second, social capital is an important shaper of power and influence. For example, Burt has consistently shown how the structure of relationships in which an actor is involved provides considerable degrees of freedom to those occupying brokerage positions whilst constraining those located in closed networks (Burt 2000, 2005). Third, Bourdieu describes social capital as ‘a “credential” which entitles them to credit, in the various senses of the word’ (Bourdieu 1986: 249). Thus an actor's set of social ties constitutes an important bank of social credentials—attesting to that actor's social standing and indicating the likely resources and support available to him or her. In the sphere of IOR, this aspect has been shown to be especially important for start-up businesses (Stuart *et al*. 1999; Meeus *et al*. 2001).

Finally, social relations play an important role in creating and reinforcing identity and social solidarity. For Sandefur and Laumann (1998), social solidarity obtains among two or more individuals when there exists a degree of mutual trust and commitment among them, thereby shaping the capacity for cooperative and collective action. This sense of mutual obligation through shared identity may mean that there are stronger connections between members of similar groups such asprofessional and occupational communities that cut across organizational boundaries than between different groups within the same formal organization (Brown and Duguid 2001). This has important implications for understanding patterns of exchange in IORs (see e.g. Ferlie *et al*. 2005).

Research to date has tended to emphasize the positive benefits of social capital. However, there is plenty of evidence that social capital can translate into risks and social liability (Portes 1998; Gabbay and Leenders 1999). First, social relationships may constrain the behaviour of actors, impeding the attainment of goals. For example, strong social norms and high levels of cohesion can create group-think and over-conformity—in other words, the ties that bind may become the ties that blind (Powell and Smith Doerr 1994). Portes and Sensenbrenner (1993) found that the greater the social capital produced by bounded solidarity and community controls, the greater the demands placed on successful entrepreneurs and the more extensive the restrictions on individual behaviour in several ethnic groups. Second, individual and collective actors may be affected by unfavourable relationships, such as dislike and distrust, in ways that have important negative consequences for both task and socio-emotional outcomes. Indeed

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Labianca and Brass (2006) argue that in some circumstances negative relationships may have more explanatory power than positive relationships. Third, as I discuss later in reviewing findings of contingency research, the benefits of social capital in some contexts may be liabilities in another. For example, the solidarity benefits of sub-groups may lead to the fragmentation of the larger collective (Adler and Kwon 2002).

Finally, two further issues form an important part of the continuing debate about the effects of social capital. The first focuses on who benefits from social capital. I have already noted that some researchers regard social capital as a resource for the individual, assessing the ways in which personal networks provide individual benefits and advantage (Burt 2000; Lin 2001). Others draw attention to the social capital of communities though still consider the benefits to be primarily individual. For example, for Coleman, community ties are important—but for the benefits they yield to individuals, such as the ability to walk the streets at night without fear (Coleman 1990). However, for Putnam (1993, 1995) and for Fukuyama (1995) communal social capital is a resource for the community or nation—a public good available to the many. These ideas highlight the ways in which the wider institutional context may affect the creation and operation of IORs (Saxenian 1994; Cooke and Morgan 1998).

The second issue centres on the question of how far these effects come about by design or by accident—it thus concerns the antecedents of social capital. For Coleman (1998), social capital is essentially a by-product of activities engaged in for other purposes whereas for Bourdieu (1986), social capital can and should be deliberately developed and enhanced. Recent IOR research provides support for both views—that social capital is both emergent and can also be encouraged (Singh and Mitchell 2005; Maurer and Ebers 2006; Oh *et al*. 2006).

Social Capital and IORs

There is now a substantial and growing body of research examining the role of social capital in IORs. For this chapter I have drawn widely from this literature, including both theoretical and empirical contributions, work on a variety of different types of IOR, and studies that consider multiple levels of analysis. Taking exchange that crosses organizational boundaries as the core issue, I include a range of institutional contexts that impact IORs—including wider social and institutional contexts. My objective is to consider the consequences of different social capital configurations for performance in and of IORs.

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In this section I review recent findings in this exciting field and the light they are shedding on two questions at the centre of interest for those concerned with understanding and taking actions in around IORs—specifically, how do we explain the formation of Inter-organizational entities (IOEs) such as alliances and joint ventures? What factors influence the performance of IOEs? I also believe that studies of IORs are contributing in important ways to research on social capital, particularly the connections between different levels of analysis and the evolution and dynamics of social capital through time. Given the space available, this review is of necessity illustrative rather than comprehensive.

Social Capital in the Formation of IORs

This section reviews recent findings demonstrating the role of social capital in the formation of IOEs and IORs by considering four questions: who gets involved in IOEs, how and why are partners selected, how do relationships evolve over time, and finally, what other factors are influential in relationship formation?

First, who engages in IOEs? There is now a substantial amount of evidence that networking begets networking. That is, those who are already active in some form of network, as individuals or organizations, are more likely to become involved in other networks, including IOEs. For example, BarNir and Smith (2002) found that the overall number of alliances a small firm is engaged in is explained by three network properties of their senior executives: their propensity to network, the strength of their ties, and the prestige of network members. Eisenhardt and Schoonhoven (1996) reported that top management team social capital translates directly into organizational alliances. Experience of alliances is a good predictor of future alliance activity (Gulati 1999; Chung *et al*. 2000). More specifically, network resources, as indicated by a firm's location in the interfirm network of prior alliances in which they are embedded, and also the position of their partners, are significant predictors of the frequency with which firms enter new alliances (Gulati 1999). In general, firms that have more experience of working with other organizations aremore likely to form new and more diverse network ties and to become dominant players in networks (Powell *et al*. 1996).

Second, how and why are partners selected? The evidence shows that firms are more likely to form relationships with those organizations with which they already have a connection (Walker *et al*. 1997; Ahuja 2000*a*). This may

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reflect several factors including the increased trust and openness that comes with experience (Gulati 1995; Uzzi 1996, 1997). For example, prior ties seem to be particularly important under conditions of uncertainty (Gulati 1995) and where it is difficult to measure trust a priori (Zaheer *et al*. 1998). But it may also reflect the greater opportunities that arise as a consequence of such connections. In an empirical study designed to assess the relative importance of different tenure-based influences on the formation of inter-firm linkages, including the opportunities arising from ties, Ahuja (2000*b*) found that different types of capital play different roles in the formation of IOEs. Both technical and commercial capital are important influences on the attractiveness of potential partners. Linkage formation increases in line with social capital—with social capital being more important than technical capital but less important than commercial capital in the formation of such linkages. Interestingly, social capital was a good predictor of joint venture formation but not of technology agreement formation, perhaps because of the more focused and specific needs of the latter.

Existing relationships can, however, become a constraint on network members leading to inertia and resistance to change (Uzzi and Spiro 2005; Hagedoorn 2006; Kim *et al*. 2006). The evidence suggests that over time, effective organizations seek a mix of relationships adding new network connections and choosing to manage existing ties in different ways (Koka and Prescott 2002; Maurer and Ebers 2006).

Other factors are also influential in the selection of IOE partners (see Dacin *et al*., this volume). In particular, there is evidence that Inter-organizational collaborations are more likely if partners have similar status and power. Chung, Singh, and Lee (2000) found that investment banks were more likely to form syndicates to underwrite corporate stock offerings if their statuses were similar. However, the dynamics of status similarity are complex as demonstrated by Gulati and Gargiulo (1999), who found that two firms were likely to form a strategic alliance if both were central in a relevant Inter-organizational network of alliances but not if they were both peripheral.

Third, how do relationships evolve? The pattern of interfirm relationships, and their dynamics over time, have important consequences not only for the firms themselves but also for the evolution of entire industries and the pattern of collaboration and competition therein. For example, again focusing on the opportunities provided by Inter-organizational ties, Powell *et al*. (2005) show how the formation, dissolution, and rewiring of network ties over a twelve-year period shaped the opportunity structure of biotechnology. In

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particular, those organizations with diverse portfolios of well-connected collaborators were found in the most cohesive, central network positions and had the most influence in shaping the evolution of thisparticular organizational field, in which the competitive dynamics are significantly shaped by clusters of IOEs. Powell's work is a particularly good illustration of the interrelationships between different types of embeddedness as they influence both the formation of partnerships and their reconfiguration through time. (See also Koka *et al*. 2006 on the evolution of interfirm networks.)

Finally, what other factors are influential in network formation? First, as noted earlier, wider cultural, institutional, and historical factors are important in that they shape the configuration of communal social capital that can affect the development and sustenance of IOEs over time—including those between firms and wider social agencies (Saxenian 1994; Cooke and Morgan 1998; Paredo and Chrisman 2006). Second, brokers play an important role in enabling and sustaining IORs. For example, Human and Provan (2000) show how network brokers and administrators helped to build networks and network credibility among small manufacturing organizations in the US wood products industry. Similarly, Starkey, Barnatt, and Tempest (2000) demonstrate the importance of brokers that connect programme buyers to programme sellers in the UK television industry. These brokers play a vital role in drawing together what they describe as ‘latent organization’, groupings of distributed individuals and teams that persist through time and are periodically reconnected for recurrent projects. Honig and Lampel (2000) consider the part played by ‘hub organizations’ whose task is to create the conditions that facilitate agreement by inducing trust and reducing transaction costs between Inter-organizational network members. Dhanaraj and Parkhe (2006) similarly identify the orchestrating processes undertaken by hub firms acting as intermediaries in loosely coupled networks where hierarchical authority is absent (see also Venkatraman and Lee 2004).

Social Capital and the Performance of IORs

Explaining the connections between Inter-organizational collaboration and pefor- mance is complex as has been shown elsewhere in this volume. (See also Dyer and Singh 1998; Singh and Mitchell 2005; Lavie 2006.) It becomes even more so when trying to identify the specific contribution of social capital. Among the questions to be addressed are first, those relating to any consideration of organizational performance, such as which measures are appropriate and what is the direction of causality between cooperation

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and performance (Singh and Mitchell 2005)? Second are those questions that are more specific to the links between social capital and performance. These include (1) at what level are the performance effects manifest—the individual firm, the IOE, or both and who gains? (2) which dimensions of social capital are important and in what context, including over time? Research is beginning to address these questions though we are still some way from having comprehensive answers.

There is now substantial evidence that social capital is an important factor affecting performance and this applies to performance at the level of both the firm and the IOE. For firms, investment in relational capital sets sustained performers apart from their peers (Dyer and Singh 1998; Ahuja 2000*b*; Gulati and Kletter 2005). Baum, Calabrese, and Silverman (2000) showed that the composition of alliance networks explains differences in the performance of start-up firms in biotechnology. In a strong line of research on IORs beginning with the New York City apparel industry, Uzzi (1996, 1997; Uzzi and Gillespie 2002; Uzzi and Spiro 2005) has shown that arm's-length and embedded ties are distinct forms of exchange and that embedded ties can produce competitive advantages that are difficult to emulate with arm's-length relationships. These ties set expectations for trust and reciprocity facilitating pooled resources and cooperation. As a result, embeddedness increases the economic effectiveness of firms along a number of dimensions that are crucial to competitiveness in a global economy—organizational learning, risk-sharing, and speed to market (see also Stuart *et al*. 1999). However, the findings suggest that social capital in the form of IOE embeddedness only yields positive returns up to a threshold point, after which the returns to embeddedness become negative (Uzzi 1996).

The links between social capital and performance are also evident at the level of the IOE. Powell, Koput, and Smith-Doerr (1996) found that the locus of innovation in the biotechnology industry was the network—not the individual firm. Patents were usually filed by a large number of individuals working for a range of different organizations, including pharmaceutical companies, biotechnology firms, and universities. As a result, the authors argue that biotechnology firms that are unable to create or position themselves in these learning networks are at a competitive disadvantage (see also Nooteboom, this volume). Von Hippel (1988) makes a similar argument in respect of networks of manufacturers, suppliers, and users.

Research shows that all three dimensions of social capital can affect the performance of IOEs. First, network position has consistently emerged as an

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important influence on firm performance (Podolny and Stuart 1995; Ahuja 2000*a*). Firms with superior network structure, specifically networks with structural holes, are better positioned to exploit their internal capabilities (Zaheer and Bell 2005) and to obtain preferential access to important external resources (Venkatraman and Lee 2004). In addition, Bae and Garguilo (2004) show how the structure of an organization's alliance network can be an efficient tool for stablizing exchanges with powerful partners. However, as in other areas of social capital research, debate continues about the effects of strong and weak ties and brokerage and network cohesion on performance in IORs. For example, Rowley, Behrens, and Krackhardt (2000) found that strong ties increased performance in the relatively stable steel industry, whereas weak ties increased performance in the more dynamic semiconductor industry. Soda, Usai, and Zaheer (2004) have shown that in the Italian television production industry, current structural holes rather than past ones, but past closure rather thancurrent closure, help current network performance. Thus both structural holes and closure are important but at different points in time.

Second, relational attributes also play a significant role in the outcomes of IORs. Larson (1992) highlighted the importance of norms of trust and reciprocity as integrating and controlling devices that facilitate learning among successful entrepreneurial networks. Zaheer, McEvilly, and Perrone (1998) make the distinction between interpersonal trust between two boundary spanners and interorga- nizational trust where a boundary spanner on one organization trusts the other organization—but not a particular individual. Although ties may originate because of interpersonal trust, the success of Inter-organizational cooperation depends on Inter-organizational trust. More specifically, independent of interpersonal trust, a buyer's trust in a supplier organization reduced negotiation costs and conflict and was associated with better supplier performance.

A particularly strong theme in research on the relationship between social capital, IOEs, and performance is the role of social capital in establishing reputation since actors’ reputations are constructed in part from the identities of their associates. This is especially important where the quality of potential partners is difficult to establish or unknown—as in the early stages of company start-ups, entrepreneurial ventures, and areas of new technology (Stuart *et al*. 1999). In such contexts, where there is little direct experience or track record for actors seeking support, the prominence and status of their associates and exchange partners provide proxy measures of quality and potential for success. This is in line with the idea of trust transferability in

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which initial trust impressions are based in a source other than the trustee (McEvily *et al*. 2003). ‘More specifically, a third party confers to each person a definition of the other as trustworthy. Each accepts or rejects this definition …largely on the basis of his trust for the third party's judgement’ (Strub and Priest 1976).

Finally, cognitive social capital has been shown to be both an enabler and impediment to the performance of IORs. In a study of the UK health care sector, Ferlie *et al*. (2005) found that both social and cognitive factors accounted for the differential spread of evidence-based medical innovations in multi-professional organizations. In those cases where innovations spread effectively, professionals had a foundation of shared identity and values that encouraged and enabled their take-up of new treatments. By contrast, the cases in which innovations failed to spread were characterized by both social and cognitive or epistemological boundaries between professionals groups. The former frequently involved disputes concerning social and role boundaries between doctors and nurses, the latter different assumptions about what constitutes appropriate evidence held by different professional groups.

A central consideration in both social capital research and in studies of business performance is the role of resources as a source of competitive advantage, particularly information and knowledge. The contribution of the resource-based view as an explanation of performance is well established in strategic management(Wernerfelt 1984; Barney 1991). Until recently, the majority of work focused on the importance of resources and capabilities internal to the firm. With the spread and increasing strategic importance of IORs, whether in alliances or joint ventures, outsourcing or supply chain relationships, attention is now shifting to analyse resource flows in these Inter-organizational arrangements. Many IOEs are established so that firms can benefit from resources which they do not own but access to which can be arranged through interfirm agreements (Mowery *et al*. 1996; Dyer and Singh 1998; Lavie 2006).

The importance of knowledge as a key resource underpinning the competitiveness and performance of firms is now well established (Grant 1996) and its importance applies both within and between firms and organizations (Eisenhardt and Santos 2002). Just as research within organizations consistently shows that social capital yields important information benefits (Tsai and Ghoshal 1998; Hansen 1999; Burt 2000, 2005;

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Tsai 2001) a similar relationship is regularly found in studies of IORs (Powell *et al*. 1996; Bouty 2000; Inkpen and Tsang 2005).

However, the relationship between social capital and information benefits is complex. First, different types of information may be important in different settings. Defining social capital in terms of the information benefits available to a firm through its strategic alliances, Koka and Prescott (2002) suggest that firms in the global steel industry potentially benefit from three aspects of information— information volume, diversity, and richness. In practice, their results indicate that information volume and information diversity are significantly and positively related to firm performance, while the pattern for information richness is more variable, and can even be negative. Moreover, it appears that the ability of firms to appropriate the potential value of these information benefits varies according to the structure of alliances and the ways in which they are managed.

Second, different dimensions of social capital may be systematically related to the exchange of different information types. Within organizations, structural social capital is a particularly potent explanation of the transfer of explicit and relatively well-understood information and knowledge, whereas cognitive and relational social capital are more influential for complex, uncertain, or tacit knowledge (Hansen 1999). A similar pattern emerges in IORs (McEvily and Marcus 2005). In the research discussed earlier, Uzzi (1996, 1997) shows how social relations promote fine-grained information exchange enabling the sharing of more proprietary and tacit information than is possible in more arm's-length ties. They also promote economies of time through the early identification of market opportunities and the ability to act upon them speedily.

Third, taking all three dimensions of social capital identified by Nahapiet and Ghoshal (1998), Inkpen and Tsang (2005) show how the dimensions affect the transfer of knowledge between network members in three different types of institutional setting: intra-corporate networks, strategic alliances, and industrial districts. Moreover, they suggest that the three network types involve different dynamicsbetween organizational and individual social capital, with the former taking priority in strategic alliances whereas the reverse is true in industrial districts. For intra- corporate networks, they hypothesize that social capital that impacts knowledge transfer begins at an organizational level and is subsequently enhanced by social capital developments at the individual level. This line of reasoning points

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to the growing importance of another theme in IOR research-contingency approaches.

Towards a Contingency Perspective on the Role of Social Capital in IORs

In the last few years, research on social capital within organizations has increasingly moved towards contingency arguments (Seibert *et al*. 2001). For example, in respect of information and knowledge transfer, Hansen (1999) and Moran (2005) found that structural embeddedness plays a strong role in explaining performance in more routine, execution-oriented tasks whereas relational embeddedness plays a strong role in explaining new, innovation-oriented tasks.

In a finding reminiscent of Burt's (2005) observations on social capital within the firm, Uzzi (1996, 1997) suggests that for performance, optimal Inter-organizational networks comprise a mix of both embedded and arm's-length ties. In subsequent work in creative industries, Uzzi and Spiro (2005) similarly found that small world networks, i.e. those that are both highly locally clustered and with a short path length, are an important influence on performance, in large part because they shape levels of connectivity and cohesion among network actors. However, these small world networks increase performance up to a threshold after which the positive effects are reversed and this pattern applies for both individual products and for the Broadway industry as a whole.

As understanding of both social capital and IORs develops, there is mounting evidence that the precise relationships between aspects of social capital and the functioning and effectiveness of IORs are complex and frequently contingent. I have already drawn attention to several examples of this. Thus the greater the uncertainty about the quality of new ventures the more outside evaluators rely on the prominence of affiliates to draw on inferences about quality (Stuart *et al*. 1999; Meeus *et al*. 2001). Individual-level and organizational-level social capital may differ in their impact according to the type of network relationships (Inkpen and Tsang 2005). The configuration of social capital in one context, such as business start-ups, may inhibit performance in another, such as business development (Maurer and Ebers 2006). There are curvilinear relationships between the degree and strength of network ties and performance in IORs (Uzzi 2006, 2007). Strong ties appear to increase performance in relatively stable industries, whereas weak ties increase performance in relatively dynamic industries (Rowley *et al*. 2000). Both structural holes and closure are important but at different points

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in time (Soda *et al*. 2004). Gimeno(2004) found that the type of competitive embeddedness influences partner selection and the types of alliance formed. Specifically, intra-network competition is favoured when alliances by rivals involve low co-specialization but it is avoided when alliances by rivals are highly co-specialized. Wider cultural factors, such as nationality, also mediate the relationship between particular resource benefits and the performance of IORs (Koka and Prescott 2002).

We can expect future work to identify more of these contingency factors that shape the relationship between social capital and the formation and effectiveness of IORs. As part of this agenda, studies may well do more to illuminate the as yet under-explored issue of the consequences of firms with different configurations of social capital.

The Contribution of IOR Research to our Understanding of Social Capital

The main thrust of this chapter is that social capital provides a valuable lens for understanding the formation and performance of IORs. At the same time, I believe that research on IORs is contributing to our understanding of social capital in important ways. For example, as noted at the beginning of this chapter, research on Inter-organizational networks covers a wide array of organizations and enables the comparison of patterns across these different types. One of the striking characteristics of IOR research is how much of it focuses on start-up business and small and medium-sized enterprises, institutions that are frequently underrepresented in other areas of organizational and strategic management research. There are two particular aspects of IOR research that I review here: first, how IOR studies elucidate the dynamics and evolution of social capital and second, what they demonstrate about the role of social capital at different levels of analysis.

The Evolution of Social Capital in IORs

One of the continuing challenges in the study of social capital—its creation and consequences—is correctly identifying the direction of causality. Several writers have noted that there may be reciprocal relationships between the factors involved, for example, trust begets cooperation and cooperation begets trust (Nahapiet and Ghoshal 1998). Cohen and Fields (1999) have explored this issue in trying to explain the relative success of Silicon Valley as a region characterized by many successful IORs. They challenge the Putnam (1993, 1995) and Saxenian (1994) philosophy thatregions and institutions become prosperous and successful because they are civic, i.e. it is the

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level of trust that exists in the society that shapes collaborative activity and thus economic performance. Rather they maintain that Silicon Valley is an economic space built on social capital but on trust established through performance- driven collaboration rather than general social characteristics. Specifically the main networks of social capital are not networks of civic engagement but focused productive interactions among a wide range of institutions, instruments, and entities. In other words, Inter-organizational collaboration leads to trust rather than the other way round.

In several areas of management research, scholars have been calling for a shift from predominantly static to dynamic models of organization. Perhaps because IOEs are frequently assumed to be more temporary or unstable than individual organizations, researchers have focused on the evolution and dynamics of these arrangements and in so doing, have highlighted important aspects of change in social capital (Powell *et al*. 1996; Kim *et al*. 2006). Maurer and Ebers's (2006) study is a case in point. They note that Inter-organizational social capital can be both a benefit and a source of inertia for firms, particularly through relational and cognitive ‘lock-in’. Specifically, network cohesion and closure can be highly productive in the start-up phase of new biotechnology firms but a significant constraint as business develops. In this stage firms need to maintain the benefits of existing ties whilst expanding their networks and strengthening connections to different players. Maurer and Ebers identify three organizational mechanisms that enable successful firms to achieve this: horizontal differentiation, vertical differentiation, and organizational integration of relationship management. Their study is particularly interesting since it demonstrates that by deliberate and careful actions, organizations can effectively manage their social capital and change its configuration through time. Their work also throws light on the second topic I wish to consider here— the interrelationship between different levels of analysis in the functioning of social capital.

Levels of Analysis, Social Capital, and IORs

Research to date shows that social capital at different levels of analysis plays an important role in the formation and effectiveness of IORs. This includes social capital at the individual (Liao and Welsch 2005), group (Oh *et al*. 2006), organizational (Wathne *et al*. 2001; McEvily and Marcus 2005), professional community (Bouty 2000; Ferlie *et al*. 2005), and wider societal levels (Swan *et al*. 2005).

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Just as scholars have been calling on their colleagues to pay more attention to organizational and Inter-organizational dynamics, they have similarly been encouraging greater emphasis on studies which consider the interplay between different levels of analysis (Ibarra *et al*. 2005). Research in this vein has demonstrated thatpropensity to network at the individual level affects the scope of networking activity at the firm level (BarNir and Smith 2002) and that the external ties of executive team members influence organization-level strategy (Geletkanycz and Hambrick 1997). The relative influence of individual and organizational social capital may vary according to network type (Inkpen and Tsang 2005). Indeed, in some contexts, it is professional and community ties and boundaries that influence the acquisition and exploitation of resources, especially knowledge and know-how by firms (Bouty 2000; Ferlie *et al*. 2005). Hagedoorn (2006) has recently highlighted the importance of a cross-level understanding of the embeddedness of interfirm partnering in the formation of new partnerships. Specifically, he identifies the separate and interaction effects of dyadic, interorganizational, and environmental embeddedness that affect the behaviour of companies. The scope of social capital as a construct that can be applied across levels of analysis suggests that it offers considerable promise for deepening understanding of these multiple-level relationships.

The Role of Social Capital in IORs: Conclusions and the Way Ahead

Social capital is an expanding field of study that is making an important contribution in several areas of management research. Its core proposition —that some people and organizations do better because through their connections and relationships they are better able to access and benefit from a range of opportunities and resources that impact performance—aligns well with central themes in several subject areas. These include the resource and knowledge-based view of the firm in strategy, relational marketing, network organizational design, employee engagement, and, central to this volume, Inter-organizational relations. The significance of social connections has long been recognized, but what we have now is a language, theoretical insights, and methods to map these connections in more detail than before. What research on social capital provides is a relational theory that integrates several different facets of inter-actor relations and which can be applied across multiple levels of analysis. The substantial body of research reviewed here demonstrates that by adopting a social capital perspective we can gain important insights into the formation, operations, and performance of a wide range of IORs.

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However, we still have much to learn in this relatively new area of work. There remain important questions to be answered both about social capital *per se* and its role in IORs.

First, the lack of a shared definition of social capital remains an important and acknowledged constraint on progress in this area (Schuller *et al*. 1992; Portes 1998;Woolcock 1998; Adler and Kwon 2002). However, the main approaches within the field are becoming clearer. What we need to ensure is that future work is explicit about its assumptions and positioning so as to enable both the accumulation of knowledge and the development of insights that may resolve some of the differences within the area. This is especially important in respect of the three dimensions of social capital and their interrelations. Second, the powerful methods of network analysis have been an important factor contributing to the relative dominance of structural perspectives on social capital. We now need to redress the balance by developing equally powerful and robust methods and measures for studying the relational and cognitive dimensions.

Third, we have much to learn about building social capital. There remains the enduring question of how far and in what circumstances can social capital be deliberately developed or at least encouraged. Are some dimensions more open to formal development than others? Indeed, when can social capital be built rather than 'borrowed' from existing stocks? Are existing stocks fungible and who has and can have access to them? These questions apply to social capital at all levels—from the individual to the community and including IORs.

Fourth, there are many important and intriguing issues still to be explored in work on social capital and IORs. For example, what are the 'cultural' aspects of social capital? If organizations from two very distinct cultures form a collaborative IOE, can they rely on distinct forms of social capital? If so, how does this work? If not, why not? More generally, how do the different configurations of social capital available to the different parties in an IOE impact each party and the IOE itself? As regards performance, we need to understand more about the interplay between social capital and performance at the level of the firm or organization and at the level of the IOE. In addition, we have much to discover about the implications for social capital of the dissolution of IOEs.

Finally, given that one of the central issues in IORs is the management of exchange across boundaries, future research that deepens our understanding of the complex nature of organizational and Inter-

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organizational boundaries in IORs (Santos and Eisenhardt 2005) and the processes for effective boundary spanning are likely to be increasingly important.

As we reflect on the development of organization studies over the last fifty years or so, we can see a gradual transition from the emergence of organizations as an entity to be studied in their own right, through an interest in organization and environment, to a growing recognition that a significant part of that environment is made up of other organizations (Scott 2004). The huge expansion of inter- organizational activity is part of this evolution and a vital focus for research. However, perhaps we are at another transition point. While it is now widely accepted that much value creation takes place between organizations, there has been growing recognition that these exchanges are more than firm to firm, organization to organization. Research has drawn attention to the importance of connections,exchange, and interaction across a wide range of different groupings—firms, organizations, institutions, professions, communities, and networks. New ways of doing business, for example through social networking, communities of practice, open sourcing, and networked innovation, are raising fundamental questions about our understanding of organizations and organizing. All point to the increasing importance of connection and collaboration but across more porous boundaries, in more loosely coupled arrangements that are more emergent, self-organizing, and temporary (Nahapiet forthcoming). These developments will have profound implications for the workings of IORs.

The central challenge is to understand how order and value are created out of the actions of diverse actors within, between, and beyond conventional organizational boundaries. In this context, I suggest social capital is likely to remain a powerful lens enabling us to look again at organizing—not just organizations—bridging both conceptually and practically into the new world of value creation for the twenty- first century.

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Learning and Innovation in Inter-organizational Relationships

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Abstract and Keywords

The purpose of this article is to survey this complex field of alliances and networks designed to help produce innovation, without claiming to be exhaustive. Here, the emphasis is placed on a coherent causal analysis that integrates at least some of the many factors that have been found to play a role in innovation and learning in inter-organizational relationships. In particular, this article looks at two issues: competence, which is clearly central in innovation and learning (which is all about developing competence), and governance, i.e. the management of relational risks. This article employs multiple perspectives, from economics, sociology, and cognitive science. Economics aids in dealing with considerations of efficiency; sociology for interaction, and cognitive science because learning is, after all, the central issue.

alliances, networks, innovation, inter-organizational relationships, competence, governance

Introduction

Increasingly, it has been recognized that firms need outside relationships for innovation in the development of new products, production processes, markets, or forms of organization; and for learning in the development of new competencies. That is the subject of the present chapter. The subject is covered by a large literature (Lundvall 1988; Kogut and Zander 1992; Nooteboom 1992; Hagedoorn 1993; Hagedoorn and Schakenraad 1994; Nooteboom 1999; Ahuja 2000; Rowley *et al*. 2000; Hagedoorn and Duysters

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2002). The basic idea that firms need to open up to outside relationships to innovate, which goes back at least as far as Lundvall (1988), has recently received a new buzz-word label: ‘open innovation’ (Chesbrough 2003).

In innovation, it is useful to distinguish between exploitation, with incremental improvements on existing dominant designs, and exploration, where radicalbreakthroughs develop into new dominant designs (March 1991). On the firm level, exploration, for example, may be operationalized as patents in patent classes in which the firm previously did not have patents (e.g. in Nooteboom *et al*. 2007). A fundamental, key question is how exploitation may lead to exploration (Nooteboom 2000).

In dealing with external conditions for innovation, Inter-organizational relations such as alliances are relevant, but so, too, are national innovation systems (NIS), and location (‘externalities’) in regional innovation systems (RIS). There are large literatures on both topics, but these will not be included in the present chapter, which focuses on interfirm relationships. Such issues are discussed by Lazerson and Lorenzoni, Geddes, and Yeung, this volume. Inter-firm relationships for learning and innovation clearly go beyond Inter-organizational dyads, to include network effects; i.e. effects of the structure and strength of ties between firms, and interactions between structure and strength. This is included in the present chapter, and on that subject there is also an extensive literature (e.g. Granovetter 1973; Burt 1992; Powell *et al*. 1996; Uzzi 1996, 1997; Oliver and Ebers 1998; Ebers 1999; Ahuja 2000; Rowley *et al*. 2000; Rothaermel 2001; Beerkens 2004; and Nooteboom 2004*a*).

The purpose of the present chapter is to survey this complex field of alliances and networks designed to help produce innovation, without claiming to be exhaustive. Emphasis is placed on a coherent causal analysis that integrates at least some of the many factors that have been found to play a role in innovation and learning in IORs. In particular, I look at two issues: competence, which is clearly central in innovation and learning (which is all about developing competence), and governance, i.e. the management of relational risks (Williamson 1999; Nooteboom 2004*b*). For example, the role of network structure cannot be properly understood by looking only at either competence or governance. Density of ties, for example, may obstruct the flexibility and variety needed for learning, but may also be needed for trust, reputation, or shared norms related to governance.

The chapter employs multiple perspectives, from economics, sociology, and cognitive science. Economics aids in dealing with considerations of

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efficiency; sociology for interaction, and cognitive science because learning is, after all, the central issue.

The chapter proceeds as follows. First, I summarize the constructivist, interactionist view of knowledge employed in this chapter. That is a crucial step. According to that view, cognition is based on categories that are constructed in interaction with the world, particularly interactions between people. Second, this chapter looks at the implications for the firm, from the perspective of both competence and governance. Third, this chapter looks at the governance side of relations, in a review of relational risks and instruments that can be employed to manage them. Fourth, this chapter analyses in more detail the sources of novelty in IORs, in particular the role of variety and cognitive distance, as both an opportunity, for competence,and a problem, for both competence and governance. Here, I also analyse the effects of density and strength of ties in innovation networks, as they relate to both competence and governance. The chapter closes with an indication of lines for future research.

A Cognitive View of Organizations and IORs

Since organizational learning pertains to cognition, it stands to reason that we should look to cognitive science for requisite insight. Here, a possible misunderstanding of terminology should be eliminated from the start. In this chapter, the terms ‘knowledge’ and ‘cognition’ are intended to have a broad meaning, going beyond rational calculation. They denote a wide range of mental activity, including proprioception (grasp, touch, grip, etc.), perception, sense making, categorization, inference, value judgements, and emotions.

Concerning competence and knowledge, I adopt a ‘situated action’, ‘constructivist’ view of cognition, as most authors do in the literature on organizational cognition and learning (for surveys, see Hedberg 1981; Cohen and Sproull 1996; Meindl *et al*. 1998). ‘Situated action’ implies that knowledge and meaning are embedded in specific contexts of actions that yield background knowledge as part of absorptive capacity, which cannot be fully articulated and always retains a ‘tacit dimension’ (Polanyi 1962). According to social constructivist views of knowledge, people construct their cognitive categories, or mental models, by which they perceive, interpret, and evaluate phenomena *in interaction* with their physical and, especially, their social environment.

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The resulting mental frameworks constitute ‘absorptive capacity’ (Cohen and Levinthal 1990). People can turn information into knowledge only by assimilating it into those frameworks, and thereby shaping and moulding it. Consequently, to the extent that people have developed their cognition in different environments or conditions, they interpret, understand, and evaluate the world differently (Berger and Luckmann 1967). As a result, there is greater or lesser ‘cognitive distance’ between people (Nooteboom 1992, 1999).

Economic theories of organization, in particular transaction cost economics (TCE), look at organizations as systems of governance, designed to reduce transaction costs by means of incentives, monitoring, and control. However, professional work requires considerable autonomy for its execution and is hard for managers to monitor and evaluate. Rapid innovation increases uncertainty of contingencies and makes formal governance, especially governance by contract, difficult tospecify, which increases the need for collaboration on the basis of personal trust. If specification of detailed contracts is nevertheless undertaken, it threatens to form a strait-jacket that constrains the scope for innovation. Furthermore, the attempt to use contracts to constrain opportunism tends to evoke mistrust that is met by mistrust, while in view of the uncertainties associated with innovation processes, there is a need to use trust more than contract.

Beyond governance, the cognitive view contains implications when discussing competence. If the situated action view of competence is true, then canonical rules, i.e. all-encompassing and codified rules for executing work, are an illusion, since they can never cover the richness and variability of situated practice. The latter requires informal improvization and workarounds that have a large tacit component that cannot be included in codification of rules, as recognized in the literature on communities of practice (COP) (Brown and Duguid 1991). One proof of this lies in the fact that ‘work to rule’ is a form of sabotage.

Relying on the perspective of embodied cognition, the view in this chapter is that organization functions primarily as a cognitive ‘focusing device’, for reasons of both competence and governance. In order to achieve a specific joint goal, the categories of thought (of perception, interpretation, and value judgement) of the people involved must to some extent be aligned (Kogut and Zander 1992; Nooteboom 1992, 2000). Alignment means that cognitive distance must be limited, to a greater or lesser extent.

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The main purpose of organizational focus in learning efforts, as well as in the pursuit of innovation, is to reduce cognitive distance in order to achieve a sufficient alignment of mental categories, to understand one another, utilize complementary capabilities, and achieve a common goal. Note that, given the wide notion of cognition used here, focus has perceptual, intellectual, and normative content. It includes views of how people 'deal with each other around here'.

To achieve such focus, organizations develop their own specialized semiotic systems, in language, symbols, metaphors, myths, and rituals. This is what we call organizational culture. This differs between organizations to the extent that they have different goals and have accumulated different experiences, in different industries, technologies, and markets.

Organizational culture incorporates fundamental views and intuitions regarding the relation between the firm and its environment ('locus of control': is the firm master or victim of its environment?), attitude to risk, the nature of knowledge (objective or constructed), the nature of man (loyal or self-interested), and of relations between people (rivalrous or collaborative), which inform the content and the processes of strategy, organizational structure, and styles of decision-making and coordination (Schein 1985).

Organizational focus also has functions related to selection and adaptation. In selection an organization selects people through recruitment, but often on the basis of self-selection of people who join the organization because they feel an affinity foror with it. Organizational focus in adaptation relates to socialization of people new to the firm, and their training.

Note that the notion of organizational focus does not entail the need for people to agree on everything, or see everything the same way. Indeed, such lack of diversity would prevent both division of labour and innovation within the firm. As discussed in Nooteboom (1999), there is a trade-off between cognitive distance, needed for variety and novelty of cognition, and cognitive proximity, needed for mutual understanding and agreement. In fact, different people in a firm, to a greater or lesser extent, will introduce elements of novelty from their outside lives and experience, and this is a source of both error and innovation (DiMaggio 1997). Nevertheless, there are some things they have to agree on, and some views, often tacit, that they need to share, related to goals, norms, values, standards, outputs, competencies, and ways of doing things.

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An implication of the notion of a firm as a focusing device is that the need to achieve a focus entails a risk of myopia: relevant threats and opportunities to the firm are not perceived. To compensate for this risk, people and firms need complementary sources of outside intelligence, to utilize ‘external economy of cognitive scope’ (Nooteboom 1992). This yields a new perspective on Inter-organizational relationships, in addition to the usual considerations, developed in the alliance literature. This new perspective is consonant with the notion of double embeddedness: of minds in organization, and organizations in outside networks. It also fits well with the prevalent idea in the literature on innovation systems that innovation derives primarily from interaction between firms (Lundvall 1988).

Concerning the boundaries of the firm, the cognitive view yields a prediction that is the opposite of that of classical transaction cost economics, and which is particularly relevant in innovation. With increasing uncertainty, in terms of volatility of technology and markets, firms should not integrate activities more, as transaction cost theory predicts, but less, because the need to utilize outside complementary cognition is greater. The argument from TCE was that under uncertainty one needs the greater power of management by fiat within a firm, to monitor behaviour and resolve conflicts. Here, the counter-argument is that given the volatility of innovation, the risk of organizational myopia is greater and hence there is a greater need for complementary outside cognition, with ‘external economy of cognitive scope’. The prediction of less rather than more integration under uncertainties of innovation has been confirmed empirically by Colombo and Garrone (1998), who found that in technologically volatile industries, as measured by patent intensity, the likelihood of alliances rather than mergers and acquisitions is higher than in the absence of such volatility.

A discussion of the implications of cognitive theory for the size of the firm, and for differences between large and small firms, is beyond the scope of the present chapter.

Relational Risk

Even here, where the focus is on competence in the study of learning and innovation in IORs, issues of governance, particularly those related to relational risk, cannot be ignored, because innovation has implications for forms of governance, which in turn have implications for the content, strength, and structure of ties between firms. In my discussion of the governance implications of IORs for learning and innovation, we first turn to the risks that governance aims to control.

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There are two fundamental kinds of risk: hold-up and spillover. As defined in TCE, the problem of hold-up results from dependence in the form of switching costs: if the relationship breaks, costs have to be incurred anew. Switching costs are caused, in particular, by investments that are specific to the relationship. In addition to the types of specific investment recognized in TCE (in location specificity, tangible asset specificity, and human asset specificity), in contexts involving innovation specific assets are needed to develop mutual understanding; particularly under conditions where knowledge is in flux. Specific investments are also required to build up personal trust under conditions where uncertainty precludes governance by contract, and reputation mechanisms are not yet in place. Each of these kinds of assets may be highly relation-specific.

In developing innovation-driven relationships, one may also lose hostages, in particular those that take the form of sensitive information. There are also opportunity costs: the loss of the value that the current partner offers relative to the next best alternative. These costs depend on the availability of alternative partners, the possibility of conducting an activity oneself, and the extent to which a potential partner offers something unique.

Spillover risk entails that knowledge reaching competitors that constitutes a source of competitive advantage is used by them. This risk is of particular relevance in contexts associated with innovation-driven IORs. The risk may be direct: a partner becomes a competitor. The risk may also arise indirectly in networks, with knowledge spilling over to a competitor via a partner.

In the past, many firms have been overly concerned with spillover risk. But what are the implications of learning and knowledge transfers in the context of a search for innovation? First, one should realize that to get knowledge one must offer knowledge. The question is not how much knowledge one loses, but the net balance of giving and receiving knowledge. Second, when knowledge is tacit it spills over less easily, or is more ‘sticky’ (Von Hippel 1994; Brown and Duguid 1996) than when it is codified. However, even then it can spill over, for example when the staff or the division in which the knowledge is embedded are poached, or when the staff involved have more allegiance to their professional colleagues, also in rival firms, than to the interests of the firm (Grey and Garsten 2001), or professional vanity leads them to divulge too much in meetings with outside colleagues. Furthermore,the question is not whether *information* reaches a competitor but whether they will also be able to understand it, i.e. turn it into *knowledge*, and to turn that it into effective competition. For this they

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need to understand it, and their absorptive capacity may not enable that (Cohen and Levinthal 1990). There may be ‘causal ambiguity’ (Lippman and Rumelt 1982). Next, a competitor will need to effectively implement it in his organization. And finally, if by that time the knowledge has changed, spillover risk drops out.

Governance

In the IOR literature there is a vigorous debate on the extent to which governance is a matter of control of opportunism, or can go beyond that in trust based on solidarity or benevolence. According to TCE, it is impossible to reliably judge the possible limits to other people's opportunism, and therefore trust does not yield a reliable safeguard (Williamson 1975: 31–7; Hennart, this volume). If trust goes beyond calculative self-interest, it yields blind, unconditional trust, which is not wise and will not survive in markets (Williamson 1993). From a social science perspective, many others take the view that trust is viable, without necessarily becoming blind or unconditional (Macauley 1963; Deutsch 1973; Gambetta 1988; Bradach and Eccles 1989; Bromiley and Cummings 1992; Murakami and Rohlen 1992; Ring and Van de Ven 1992, 1994; Dyer and Ouchi 1993; McAllister 1995; Chiles and McMackin 1996; Noorderhaven 1996; Nooteboom *et al*. 1997; Das and Teng 1998, 2001; Nooteboom 1999, 2002; Bachmann and Zaheer, this volume). A committed partner does not immediately exit from the relationship in case of unforeseen opportunities or problems, but engages in ‘voice’ (Hirschman 1979; Helper 1990).

What are the sources of collaboration? On what basis do firms collaborate with each other? Reliance may have rational reasons and psychological causes, and combinations of them. The psychological causes go beyond the present chapter. For rational reliance it is important to know what reasons people may have to act in a reliable fashion, i.e. to act to the best of their competence to satisfy expectations. Building on Williams (1988), Nooteboom (2002) proposed the scheme of reasons for intentional reliability that is specified in Table 23.1. Note that instruments and concepts from TCE have been built in. While governance goes beyond control, it still includes it.

As illustrated in Table 23.1, control based on self-interest takes two forms. One is to limit opportunism by legal enforcement (macro) or hierarchical direct control (micro). The second is to use incentives, based on reputation (macro) or the trustee's own material interest in the relation, on the basis of trustor's value to

Table 23.1 Sources of (intentional) reliability

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	Macro: universalistic institutional	**Micro: particularistic, relation-specific organizational**
Self-interest		
Opportunity control Incentive control	Contracts, legal enforcement Reputation	Hierarchy, managerial 'fiat', Dependence: unique partner value, switching costs, hostages
Other-directed benevolence	Social/moral values/norms of proper conduct, sense of duty, bonds of kinship	Empathy, routinization, identification, affect, friendship

Source: Adapted from Nooteboom (2002).

him/her, or costs of switching to a different relationship, or a risk of losing a hostage (micro). The role of hostages is adopted from transaction cost economics (TCE). Hostages may take the form of strategically sensitive information (that the trustor may threaten to divulge to trustee's rivals), minority shareholding, or staff seconded by the trustee to the trustor (who may be poached if the trustee misbehaves). Other-directed reasons include institutions in the form of values and norms of decent conduct, identification with a community (macro), empathy or identification within a relationship (Lewicki and Bunker 1996), and routinized conduct (micro). Empathy may carry an affect of solidarity, and identification tends to carry an affect of friendship or comradeship, or at least a sense of shared destiny. Not reflected in Table 23.1 is the possibility of using trusted third parties for intermediation or arbitration (Simmel 1950; Shapiro 1987; Nooteboom 2002).

The sources of (intentional) reliability specified in Table 23.1 apply to dyads but may arise from networks in which dyads are embedded. This applies not only to the role of third parties for intermediation, but also to the other sources. For example, reputation is typically a network effect, depending on how, through what channels, how fast and how reliably, evidence of misconduct is disseminated. The working of a reputation effect depends, for example, on network density, and on the position of an actor in the network (e.g. its centrality). Legal enforcement requires recourse to legal actors such as courts and legal council. Dependence and switching costs depend on the availability of and access to alternative partners. If a hostage takes the form of sensitive information that may be divulged to third parties, this depends on the number of and access to such third parties.

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The context of innovation makes special demands, and imposes limits, on the configuration of governance instruments. The high uncertainty involved in especially radical innovation, means that the specification of 'solutions' in the terms and conditions of contracts is problematic; and, in any event, can constrain thescope of innovation. Hierarchical control also is problematic because of problems inherent in monitoring, due to the high level of professional labour involved, when the level of technology is high, or the condition that knowledge is typically highly tacit in innovation, or that knowledge flows can change rapidly in innovation, or in some combination of the three causes. Under the high flux of knowledge and entry and exit of players that is typical especially of the early stages of radical innovation, reputation mechanisms and reliable third parties (reliable in both competence and fairness) may not yet be in place. If all those instruments from Table 23.1 are unavailable, one is left to govern based on benevolence, relying on institutionalized ethics or personalized trust.

However, such generalization would be too hasty. What instruments are available depends on details of ties and structure of the network, to be analysed later in this chapter.

Sources of Learning and Innovation

Here, the focus is on learning in the sense of discovery or invention, which is connected with innovation. Especially from an evolutionary perspective on innovation (Nelson and Winter 1982), heterogeneity or variety is a crucial source of innovation, and this has been taken up in the alliance literature (Stuart and Podolny 1996; Almeida and Kogut 1999; Rosenkopf and Nerkar 2001; Fleming 2001; Rosenkopf and Almeida 2003; Ahuja and Katila 2004). However, the extant literature does not explain, precisely, how heterogeneity produces innovation. Furthermore, heterogeneity in networks has two dimensions that are seldom explicitly distinguished. One is the number of firms involved, and the pattern of ties between them, and the other is the difference, in particular cognitive distance, between them. Between firms, in contrast with people, cognitive distance is the difference between the cognitive foci of firms, with two main dimensions of technological knowledge/ competence and moral principles for governance.

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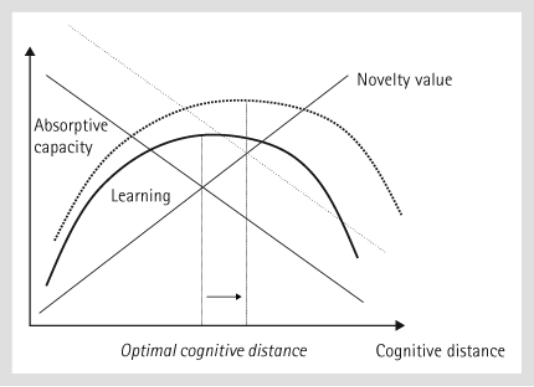

Fig. 23.1 Optimal cognitive distance

Source: Nooteboom (1999).

A large stream of literature has focused on only the problems rather than also the benefits of such cognitive distance. In a study on alliance formation in the semiconductor industry, Stuart (1998) argued that the most valuable alliances are those between firms with similar technological foci and/or operating in similar markets, whereas distant firms are inhibited from cooperating effectively. In a similar vein, the diversification literature argues that most is to be learned from alliance partners with related knowledge and skills (Tanriverdi and Venkatraman 2005), or from areas that firms already possess capabilities in (Penner-Hahn and Shaver 2005). In a survey of key customer relations of 180 young technology-basedfirms, Yli-Renko *et al*. (2001) hypothesized that relationship quality, in terms of goodwill trust and shared norms and reciprocal expectations, would have a positive effect on knowledge acquisition, but found a significant negative effect. In the literature on international business also, a pervasive view is that cognitive distance is a problem to be overcome. Johanson and Vahlne (1977, 1990) employed the notion of ‘psychological distance’, which is seen as having an adverse effect on cross-cultural communication. When learning is discussed, in that literature, it is mostly seen as learning to cope with transnational differences, by accumulating experience in cross-border collaboration (e.g. Barkema *et al*. 1997), rather than taking those differences as a potential source of learning to change home country products or practices.

Nooteboom (1999) proposed an interaction between the advantages and disadvantages of distance, as follows. The ability to understand each other (in absorptive capacity) and the ability to collaborate decline with cognitive distance, whereas the novelty value of the relationship, i.e. its potential to generate Schumpeterian novel combinations, increases with

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distance. If the two effects are linear with respect to distance, and if the learning or innovation performance of the relationship is proportional to the mathematical product of novelty value and mutual absorptive capacity, the result is an inverted-U-shaped performance as a function of distance, as illustrated in Figure 23.1. This implies an optimal cognitive distance, which is large enough for partners to offer each other something new, but not so large that they cannot understand each other or come to an agreement.

In Figure 23.1, the downward sloping line of absorptive capacity is not fixed. It is subject to an upward shift, as a function of the accumulation of knowledge inrelevant fields and experience in IORs. That yields a shift to higher optimal cogntive distance.

Wuyts *et al*. (2005) subject the hypothesis of optimal cognitive distance to two empirical econometric tests. The first test was conducted on a combination of the basic hypothesis of optimal cognitive distance with the second hypothesis that cognitive distance decreases with increased frequency and duration of interaction. As argued by Gulati (1995) and others (Simmel 1950; McAllister 1995; Lewicki and Bunker 1996), familiarity may breed trust, which is good for governance. However, it may also reduce variety of knowledge, which is bad for innovative performance. This yields the hypothesis of an inverted-U-shaped relation between radical technological innovation and the extent to which firms ally with the same partners over time. That hypothesis was tested on data on vertical alliances between biotech and pharmaceutical companies, and was supported.

In fact, the derived hypothesis is subject to nuance. If two partners have access to other, non-overlapping partners, so that they are continually being refreshed with new, non-overlapping knowledge, cognitive distance between them is maintained, so that the relationship may remain innovative even when it lasts over long time-frames. This result is entirely consistent with Burt's (1992) arguments about the value of bridging structural holes.

The second test by Wuyts *et al*. was conducted on a combination of the basic hypothesis of optimal cognitive distance with a second hypothesis that the likelihood of a collaborative alliance increases with the expected performance of collaborative innovation. This yielded the derived hypothesis that the likelihood of an alliance for innovation has an inverted-U-shaped relation with cognitive distance. That hypothesis was tested on data on horizontal alliances in ICT industries. Cognitive distance was measured by differences in degrees of specialization in different dimensions of technology, inferred from patent data. Partial support for these hypotheses was found.

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Nooteboom *et al*. (2007) conducted a more complete empirical, econometric test on the basis of a large set of data on inter-firm alliances over a ten-year period, in a variety of industries. Cognitive distance was reduced to technological distance, which was measured on the basis of correlation between profiles of technological knowledge composed from patent data. Innovative performance was measured as new patents, in successive years, with a distinction between exploratory patents, in patent classes that are new to the firm, and exploitative patents, in patent classes in which a firm already has patents. Absorptive capacity was made endogenous, in that the downward sloping line of absorptive capacity (cf. Figure 23.1) was taken to be a function of technological capital, accumulated from past R&D, measured by the variety of accumulated patents. The hypothesis of performance as an inverse-U-shaped function of cognitive distance was confirmed, including the further hypotheses that optimal distance is higher for exploration than for exploitation, and that technological capital has a positive effect on absorptive capacity. The effect forexploration can be attributed to a higher slope of the novelty line in Figure 23.1: in exploration the positive effect of cognitive distance on novelty value is higher. The effect of past R&D can be attributed to an upward shift of the line for absorptive capacity.

Networks

Inter-firm relations go beyond dyads. There may be multiple participants and indirect linkages in networks. Those have implications for the value, risk, and governance of relations. One may value a partner not for himself but for the access that he provides to others. In an alliance, one may need to assess the risk that the partner may be taken over by a competitor, possibly in an indirect way, in which he takes over a majority shareholder of the partner (Lorange and Roos 1992). Spillover risk can be indirect, through partners to competitors. If one already has many partners, adding a new one might raise spillover risk for existing partners. The literature yields some puzzles concerning networks.

One stream of literature on networks (see, Johnsen *et al*., this volume) suggests that players who span ‘structural holes’ can gain advantage (Burt 1992). If individuals or communities A and B are connected only by C, then C can take advantage of his bridging position by accessing resources that others cannot access, and by playing A and B off against each other. As a result, the third party is maximally powerful and minimally constrained in his actions. This yields Burt's (1992) notion of *tertius gaudens*, indicated earlier by Simmel (1950).

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A central debate in the network literature is whether in networks for innovation, ties should be sparse and weak (Granovetter 1973; Burt 1992) or dense and strong (Coleman 1988). The argument in favour of sparse and weak ties is that in frequent and intense interaction between many actors, in a dense structure, much of the information circulating in the system is redundant. If A is connected to B, and B is connected to C, then A does not need a direct connection to C because he can access information from C through B (Burt 1992). The cost of redundancy in setting up and maintaining ties, increases with the strength of ties. Thus, according to Burt (1992), efficiency can be created in the network by shedding redundant ties and selectively maintaining only a limited set of ties that bridge 'structural holes'. Then, time and energy are saved for developing new contacts to unconnected nodes. Apart from efficiency, bridging structural holes also provides advantages of 'brokerage'. Also, strong, i.e. intense and long-lasting ties can lead to reduced variety and hence reduced potential for learning (Burt 2000). Or in other words, and more precisely, strong ties can lead to too little 'cognitive distance' (Nooteboom 1999). Originally(Granovetter 1973), density and strength of ties were conflated, while later it was recognized that they represent separate features (Burt 1992). It is conceivable that sparse ties may be strong and that dense ties may be weak (Reagans and McEvily 2003). Indeed, the present chapter will give illustrations of that. According to Coleman (1988), by contrast, dense and strong ties ('cohesion' or 'network closure') facilitate the role of social capital such as the build-up of reputation, trust, social norms, and social control, for example by coalition formation to constrain actions, which facilitates collaboration.

In this debate the empirical evidence is mixed. McEvily and Zaheer (1999) found evidence against redundancy in an advice network, and for the acquisition of capabilities. Ahuja (2000) found evidence against structural holes, and for innovation in collaboration. Walker *et al*. (1997) found evidence in favour of cohesion, and for innovation in biotechnology. In view of these apparently inconsistent findings, subsequent studies have taken a 'contingency' approach (Bae and Gargiulo 2003), investigating environmental conditions that would favour the one or the other view (Podolny and Baron 1997; Ahuja 2000; Rowley *et al*. 2000; Podolny 2001; Hagedoorn and Duysters 2002).

In fact, this apparently contradictory evidence is not surprising. The two opposite claims concerning density and strength of ties may well both be true. As noted by Burt (2000, quoted also by Rowley *et al*. 2000: 373):

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‘the closure and hole arguments are not as contradictory as they might seem’. The ambiguity stems in large part from the different roles that social capital plays in the study populations'. More precisely, I propose here, they simply represent different aspects of collaboration: a competence dimension, in terms of the access to new knowledge, the combination of complementary competencies, joint production of new knowledge, and the creation of Schumpeterian ‘novel combinations’, and a governance dimension of managing relational risks of opportunism and spillover or loss of appropriability of returns on innovation. Concerning competence, particularly in exploration of novel opportunities, one may need weak ties, in the bridging of structural holes. For governance, one may need cohesion. This was also Ahuja's (2000) argument: structural holes are less likely to be beneficial when overcoming opportunism is critical for success. When combining competence and governance perspectives, there are arguments both in favour and against density and strong ties, in innovation and knowledge transfer (Uzzi 1996, 1997).

Another cause of the ambiguity of outcomes in empirical studies lies in the neglect of the content of ties (Gilsing and Nooteboom 2005). Hansen (1999) made a distinction between acquiring knowledge about and knowledge from others, i.e. between the identification of the location and usefulness of knowledge, and the transfer or sharing of knowledge. He, and earlier Uzzi (1997), argued and found empirical evidence that strong ties promote the transfer of complex knowledge, while weak ties promote the transfer of simple knowledge.

The following sections provide more recent results concerning the effects of network structure and strength of ties, which help to resolve some of the puzzles concerning the strength or weakness of dense/sparse and strong/weak ties.

New Developments

Gilsing and Nooteboom (2005) offer several new hypotheses as modifications and additions to the extant literature on the effects of network structure and strength of ties on innovation. Initially, let us consider network structure. One hypothesis is that networks for radical innovation or exploration (March 1991; Nooteboom 2000) require density of ties. There are three arguments from considerations of competence. First, under the radical uncertainty of exploration it has not yet been established what knowledge, and hence what sources, are relevant. As a result, one has to hedge one's bets concerning

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which sources to tap, including sources that may turn out to be irrelevant. This is an argument for *redundancy in type of sources*. Second, there is high volatility of existence and network membership of firms, so that firms that give access to knowledge now may not exist tomorrow. As a result one has to hedge one's bets concerning which firms will remain in existence. One may need to maintain a tie with C even if one also has a tie with B who also has a tie with C, to cover for the risk that B drops out affecting access to C. This is an argument for *redundancy in ties*. Third, under the conditions of a large variety of knowledge, or potential knowledge, in exploration, with large cognitive distances, one may need a third party to help understand a given party, by supplementing one's absorptive capacity, or to check the accuracy of information. This is an argument for *redundancy for triangulation*. The argument that density enables triangulation was proposed earlier by Rowley *et al*. (2000). However, they argued that it was most important in exploitation, while Gilsing and Nooteboom argue that it is most important in exploration.

There is an argument by default: in exploration *costs of redundancy matter less*. They are typically smaller and less relevant than in exploitation. Under exploration, (specific) investment in a tie tends to be *smaller*, in mutual understanding, designing and executing experiments, building and testing prototypes, in comparison with investments for exploitation, such as investment in scaling up, efficient production systems with corresponding division and coordination of labour, distribution channels, brand name, and the like. Note that there is room for contingency here. In some industries, such as aerospace, prototyping and testing may require investments that are as high as, or even higher than, for production. Second, costs are *less relevant*. As the innovation literature argues, in exploration competition isaimed at technical and commercial viability, while low cost emerges as a competitive advantage only later, after the market has materialized and price competition increases from new entrants who jump on the bandwagon of new market success (Abernathy 1978; Abernathy and Utterback 1978; Abernathy and Clark 1985).

There are also arguments in favour of density from considerations of governance. As indicated before, the literature (Coleman 1988) proposes that density favours the functioning of social norms, social control, coalitions, sanctions, and reputation mechanisms. These mechanisms of social control are particularly needed in exploration, in view of the limited feasibility of contractual control, due to uncertainty concerning the content and conditions of a contract and limited ability to assess and control contract compliance.

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On the other hand, from a governance perspective, density also brings risks. Having a partner who has multiple partners increases his opportunities for switching, which may increase his hold-up power, with more ‘opportunities for opportunism’. Density also opens up more avenues for spillover, which may increase risk of loss of competitive advantage. However, as argued by Nooteboom (1999), in radical innovation change of knowledge may be so fast that spillover risk becomes negligible. Hold-up risk from multiple partners is limited if it is balanced, i.e. if all actors have such multiple partnerships, as tends to be the case in a dense network.

Concerning other features of network structure, stability of the network should be low, reflecting frequent exit and entry of network participants, for the sake of novel combinations (see the simulation model in March 1991). Moreover, under such conditions of radical innovation, with uncertainty concerning what elements will emerge and survive in what configuration, centralization is less relevant. Centrality may also yield an obstacle to re-configuration of ties, in attempts to maintain the power invested in established, centralized positions.

For more incremental innovation, in exploitation, the arguments concerning network structure go in the opposite direction. The cost of redundant ties matters since competition has shifted to price, and the scale of costs is likely to be high. Since it is now clear what knowledge is relevant, who has it, and network membership is more stable, there is less need to hedge bets by redundancy of ties. Since knowledge is more stable and diffused there is less need for triangulation. Concerning governance, reduction of uncertainty allows for more governance by contracts, lessening the need for dense ties for the sake of a reputation mechanism. As a result of the emergence of dominant designs and the stabilization and diffusion of knowledge, network stability can be larger, and centrality in the network may be needed for efficient coordination in division of labour, in hub-and-spoke type structures. This depends on industry contingencies. Centrality or some density is needed, in particular, if technology is systemic, to ensure that the different components of the system remain in tune with each other (Langlois and Robertson 1995).

Now, let us consider tie strength. According to Granovetter, in personal networks there are four dimensions of tie strength: ‘amount of time, emotionalintensity, intimacy (mutual confiding) and reciprocal services’ (Granovetter 1973: 1361). Gilsing and Nooteboom (2005) proposed the following, modified dimensions: scope of shared activities, i.e. the range

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of issues incorporated in the tie, frequency of interaction, duration of the relationship, trust and openness, and the extent of formal, contractual control. The scope of a tie refers to its content. Scope may refer to width and depth of knowledge shared, but also to different contents of knowledge, concerning technology, materials, sources, markets, government regulations, finance, accounting, and gossip on the technical or intentional reliability of potential or actual partners.

The following hypotheses were proposed for exploration networks. Duration should be low, since long duration would conflict with the need for network flexibility, for the sake of Schumpeterian novel combinations, and is likely to lead to too great a reduction of cognitive distance as a source of innovation. Then high frequency of interaction is needed as an alternative way to recoup the specific investments relevant in exploration. High frequency is also consistent with the speed of developments associated with radical innovation. The limited viability of contracts in exploration, due to uncertainty, and the need to share tacit knowledge, in intensive and frequent interaction, plead for high trust and openness and low contractual control. The wide range of uncertainty that characterizes exploration, and the importance of reputation mechanisms, argued before, plead for a wide scope of ties.

Again, the hypotheses concerning networks for exploitation go in the opposite direction, although there are industry contingencies. In exploitation specific investments tend to be larger, with a longer economic life, requiring longer duration of relationships to recoup investments, while longer duration is less of a problem due to less volatility and the emergence of dominant designs in technology and organization. Dominant designs and codification and wider diffusion of knowledge yield less need for a high scope and high frequency of interaction. Due to less uncertainty contracts are more feasible, and they are needed more because due to lesser scope and frequency of interaction trust and openness are less, and due to lesser density of networks, as argued before, reputation mechanisms are weaker.

Beyond the industry case studies of Gilsing and Nooteboom (2005), Gilsing *et al*. (2008) tested network effects on innovation in an econometric model, using the same data used by Nooteboom *et al*. (2007) for testing the inverse-U-shaped effect of cognitive distance, discussed earlier. In this model, in addition to the effect of cognitive distance, effects were added of network density and centrality of a firm in the network. Here, the same approach was used as in Nooteboom *et al*. (2007), in the sense that separate effects

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were hypothesized on absorptive capacity and novelty value. In line with the logic of structural holes from Burt (1992), network density was hypothesized to have a negative effect on novelty value. In line with the logic setout above, density was hypothesized to have a positive effect on absorptive capacity. For centrality of the firm, ‘betweenness centrality’ was taken, which measures the extent that a firm lies on the shortest paths between other firms, and thus occupies a position at a ‘crossroads’. Note the difference here between cognitive distance between any two firms and ‘social distance’ as the number of firms on the shortest path between any two firms. The hypothesis was that betweenness centrality has a positive effect on novelty value, with the firm able to cross information from many, also socially distant sources, and a negative effect on capacity to absorb such variety of information.

Discussion

In the model of Nooteboom *et al*. (2007), in addition to the inverse-U-shaped effect of cognitive distance on innovation, illustrated in Figure 23.1, particularly for explorative innovation, and a positive effect of technological capital, accumulated from past R&D, on absorptive capacity, an additional, unexpected effect was found. Technological capital turned out not only to have a positive effect on the intercept of the line for absorptive capacity, as illustrated in Figure 23.1, but also to have a negative effect on the slope of the novelty line. This indicates an effect of decreasing returns to learning, or ‘boredom effect’, in the sense that the more one knows the further away one has to go, at larger cognitive distance, to *still find* something new. This, then, comes in addition to an effect of *increasing* returns to knowledge; in the sense that the more one knows the easier it is to *absorb* something new. The upshot is that at very high levels (width and depth) of accumulated knowledge it is difficult for an organization to find outside sources of further new knowledge, and outside collaboration then focuses on relations at small cognitive distance, to exploit the large knowledge potential within the firm. This is illustrated in Figure 23.2, which reproduces the interaction of effects of cognitive distance and knowledge capital, according to the estimated model, for the range of observations in the study. The figure shows that for the highest observed level of technological capital, optimal technological distance is zero.

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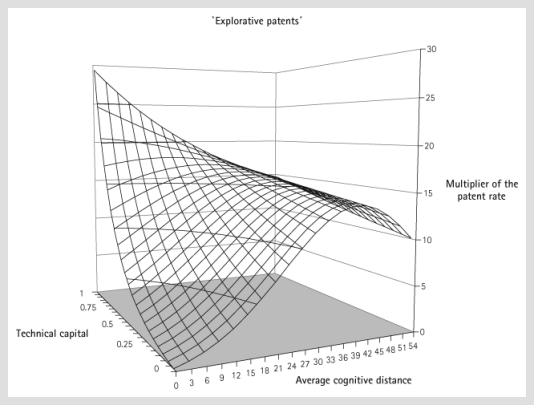

Fig. 23.2 Exploration performance as a function of cognitive distance and technological capital

Source: Nooteboom et al. (2007).

Concerning the effects of structure and strength of ties, while the two can and should be distinguished, there is interaction between them (cf. Rowley *et al*. 2000). For example, for governance one can use contracts or trust/ openness (in tie strength), or, alternatively, density for the sake of social control (structure). Another example is that when specific investments are needed, to recoup those one needs either high frequency or long duration (strength), while the latter entails acertain stability of the network (structure). Here elements of structure and strength can substitute for each other. This gives an opportunity to reconcile the otherwise contrary effects of 'weak ties' versus 'closure'.

What is the empirical evidence, in the extant literature? Rowley *et al*. (2000) made the customary hypotheses that in exploration density and strength of ties are negatively related and in exploitation they are positively related to performance, and they concluded that 'our results do not strongly support the theoretical arguments regarding the main effects of strong ties or density'. They did find evidence for the interaction effects between tie strength and structure. Hagedoorn and Duysters (2002) found a positive effect of 'multiple, redundant ties' under exploration and Beerkens (2004) found empirical evidence for dense ties in exploration in three industries: chemicals, cars, and pharmaceuticals. Gilsing and Nooteboom (2005), in two qualitative case studies of exploration and exploitation in multimedia and biotechnology, found considerable evidence in favour of most of theirhypotheses, contrary to previous literature, but not for all. For details, see Gilsing and Nooteboom (2005).

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An important characteristic of knowledge that varied between both industries was the extent to which it was systemic versus stand-alone knowledge (Teece 1986). This yields an important feature of the content of ties. This issue has received limited attention in the literature on networks and alliances (but see Teece 1986; Langlois and Robertson 1995). It yields important, relatively new insights. In multimedia, high density was needed to preserve the systemic integrity of the emerging technological architecture while the combination of high frequency, short duration, wide scope, and informal governance created cognitive diversity. In other words, stability in structure was needed in view of the systemic nature of technology, while potential disadvantages of that were compensated by features of the ties.

The findings seem in line with the findings by Beerkens (2004) on the role of redundancy in networks in exploration and exploitation in chemicals, cars, and pharmaceuticals. The findings concerning the interaction between structure and strength of ties are in line with the findings of Rowley *et al*. (2000). The results on industry effects are in line with a recent study by Hagedoorn *et al*. (2000), who found that understanding the phenomenon of repeated ties, as a dimension of tie duration, requires a careful consideration of the specific industrial context. Overall, the analysis yields some explanations of the ambiguity of empirical results in previous literature, as discussed in the Introduction. The analysis shows that for this it is important to look at the interaction of structure and strength of ties from the perspective of both competence and governance.

There are also interaction effects between cognitive distance, network density, and centrality of a firm. The hypotheses of Gilsing *et al*. (2008) concerning combined effects were almost completely confirmed. The model implies interaction effects. High cognitive distance or high centrality, both yielding high novelty value but low absorptive capacity, can be compensated with high network density to repair absorptive capacity. Alternatively, high centrality, yielding much novelty but a danger of information overload, may be complemented by alliances with firms at small cognitive distance to help absorb it.

Some of the effects, according to the model estimate, are given in Figures 23.3 and 23.4. The graphs cover the range of observations.

Figure 23.3 reveals that within the range of observations, at mean network density we find that if betweenness centrality is high, yielding problems of absorptive capacity, one cannot afford to also have large technological distance to direct partners, which would compound the problem. Figure 23.4

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shows that even at the mean level of betweenness centrality one needs a certain amount of network density to yield requisite absorptive capacity, and an intermediate (not too high) level of technological distance is best at all levels of network density.

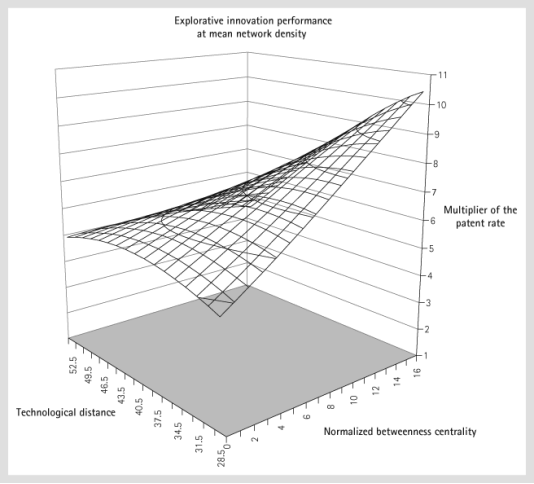

Fig. 23.3 Exploration performance as a function of betweenness centrality and cognitive distance, at mean network density

Source: Gilsing et al. (2008).

Conclusions and Research Agenda

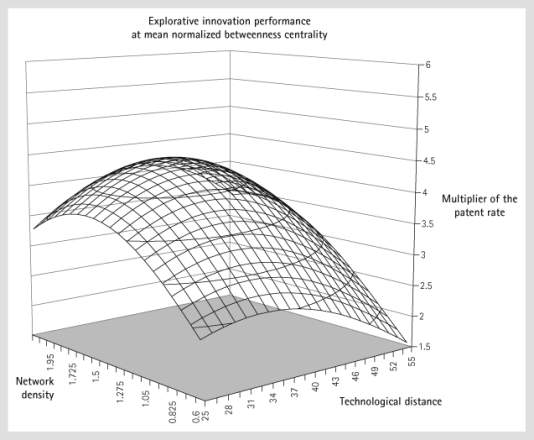

Fig. 23.4 Exploration performance as a function of network density and cognitive distance, at mean betweenness centrality

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Source: Gilsing et al. (2008).

There is a vibrant activity of ongoing research of innovation in IORs, in which the literatures on interfirm alliances, with an emphasis on the strategic behaviour of firms, and the literature on networks, with an emphasis on structural effects, are coming together in the study of strategy in networks. That constitutes progress. Important for innovation is the distinction, in recent research, between two dimensions of variety: number of actors and the structure of ties between them,and cognitive distances between them. Related to this is the distinction between cognitive distance, between any two firms, and social distance, defined as the number of intervening firms on the shortest path between the two firms.

A shortcoming in much research is still the neglect to combine issues of competence and governance. That combination is needed to understand the otherwise contradictory results concerning positive and negative effects of network structure and strength of ties. For example, network density may have a negative effect on variety of knowledge and a positive effect on governance by means of reputation and coalition formation. For innovation, ties may need to be weak in duration, size of specific investments, and formal contracting, but strong in frequency and scope of interaction, and in trust.

The combination of competence and governance is also of great importance for policy. Focus only on governance can eliminate the variety and flexibility needed for innovation, while focus only on innovation can create havoc with firm interests, in unforeseen relational risks. Another point that is important for policy concernstrade-offs between variety and homogeneity and between stability and change. Variety, in numbers and cognitive distance, is beneficial for radical innovation, but a certain degree of homogeneity and cognitive proximity is beneficial for collaboration. Hence one should make trade-offs and look for optimal variety and distance. Similarly, a certain flexibility and variability of relations is needed for innovation, but also a certain stability, to elicit and enable investments in mutual understanding and trust. Hence one should make trade-offs here as well, in looking for optimal rather than maximal flexibility.

One lesson, related to the combination of competence and governance, concerns the interaction between structure and strength of ties. Problems resulting from policy measures taken in the one may be compensated by measures taken in the other. There is also interaction between cognitive distance, density of networks, and centrality of firms. For example, positive

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effects on novelty value combined with negative effects on absorptive capacity for cognitive distance and centrality may be compensated by positive effects on absorptive capacity for density. These results have important policy implications for firms. There is no one best network or one best position in a network. The research discussed in this chapter opens up a repertoire of strategies for innovation, in combinations and trade-offs between effects on innovative performance of decision variables concerning the choice of network structure (density), position (central or peripheral), (different dimensions of) strength of ties, and cognitive distance.

Another lesson derived from the discussion in this chapter concerns contingencies of industry, in relation to contingencies in type of technology (systemic, stand-alone), type of knowledge (more or less tacit), and the different effects of tacitness of knowledge concerning products and tacitness in knowledge concerning production.

The arguments outlined in the chapter suggest that research that combines the effects of network structure and strength of ties, and interaction between the two, with research on the effects of cognitive distance, network density, and centrality in a network, and interactions between them, presents a challenge for researchers.

Following up on the research on the effect of the duration of a tie suggests that one challenge is to include the modifying effect of exclusiveness of the relationship, for example in terms of non-overlapping ties with other firms that the two firms may have, as a source for revitalizing the relationship. This would combine the effect of duration with the notion of bridging a structural hole.

More attention is required for triads. On the whole, the literature has tended to focus on either two actors (dyads) or many (networks). While some attention has been given to triads, they have remained under-researched (Madhavan *et al*. 2004). Burt's (1992) studies of bridging structural holes, and studies of roles of third parties or go-betweens (Shapiro 1987; Nooteboom 2002) entail three parties, but there the third party takes up a special intermediary position external to the relation between the other two actors. Simmel's (1950) more extensive analysis of triads, in which anytwo can form a coalition against the third, who may then switch from the position of *tertius gaudens* emphasized by Burt to a problematic position of being caught ‘in the middle’ (Krackhardt 1999). As shown by Simmel, in triads any one of the three can help to solve problems between the other two, and there may be effects of rivalry between two in gaining favour from the

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third, and so on. This could yield a source of inspiration for more extensive analysis of triads. The importance of triads goes beyond governance, and has implications for competence. This was already part of the earlier analysis: in a closed or transitive triangle, where each has a tie to the other two, two sides may triangulate their understanding of the third. There are also spillover effects. If A has a tie with B and B has a tie with C, and C is a potential competitor of A, then knowledge transferred from A to B may spill over to C, and for A's control of spillover it matters a great deal whether or not A also has a tie with C. These are just some indicative examples of the importance of triads. Finally, there may be useful spillover from insights from Inter-organizational relations to relations between units within organizations.

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Change, Dynamics, and Temporality in Inter-organizational Relationships

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Abstract and Keywords

Since organizational research started systematically to look beyond the single organization at the character and significance of inter-organizational relationships (IOR), there has been a gradual accumulation of work seeking to understand change and dynamics in IOR. More recently, there has been interest in exploring certain temporalities in IORs, reflecting interest in the wider field of organizational studies, where a number of substantial essays have addressed issues of change and time in organizational analysis. This article aims to outline and build upon this emerging interest in how more explicit attention to change, dynamics, and temporality can assist in the understanding of IORs. It takes each of these concepts and maps their implications for IORs, indicating where IOR research has incorporated them as questions or as parts of explanatory schemes. It also identifies how relevant theoretical traditions might be harnessed to enable further development of these relatively new lines of IOR research.

organizational research, inter-organizational relationships, organizational studies, organizational analysis, dynamics

> All transformations are time-dependent historical processes
>
> (Aldrich 1999: 196)

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> …our temporal presuppositions …influence how we study organizational life.
>
> (Cunliffe *et al*. 2004: 261)

Since organizational research started systematically to look beyond the single organization at the character and significance of Inter-organizational relationships (IOR), there has been a gradual accumulation of work seeking to understandchange and dynamics in IOR. More recently, there has been interest in exploring certain temporalities in Inter-organizational relations, reflecting interest in the wider field of organizational studies, where a number of substantial essays have addressed issues of change and time in organizational analysis (e.g. Child and Kieser 1981; Hage 1988; Hassard 1996; Whipp *et al*. 2002). In this chapter, we aim to outline and build upon this emerging interest in how more explicit attention to change, dynamics, and temporality can assist our understanding of IORs. First, we introduce the three concepts. We then take each of these concepts in turn and map their implications for IORs, indicating where IOR research has incorporated them as questions or as parts of explanatory schemes. We also identify how relevant theoretical traditions, within organizational studies in particular, might be harnessed to enable further development of these relatively new lines of IOR research. We conclude by identifying what we see as the significant trends forward which emerge from our survey.

Concepts: Change, Dynamics, and Temporality in IORs

As Pettigrew *et al*. (2001: 697) note, ‘The study of change and development is one of the great themes in the social sciences’. IORs have been conceptualized both as the object and locus of change, and as the cause of change—effectively as dependent and independent variables, respectively. In his classic statement, Bateson (1972: 458) saw change as a ‘difference which occurs across time’. In this chapter we conceptualize *change* in IORs as a fundamental alteration in the character of an IOR.

Research seeking to record and explain change in IORs in these terms has focused on variations over time in the existence, composition, and constitution of IORs, the scope and intensity of activities and interactions between organizations, the governance structures and processes through which IORs are activated and regulated, and the capacity of IORs to ‘perform’ in producing ‘final effects’. However, change cannot be understood independently from an understanding of ‘inertia’, ‘stability’, or ‘continuity’: these constructs provide ways of remarking ‘passage’ in which time passes

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in IORs without change. In seeking to avoid dualistic thinking (change; no change), we therefore follow Pettigrew *et al*. (2001: 697) who note that 'the study of change ought to explain continuity and that time must be an essential part of investigations of change if processes are to be uncovered'.

The *dynamics* of IOR refer to the patterns of change (and of its 'opposite', continuity) through time, and to the forces that produce these patterns. Strang and Sine(2002: 504) suggest that there can be ' "a dynamics without change" where new approaches gain substantial followings but then lose credibility rather than becoming institutionalized'. In this sense, the dynamics of IOR can be thought of as referring to the active, continuing process of relating across boundaries (potentially within new relational entities) to maintain patterns of interaction and order through time. Whilst 'dynamic continuity' and stability are certainly to be explained (see below), the primary concern in IOR research is with processes in which dynamics produce, and are inherent in, change to the very terms, the structure, the form, and constitution of the IOR. As Huxham and Vangen (2005) note, collaborations do not stand still for very long. Their research into the changing character of public policy networks and partnerships reveals the dynamics of boundaries and identity, purpose, membership, and participation: all prove to be complex and ambiguous. Our concern, then, is in understanding the shape of change and the underlying mechanisms that produce patterns of change through time.

The dominant conception of *temporality* in IOR research has been to use time as a metric against which to gauge either the fact or the extent of change. The way in which an event or organizing process is framed in time is significant in understanding patterns of continuity and change; indeed, even in determining when or whether behavior represents change or continuity. As Aldrich (1999: 167) notes:

> Classification of a change … depends on the time frame chosen… If we chose a condensed window of time for an analysis, incremental changes may fit seamlessly into an organization's current routines and competencies. If we chose an expanded window, accumulated incremental changes may well terminate in transformations.

Thus time mediates our sense and understanding of change in IOR. Aldrich argues for use of the more complex concept of 'history' rather than 'clock time', i.e. chronological age as the gauge. Indeed, the explanations and analyses the evolutionary perspective draws in are set within a framework

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that is fundamentally temporal in character and kind (see also Lomi *et al*., this volume). By contrast, social network theory (e.g. Moody *et al*. 2005; and Kenis and Oerlemanns, this volume) and transactions costs economics (Hennart, this volume), whilst seeking to incorporate questions of change, dynamics, and temporality, have tended to treat change, dynamics, and time as ‘secondary concerns’ against their primary interest in structure or calculative governance respectively.

More complex notions of time, being introduced gradually into IOR research, include, for example, Adam's (2004) idea of ‘timescapes’, which draws together the idea of time-frame—‘past, present and future’ and related notions of extension and duration—but also temporal qualities of processes such as rhythm and tempo, timing and juxtaposition of events, time points and time patterns (see e.g. Harvey *et al*. 2000). As Jones and Lichtenstein argue in their chapter, above, these dynamicand textural qualities of organizing processes may be significant in explaining periods of stability and change, as Inter-organizational interactions and routines hold or fail or as they produce particular patterns of behaviour. These concepts also point to the importance of deepening our understanding of the ways in which IOR practices are experienced and understood (e.g. Huxham and Vangen 2005; Standifer and Bluedorn 2006).

Change in IORs: The Contributions of Differing Theoretical Perspectives

A range of theoretical frameworks have been or have clear potential to be applied to understanding change in IOR (cf. Oliver and Ebers 1998). Broadly following those reviewed in an extended form by Barringer and Harrison (2000), we outline briefly the implications for explaining change in IORs from six perspectives drawn from organization theories applied to IOR: organizational learning, transaction cost economics, population ecology, institutional theory, strategic choice, and resource dependency.

Organizational Learning Explanation

Organizational learning theory aims ‘to explain how individuals and their organizations acquire, process, distribute, integrate, and dissipate information associated with the functions of the firm’ (Lewin *et al*. 2004: 114). The focus of learning can vary from individual through to population level and is generally discussed in terms of knowledge transfer and other similar phenomena (Lewin *et al*. 2004). IORs are seen as one of the most immediate methods through which an organization can gain knowledge in

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areas outside their sphere of expertise. This ‘occurs when one organization causes a change in the capacities of another, either through experience sharing, or by somehow stimulating innovation’ (Ingram 2002: 642). Some learning is solely for an individual partner's benefit while other learning is for common IOR partner benefits (Khanna *et al*. 2000). The extent of knowledge exposure among IOR partners varies (Khanna 1999) and changes in these learning relationships may occur where firms limit the areas of shared knowledge within the partnerships, depending on the circumstances, needs, and requirements of the relationship (see Nooteboom, this volume).

Transaction Cost Economics Explanation

Transaction cost economics (TCE) draws on institutionally embedded normative financial goals to explain organizational dynamics and change. The control of costs is a primary underlying rationale against which organizational behavior is evaluated (Nooteboom 2000). This approach is based on the assumption that organizational survival occurs through maximizing efficiencies (see Nelson and Winter 1982). As a theory, TCE has had ‘a profound effect on analyses of inter-firm collaboration’ (Osborn and Hagedoorn 1997: 264; see Hennart, this volume). It has formed the conceptual basis for a variety of studies of strategic alliances and joint ventures (see Dacin *et al*., this volume), especially where these focus on the motives and incentives for entry into these forms of IORs (Kogut 1988; Gulati 1995; Young-Ybarra and Wiersema 1999; Silverman and Baum 2002; Judge and Dooley 2006). For example, the vertical integration benefits for increasing residual worth and control are argued to justify entry into an IOR (Kogut 1988), creating economic efficiencies and reducing costs for the relationship partners (Kogut 1988; Skarmeas *et al*. 2002). Change, by either entering into, or by altering existing IORs, is characterized by and can be explained from this perspective in terms of movement towards the most efficient governance form. Entry into an IOR might maximize efficiencies through, for example, cost minimization and gaining a more lucrative market position (Rice and Galvin 2006). However, TCE tends to ignore the behavioural components of IOR and the influence of a variety of other motivational factors in IOR change (Barringer and Harrison 2000). As it is based on a theory of calculation in the design and evaluation of organizational forms, attention to relational processes, time, and Inter-organizational dynamics is correspondingly limited.

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Population Ecology Explanation

The population ecology perspective explains the adaptation of organizations and their forms over time in terms of influential environmental factors rather than as a consequence of individual managerial choices and decision-making. This ‘downplay’ of managerial effect and influence on organizations and their survival has caused this perspective to be somewhat undervalued in certain streams of organizational studies (Welbourne and Andrews 1996). Environmental selection and adaptation explain change: the organization reacts to the external environment and the focus is on change at a population level rather than at a single organizational level (Boone and van Witteloostuijn 1995; Lewin *et al*. 2004). The theory suggests that excessive change will be detrimental to organizational survival and performance (Welbourne and Andrews 1996). From a population ecology perspective, entering into IORs may be explained in terms of the need for similar organizationsto pool their resources to fulfil common needs and to cope with competitive pressures to maintain their viability in their external environment in order to avoid weakness and elimination. However, as a perspective, population ecology has had only limited application to change and IORs specifically (cf. Schumaker 2002). One issue, for example, is whether it is possible to class IOR partners as having a common form, something which is necessary within this perspective if they are to be described as part of a particular organizational population (Boone and van Witteloostuijn 1995; and see also Lomi *et al*., this volume).

Institutional Theory Explanation

Institutional theory highlights the interaction between institutional environments and organizations. This interaction involves institutional pressures on organizations to engage in actions which are seen as legitimate by other organizations and the wider environment in which they are located (Meyer and Rowan 1977; Meyer and Scott 1983). Conformity to institutional norms is explained as facilitating an organization's survival, with increased legitimacy, stability, and access to necessary resources (Barringer and Harrison 2000). Like population ecology, this theory suggests that institutional relations can affect significantly the chance of organizational survival (Baum and Oliver 1991) with institutional rules and regulations imposing conditions on partners’ relationships that shape collaborative efforts (Russo 2001). For example, and in combining both population ecology and institutional explanations, Baum and Oliver (1991) examined institutional linkages and their effect on organizational mortality to argue that survival

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of an organization is more likely if there are well-established institutional relationships. In IORs the development of necessary systems and changes within partner organizations is seen as resulting from partners conforming to institutional pressures (Venkatraman *et al*. 1994). However, the range of institutional fields with which partner organizations may be involved can also change or alter the IOR (Phillips *et al*. 2000) and institutional fields themselves can be altered by IORs (Phillips *et al*. 2000; Lawrence *et al*. 2002). As Lawrence *et al*. (2002: 281) claim, 'although collaborations may reproduce existing conditions in an institutional field, they also have the potential to transform institutional fields by acting as an important source of innovation'.

Strategic Choice Explanation

This perspective focuses 'on the dynamic process of making strategic choices to effectively position an organization within its environment' (Lewin *et al*. 2004: 120). Environmental factors are given less weight in determining an organization'schange trajectory: strategic choice theory instead highlights the role of managerial intentionality in paving an organization's own way within its external environment. Entering into, or changing, IORs from this perspective entails a strategic decision or 'a strategic response by firms to alleviate problems (Rice and Galvin 2006: 2). For example, in joint ventures firms are viewed as strategically positioning themselves to exploit their profit potential through market share and competitive analyses in comparison with competitors (Kogut 1988). The technology and knowledge of partner organizations can be used to meet market demands for more sophisticated product or service offerings that are beyond the capacity of a single organization (Contractor and Lorange 2002). However, one quandary posed by researchers in this area is 'the apparent discontinuity between the presumptions of command and control by senior executives underlying many strategic analyses, and the necessity to deal with issues of cooperation and negotiation in establishing and managing alliances and networks' (Osborn and Hagedoorn 1997: 266). This dilemma suggests that change in IORs results not just from strategic choices but also from the need to negotiate the implementation of these choices with other partner organizations.

While less 'strategic' in its focus, the application of organization development (OD) represents another explanation for change in IORs which is based on 'choice' for engaging in change, albeit mediated by a range of influences, including external factors. However, Clarke (2005) notes that, despite a variety of arguments about the planned development of Inter-organizational

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collaboration (e.g. Trist 1983; Cummings 1984; Selsky 1991; Westley and Vredenberg 1991; Preston and DuToit 1992), the OD field has been slow to respond to the relational challenges of Inter-organizational collaboration. Early models of planned change have received little rigorous empirical examination and, more generally, the models have been little developed conceptually (though see Gray, this volume).

Resource Dependence Explanation

Resource dependence theory proposes that organizations seek to create stability in times of environmental uncertainty and, especially, resource scarcity (Koberg and Ungson 1987). Organizations do this by managing their interdependencies and resource flows, and by establishing relationships with external players, other organizations, or stakeholders in order to acquire necessary resources (Campling and Michelson 1998; Barringer and Harrison 2000). For example, in an early study of IORs and resource dependence, Van de Ven and Walker (1984) analysed an organization that determined specific goals and enlisted support and resources from other organizations. More generally, change in IORs from a resource dependence explanation occurs in order to increase competitive advantage through more efficient management of resources: it is through the use of interdependencies, and

Table 24.1 Explanations of Inter-organizational change

Theory	**Explanation for Inter-organizational change**
Organizational learning	To expand expertise through acquisition of knowledge
Transaction cost economics	To increase financial efficiency
Population ecology	To maintain viability and adapt to the environment
Institutional theory	To enhance legitimacy and conformity of organizational actions
Strategic choice	To reposition organizations to enhance strategic capacities through relationships with other organizations
Resource dependency	To enhance resource acquisition, assets, and cope with uncertainty

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the enhanced power that Inter-organizational relationships provide, that access to usable resources and complementary assets occurs (Barringer and Harrison 2000).

Our treatment of a wide range of perspectives on Inter-organizational change has necessarily been limited, but it does reflect the fragmentary character of research into change in IORs. Each theoretical perspective offers a particular way of framing change and a set of findings about change in IORs is set out in Table 24.1 below. The theories vary, then, in terms of their character —whether they are descriptive/analytical or normative, their selection of primary units and level of analysis— in their degree of abstraction from behaviour and whether or not they explain change in terms of agency or structure/environmental forces or a combination of these forces. Finally, as we have tried to indicate, their treatment of the dynamic and temporal qualities of change vary significantly.

Dynamics in IORs

Research that focuses primarily on the dynamics of IORs is both limited and varied. Nevertheless, there has been some accumulation of knowledge and the start of an explicit development of a set of questions about the dynamics of IOR. An early model of dynamics was based on the intensification of interactions and the formalization of relationships to achieve and sustain resource exchange (Van de Ven and Walker 1984). This conception is reflected in the main strands of literature addressing IOR dynamics: life-cycle analyses, process-focused, and co-evolutionary theories (e.g. Ring and Van de Ven 1994; Koza and Lewin 1998; Inkpen and Currall 2004; Isett and Provan 2005). Within this tradition, Ebers (1999) conceptualizes dynamics of IOR in terms of learning feedback loops serving to link partners'motives, IOR preconditions, the content and institutional forms of IOR established, and the outcomes IORs produce. Change to the IOR as a whole can be catalysed, through a process of partner ‘calculation’, by change in any of these elements.

Two strands of analysis can be distinguished.

The first has its primary focus on the patterning of social (Inter-organizational) interaction. There is a tradition of analysis of the dynamics of relations between autonomous actors which is essentially atemporal. Zaheer, Albert, and Zaheer (1999) term such theories holochronic theories —‘independent of time assumptions’. Structural models of ‘interaction’, including, for example, game-theoretic models, take the relationships

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between choices made by actors as the object of analysis. These relationships establish dynamics in IOR in the sense that actors' choices are contingent one upon the other, in terms of the logic of the game. All social interaction—negotiation and bargaining—is assumed to occur prior to the game and the ‘moves’ of the game—move, response, counter-response, and so on, are concatenated into a single ‘search for the optimal solution’. Where games are taken as dynamic, then time may enter such an analysis, generally in terms of simple sequences of events, or moves, which may be conditional on prior moves or on learning about players' options, preferences, and beliefs (e.g. Walliser 1998). There is no temporal metric, no sense of pace, no sense of rhythm, or of explicable changes in these ‘games’ that create a distinctive character or pattern to change. There are some notable exceptions even within this tradition. Axelrod's (1985) analysis of the evolution of cooperation highlighted repeated games, sequential patterns of actions, and contingent responses (tit for tat) over time. Here, as Abbott (2001: 197) notes, there is a move towards a more explicitly narrative conception of social life. Where outcomes are not determined or readily predictable from the configuration of starting conditions, the idea of path dependence has been influential. In its most general form, path dependence means that what has happened at an earlier point in time constrains the range of possible subsequent developments and that the process of IOR constitution and interaction necessarily shapes observed outcomes, setting in train Inter-organizational dynamics that cannot be easily reversed.

By contrast, a narrative conception of change dynamics that leaves more scope for reversibility and for choice within IORs is found in research undertaken within the social interactionist tradition (e.g. Strauss 1982; Ring and Van de Ven 1994). The review by Ring and Van de Ven (1994) has been influential in setting out a framework through which to explore the developmental processes of cooperative relationships—‘how cooperative IORs emerge, grow, and dissolve over time’ (Ring and Van de Ven 1994: 91). The overall narrative is that of a life-cycle (see below): IORs are framed as repeated phases of negotiations, commitments, and execution of agreements, participants assessing these against criteria of efficiency and equity. As Dacin, Reid, and Ring, this volume, argue, the ways in which strategic alliances and joint ventures evolve over time appear to be among themost critical factors explaining their success or otherwise. Ring and Van de Ven (1994) propose that uncertainty about issues, reliance on trust among parties, and the role relationships of the parties combine to influence the pattern and pace of movement through the modes of interaction. The framework emphasizes the growth of trust (as goodwill) through

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repeated interactions and transactions that lead to mutual understanding and commitment; and it also suggests that longevity strengthens the relationship. Conceptions of process, interaction, and time are deeply interwoven, as Strauss's (1982) discussion of Inter-organizational negotiation makes clear (and see also Strauss (1993) for a reflection on ‘the necessity of processual ordering in which order is created, maintained or changed in desired directions through action’). Although these theories of process emphasize the ongoing production of order through interaction, they are able to accommodate theories that give greater privilege to structure —institutional theory, for example—since institutions can be seen to be mediated through sense making and discretion in Inter-organizational action (e.g. Phillips *et al*. 2000). From social network and institutional perspectives, Powell *et al*. (2005: 1134) refer to the ‘interactions of multiple overlapping networks or the regulated reproduction of network ties through time’ and ‘momentum, sequences, turning points, path dependencies’.

Second, then, we can identify a strand of analysis that is concerned to identify specific temporal patterns—duration, speed or pace of change, sequence, and schedule. We contrast the search for specific patterning with more general frameworks for the analysis of dynamics (Lefebvre's (2004) rhythmanalysis for example), and which foreground less the pattern of interaction between agents, but more the patterning in fundamentally temporal terms: the repetition (of movements, gestures, action, situations, differences); interferences of linear processes and cyclical processes; and birth, growth, peak, then decline and end (Lefebvre 2004: 15).

Languages and Explanations of Dynamics in IOR Research

Linear, continuous, developmental change is one pattern for depicting changes in IOR. From this perspective change is seen as ‘a pattern of endless modifications in work processes and social practice. It is driven by organizational instability and alert reactions to daily contingencies’ (Poole 2004: 6). The temporality of the process, which we will address in more detail later in this chapter, becomes central to this perspective, which suggests incremental, ongoing changes which focus on the longitudinal maintenance of IOR relationships over time (cf. Brown and Eisenhardt 1997). Beyond the linear perspective, two other explanations for understanding dynamics have been important in IOR research: the life-cycle approach and punctuated equilibrium.

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Life-cycle Explanation of Dynamics

Dynamics viewed through the lens of a life-cycle is a common basis for accounts of change and development within IOR, either explicitly or implicitly. Van de Ven and Walker's (1984: 598) early contribution to the literature on the dynamics of IOR starts ‘if one is to understand the dynamics of IR's over time, it is necessary to begin with ad hoc coordination efforts between organizations and to track how they are created, grow and dissolve over time’. The life-cycle metaphor suggests a natural progression in which the passage of time is associated predictably with changes or transitions —the dynamics—in the character of the IOR. For example, where such transitions are given significance or appear to be particularly marked, then it is conventional to propose a series of distinct stages or phases: labelling these ‘birth, adolescence, maturity and death’ draws a direct analogy with human experience, but familiar stages of social rituals are also commonly found—courtship, engagement, marriage, and separation, for example (Kanter 1996).

More literally, Lowndes and Skelcher (1998) propose that a specific category of IOR, ‘community regeneration partnerships’, progress through phases which they label, respectively, as: pre-partnership collaboration; partnership creation; partnership programme delivery; partnership termination. In each stage, they argue, the dominant governance mechanism varies, shifting from network to hierarchy to market and back to network—over time. For them, a key challenge ‘lies in managing the interaction of different modes of governance’ (Lowndes and Skelcher 1998: 313) in light of the tasks that legitimate the partnership.

Life-cycle models suggest that changes that occur through the stages are irreversible and cumulative, fundamentally linear and predictable (see e.g. Phelps *et al*. 2007). This suggestion has been challenged by arguments in evolutionary theory that emphasize the variability of change over time as different combinations of internal and external factors create different pathways or life courses for organizations; it has also been challenged in social interactionist perspectives on management, since IOR ‘are continually shaped and restructured by actions and symbolic interpretations of the parties involved’ (Ring and Van de Ven 1994: 96). Beyond chronology, the nature of the process through which movement from one stage to another occurs, and the timing of such moves within the IOR's history become central questions. For such reasons some authors suggest that life-cycle theories require other theories to provide an adequate account of change (Greve

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2002; Martin 2004). The rise of ecological and evolutionary perspectives has meant that life-cycle studies have benefited from theoretical perspectives that elaborate the basic premises of the life course perspective, but other theories have also been incorporated.

By way of example, D'Aunno and Zuckerman's (1987) discussion of a four stage life-cycle model is framed by resource dependence, exchange theory, and concepts from political science, for example coalition formation, interests, and politicalbehaviour, and a set of social psychological concepts including trust, commitment, rewards, etc. that are consistent with (social) exchange theory. Their argument is that federations of organizations (these are defined as not necessarily permanent relations between three or more organizations that pool resources to achieve stated objectives) pass through the stages (emergence of coalition; transition to federation; maturity; critical crossroads) over time in response to a set of tasks that require attention at each stage. They suggest that form ‘tightens’ over time, with a shift from loose coalition towards formalized federation, and identify factors that signal and influence the transition from one stage to another. Hagedoorn and Sadowski (1999), drawing on Ring and Van de Ven's (1994) more strongly theorized arguments about the dynamics of IOR, also expected to find such a tightening of form. Differentiating between equity and contract modes of governance, they found that in each case strategic technology alliances seldom give way to merger or acquisition. Strategic partnering is a ‘category on its own’ rather than a ‘front porch for corporate growth through integration’ (p. 103) in a life-cycle process. Hager, Galaskiewicz, and Larson (2004) argue that ‘degree of embeddedness’ is the crucial factor: isolation brings vulnerability because of a lack of legitimacy. Powell *et al*. (2005) also suggest change in biotechnology networks over time is linked to different logics of attachment— accumulation of advantage, similarity, following the trend, and multi-connectivity.

Phelps, Adams, and Bessant (2007) conclude that strong models of the life-cycle are not supported: life-cycle stages, defined as sequential episodes, are not consistently associated with specific patterns of organizational behaviour, or indeed with any ‘latent mechanism’ that could be associated with the progression of time. Phelps, Adams, and Bessant (2007) thus propose a conceptualization of organizational growth that removes temporality (sequence) and which rests instead on the definition of problems and organizational capabilities that allow organizations to assimilate new knowledge required to address these problems.

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Punctuated Equilibrium Explanation

Punctuated equilibrium theory suggests that patterns of organizational change are best understood as entailing long periods of relative stability, which are periodically interrupted by short periods of fundamental change (Gersick 1991; Romanelli and Tushman 1994). Whilst small, incremental changes may occur during these periods of stability they do not alter the core operating assumptions or strategies. Such fundamental change is avoided for as long as possible. This suggests that the pattern of change varies, depending upon the size and scale of the change. Applying this theory to IOR suggests that while smaller incremental changes may occur, fundamental, disruptive changes to IOR punctuate this pattern only on an irregular basis. Another way of thinking of this rhythm or pattern of change is to liken it to one stage of the life-cycles of an IOR—however, the likeness stops there as there is noassumption of a natural, fundamental progression from one stage to the next within punctuated equilibrium theory. For example, punctuated change in IOR may result from the way 'unanticipated changes in the environment may alter the incentives of the contracting parties' (Anand and Khanna 2000: 295).

Dynamics of Change Avoidance in IOR: Three Explanations

As we suggested earlier, explanations about the dynamics of change also need to explain the dynamics of stability; that is, the forces which tend to stop organizations from changing despite pressure on them to do so. More specifically, inertia is described as a state of being 'rooted in part in the stable standard operating procedures that initiate and govern organizational action' (Stuart 2002: 629). This dynamic has been nominated as a prominent cause of underperformance in joint ventures and strategic alliances (Ernst and Bamford 2005) and an inability to change in order to cope with the resulting challenges (Doz 1996). In this section we draw on Palmer *et al*. (2006: 58–60) to outline and adapt to IOR settings three arguments in the change literature that seek to explain organizational inertia—threat-rigidity, being learning disabled, and forces for stability.

Threat-rigidity Explanation

Threat-rigidity theorists claim that when under environmental pressure organizations and their managers are restricted in their ability to change (Staw *et al*. 1981). This is because when faced with a threat they become rigid in their thinking and unable to pursue innovative change, relying

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instead on established routines (Mone *et al*. 1998). Since IORs may be undertaken for reasons of competitive advantage (Gulati 1995; Silverman and Baum 2002), failure to change may undermine a firm's capacity to innovate, thereby, paradoxically, limiting the long-term viability of existing partnerships. In explaining the instability of strategic alliances, Das and Teng (2000) use rigidity as part of their framework, describing rigidity as being either 'structural rigidity in linking elements within the organization… [or] in linking with other organizations in relevant social networks' (Das and Teng 2000: 86). However, they argue that some degree of rigidity, as opposed to flexibility, can be appropriate depending on other organizational variables involved and the nature of the relationships among partner organizations.

Learning Disabled (Trap of Success) Explanation

Inertia to change may occur when organizations become trapped by their own past successes. In such situations they fail to respond to new forms of competition and environmental changes. They become learning disabled such that their attachmentto the status quo restricts their ability to act and slows down their adaptation to potentially threatening environmental changes (Sull 1999). This form of inertia runs counter to the organizational learning explanation outlined earlier, which forms a rationale for why some organizations may enter into IOR partnerships in the first place. For example, Rice and Galvin (2006) highlight learning as a driver of change over time in alliances through the transfer and growth of relational capital. However, the learning disabled explanation suggests that learning in IORs may become displaced by the success of those relationships such that the IOR may fail to evolve and respond to changed circumstances: the specific factors which lead to this situation are in need of further research.

Forces for Stability Explanation

The organizational change literature suggests that there are tensions and competing pressures between the forces for change and the forces for stability (Mone *et al*. 1998; Leana and Barry 2000). Koka, Madhavan, and Prescott (2006) argue that the interaction between environmental effects and strategic action by organizations in networks leads to change to Inter-organizational networks. Two evolutionary trends—the creation and dissolution of ties—generate the basic process of network change, triggered and sustained by the need for adaptability, cost containment, impatient capital markets, and the desire for more control. However, inertia may result when these are outweighed by the forces for stability, such as:

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institutionalism, transaction costs, sustained advantage, organizational social capital and predictability and uncertainty reduction (Leana and Barry 2000). Many of these areas have been independently addressed in the IOR literature but not necessarily as a framework that suggests why IOR relationships maintain their stability and avoid change. Whilst change and instability may result when bargaining power is transferred between partners (Inkpen and Beamish 1997) what the forces for stability explanation provide is further insight into why forces for change to IORs may be less powerful than the forces for stability. The latter may have built up over time as the partnerships, which underpin IORs, become sedimented into practices and routines that become difficult to dislodge in the face of altered situations.

Gulati and Gargiulo (1999) suggest that organizations tend to become embedded in stable, preferential relationships, which, because they reduce costs and risk in partner selection, then accumulate into a network. There may be a tendency to 'conservative', closed Inter-organizational relations on this basis and to a level of stability of structure that effectively limits network development and change. The form and dynamics of networks seem to be responses both to exogenous drivers such as interdependence and 'an endogenous evolutionary dynamic triggered by the very way in which organizations select potential partners' (Gulati and Gargiulo 1999: 1482). Recent work (Powell *et al*. 2005; Maurer and Ebers 2006) also strongly suggests that social capital may 'overlimit' business interests and firm performance.

Table 24.2 Accounts of IOR dynamics

Theory	**Explanation for IO Dynamics**
Life-cycle theory	IORs grow and evolve through different but relatively linear, incremental and predictable stages
Punctuated equilibrium theory	IORs consist of small, incremental changes punctuated by unpredictable, larger changes after which equilibrium is re-established through small, incremental readjustments
Threat-rigidity theory	A rigidity in established routines and responses means that IORs may avoid

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	change, even when environmental pressures suggest that change is needed
Learning disabled theory	IORs may fail to evolve as they become trapped by their own success, which inhibits them from responding appropriately to new conditions which emerge
Stability 'theory'	Forces for change are counter-balanced by forces which reinforce stability. IOR responsiveness may be inhibited where stability forces, embedded in IOR practices and routines, outweigh change forces

Summary: Accounts of IOR Dynamics

As Table 24.2 summarizes, dynamics of IOR change requires attention both to different images or theories of how change is brought about and how it occurs and why IORs may avoid change—to the possible long-term detriment of these relationships. While, arguably, such explanations have been sparsely applied to IOR research, we suggest that more complete explanations of IOR change are needed to consider what inhibits IOR change. We have pointed to threat-rigidity, becoming learning disabled, and forces for stability as three fertile explanations to explore in more depth in IOR research and practice.

Temporality in IORs

In his review of research into strategy and organization, Whipp (1996: 269) concluded that the mathematically based, linear, Newtonian conceptions of time that have dominated thinking in management and organization studies mean that there has been a lack of appreciation of, and attention to, the diversity of 'time-ordering systems' found in organizations. Mosakowski and Earley (2000) identify five dimensions of temporality: real versus epiphenomenal; objective/subjective experience of time; novel/cyclical/punctuated flow of time; discrete/continuous/epochalstructures of time; and the referent anchor which may be past/present/future. They, too, conclude that strategy research has generally neglected subjective time and the temporal perceptions of actors and they invite researchers to incorporate unambiguous and multifaceted views of time explicitly into their work.

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In this section, we review ways in which temporality and change have been conceptualized in studies of IORs and suggest ways in which time could be introduced in a more thoroughgoing manner into analyses of change and dynamics in IOR processes. Specifically, we distinguish between treatments of various temporal characteristics of IORs and the use of time as a metric in and for the study of IORs.

Conceptions of Time

Time enters analyses of IOR in a variety of ways (Table 24.3). One of the commonest is in the framing of propositions as causal, but also specifically temporal, relationships between variables. For example, Luo's (2001) examination of the formation of personal attachments between boundary spanners within cross-cultural international cooperative ventures is framed in terms of both antecedents, prior conditions, and consequences, that is subsequent outcomes. Such a particular, directional, and linear sense of time is strongly reflected in conceptions of and procedures for inquiry into IOR.

In considering the temporal qualities of Inter-organizational behaviour, we find attention to questions of the duration of IORs, to the rate or pace of development and change in IORs, and, especially, to issues arising in the coordination of IOR behaviour—sequence, timing, synchrony, and entrainment.

Time as a Metric

Time commonly appears in IOR studies as a measure of the ‘age’ and ‘longevity’ of the relationship, which may then be related to other characteristics of IOR. However, age, *per se*, cannot be uncritically attached to theory as a measure of the ‘success’ or ‘failure’ of IOR. Alliance termination may not be the same as alliance failure. As Jones and Lichtenstein (this volume) note, there is a growing literature on IORs —often designated as projects—that are established deliberately with a limited lifespan. It is important to clarify the consequences of planned temporariness. An intended effect is to signal absolute privilege to function since little or no attention or effort is required to sustain the organization beyond the immediate task. But a

Table 24.3 Versions of time in IOR

Version	Account of time in IOR

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Time as order	Causality and temporality equivalent Antecedents → IOR → Consequences
Time as metric	Time as a measure of 'age', duration, and 'longevity' of the relationship or an element of the relationship. May correlate with or act as proxy for other characteristics of IOR
Age as explanation	Age or duration as explanation of form and character of IOR • temporariness • liability of newness • maturity and embeddedness
Process theories of IOR and time	More differentiated and varied understandings of time, which go beyond time as an axis Timescapes Rhythmanalysis Coordination of activities • sequencing • entrainment: pace, cycle, and rhythm • temporal horizons • temporal models
Time and method	Time-scales—existence and validity intervals Longitudinal analysis

second effect in time-limited organizational arrangements, suggested by Grabher (2002, 2004) and which may be a cost of temporariness, is to focus knowledge work on the immediately relevant potentially at the expense of knowledge accumulation.

> The temporal limitation… causes a cardinal limitation of any transient organizational form in sedimenting knowledge …the culture of project-based organizing symptomatically leaves hardly time to reflect on previous assignments.…Projects, viewed as singular ventures, combine diverse knowledges effectively: apparently, however, they also tend to forget quickly.

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(Grabher 2004: 1492)

The duration of a collaborative relationship is likely to be associated with positive performance; and for this reason, sustainability is often treated as an indicator of positive performance in the evaluation (and design) of cooperative Inter-organizational relations. Longevity may, itself, be an indicator of future sustainability because longevity is associated with other factors, which increase the resilience of an IOR—degree of embeddedness, and the legitimacy of the IOR/IOE (Baum and Oliver 1991; Cropper 1996; Human and Provan 2000; Hager *et al*. 2004;Jones and Lichtenstein, this volume). However, distinguishing the behavioural outcome of longevity, which suggests past success, and the behavioural quality of sustainability—inherently future-oriented—is an important task (Cropper 1996, 2001).

Time as Explanation: Age Dependency

Research into organizational performance and failure has followed the suggestions, just noted, that a key explanatory factor is the age of the organization. In particular, Stinchcombe (1965) set out the terms in which there may be a ‘liability of newness’ or a liability of inertia. As change to the initial choice of organizational structure in response to a changing environment is risky, there has been close examination of the propensity for early closure and for other age-dependent effects. Findings have tended to confirm Stinchcombe's (1965) original conclusion: age is a strong predictor of organizational closure, though the reasons for this are not well-established (Hannan and Freeman 1989). There has been relatively little research into IOR specifically which has tested the effects of age *per se*. However, the relationship between age and performance has been of some interest to scholars working on strategic alliances (Fichman and Levinthal 1991). Deeds and Rothermael (2003), in a study of R&D alliances, found that the relationship between age and performance was U-shaped: that is, an early deterioration of performance, tolerated within a honeymoon period but entering ‘adolescence’, was commonly followed by an upturn in performance. They found different durations of an initial ‘honeymoon’ period, beyond which a liability of adolescence sets in. This is dependent, they conclude, on the importance of the alliance to partners and, hence, the extent of commitment and social capital invested, and the extent of monitoring and scrutiny of their investments that partners undertook. More recent work, then, drawing on institutional and historical traditions of inquiry to supplement ecological analysis, has produced a more refined set of arguments about vulnerabilities at different stages in

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the life course. Where Stinchcombe's argument emphasized difficulties with internal coordination and the evident achievement of organizational reliability, findings have increasingly emphasized external relationships, and in particular, lack of legitimacy or lack of access to resources, these resulting from weak connections and embeddedness compared with older organizations (Hager *et al*. 2004). However, and more generally, Hannan (1998) concludes that 'the seemingly straightforward issue of age dependence in organizational mortality turns out on close inspection to be anything but simple. Inconsistency among theories and empirical findings abounds. Such inconsistency reflects the Protean nature of the concept of organizational ageing' (Hannan 1998: 157).

Process Analyses and Time

Whipp, Adam, and Sabelis (2002) call for a more differentiated and varied understanding of time, one that goes beyond time as an axis (the metric). They point to the need to uncover the layered character of organizational time, the multiplicity of ways in which time enters, constitutes, and mediates the experience of organizational practice, and the way in which the dominant conceptions of time itself are increasingly challenged by patterns of technology, globalization, and rehumanization of organizational practice.

Hassard's (1996) careful exploration of the ways in which time and temporality have been portrayed in studies of work and organization, in some contrast, does reveal use of different conceptions of time—linear time, cyclical time, reflecting cycles of cultural reproduction in the workplace and structural issues of time and organization related to synchronization, sequencing and rate of work. Allied to this diversity we note increasing attention to the problem of coordination in IOR and to questions of sequencing, time and timing, time and rhythm, synchronicity, entrainment (Standifer and Bluedorn 2006), and kairos (Hedaa and Tornroos 2002).

Early studies tended to frame IOR in terms of the development of sequential action conceived as systems of exchange or as complex logistics: research into referral chains in human services or supply chains in manufacturing and retail are examples of such relatively decoupled IOR. Time enters as objective constraint. Management techniques, including Just in Time, serve to heighten awareness of temporal factors in the coordination of organizational action, and the variety of time-scales in play within IOR, for example at operational and strategic levels. In examining attempts to shift from sequence in operations to parallel Inter-organizational collaboration

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(the search for synchrony), Puonti (2004) concludes that more than common marking of calendars is required. Pace and cycle, together, form the rhythm of an activity and the coordination or alignment of activities, each with their own rhythm, embedded in other rhythms within the organization, is likely to be problematic.

In recent IOR research Ancona and Chong's (1996: 253) definition of entrainment as ‘the adjustment of the pace or cycle of an activity to match or synchronize with that of another activity’ has been influential (see also Jones and Lichtenstein's distinction in this volume between calendar-based, event-based, and entrainment-based coordination). As Standifer and Bluedorn (2006) argue, in their analysis of entrainment in alliance management teams, the alignment of activities requires sensitivity to both pace of activities in each organization and to the cycles—that is, the complete processes of implementation of phenomena that are systematic and recurrent—through which those activities pass. The presence of a dominant rhythm, internal or external to the IOR, may be necessary for the two activities to become aligned or, in the term used by Standifer and Bluedorn, aggregate. They suggest that the ‘coordinating centre’ of the alliance requires a coherent or sharedmental model of the temporal character of activities that are to be drawn together in concert as a part or consequence of a strategic alliance: that model will also include an understanding of the relevant time horizons against which activities and the strategic alliance are framed. For Das (2006), differences in partners’ time horizons—that is, their orientation towards and expectations of long-term or short-term collaboration—might explain the potential for opportunistic behaviour in strategic alliances.

There are also issues of temporal competence or capability that are relevant to this discussion. Standifer and Bluedorn (2006) call for more research on entrainment within Inter-organizational entities like alliances, including the validity of the shared understandings they identify as crucial to concerted action. Hoegl, Weinkauf, and Gemuenden's (2004) findings about inter-team coordination in multi-team R&D projects suggest that while improved performance can be observed, the question of how effects are generated remains unresolved. This line of inquiry would potentially reinvigorate understandings of how wider systems of IOR—Inter-organizational domains—form and, in particular, the capabilities and behaviour of ‘referent organizations’ that regulate activity within those domains (Trist 1983).

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Researching Change and Time

Zaheer, Albert, and Zaheer (1999) examine ways in which theories of change and development, growth and evolution are intrinsically tied to the time-scales (by which they mean the ‘size of temporal intervals, whether subjective or objective, used to build or test theory about a process, pattern, phenomenon or event’ (p. 725)) over which the theories are defined. One implication is that observation of change or stability, and understanding of the character of observed change, depends on the granularity of the time scales chosen. ‘… different theories may be needed to explain phenomena over different time scales … and the choice of time scale determines not simply which phenomena are observed but their meaning as well’ (p. 737). The existence interval (the period over which a full instance of the process of interest will occur or unfold) and the validity interval (the time-scale over which the theory holds) are particularly important here. For example, Pettigrew *et al*. (2001: 699) argue that multiple levels or contexts can only be understood when researching change if there is ‘a time series sufficiently long to show how firm, sector, and economic levels of context interact to energize change processes’.

Moody, McFarland, and Bender-deMoll (2005) respond to the increased interest in longitudinal social networks with network ‘movies’ that capture the dynamic character of change in networks. They note that the analysis of networks currently does not easily represent change in networks: beyond the presentation of a series of network snapshots, there is little available to the IOR researcher using networkanalysis to capture changes in the pattern of network ties—new entrants, exits, and ‘rewiring’, in Powell *et al*.'s (2005) terms. As Moody *et al*. (2005) argue, ‘To build network visualization tools, we need to examine carefully questions about the meaning and implication of time in the formation of social networks’.

Conclusion: Researching Change, Dynamics, and Temporality in IORs

Reviewing these three complex themes in IOR research together suggests a rather fragmented field of inquiry and knowledge. Research into change has tended to be both rather hidden and rather ‘spread’. Analysis of change tends to be framed in terms of questions about movement from one state to another using specific indicators of IOR behaviour that different theories highlight as the essence of IOR. It is understandable that there has, so far, been limited dialogue across theoretical streams. We can see that, where there has been a gradual accumulation of knowledge in some areas of

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theoretical interest and sustained debate on certain problematiques—for example learning in strategic alliances, age dependency of IOR performance, or selection as an evolutionary mechanism, there is the start of concerted inquiry from different traditions. Certainly, there is an increasing awareness of complex patterns of causality—many variables, multi-level causation, and cross-causation. However, there has been relatively little work, so far, to integrate insights or to address IOR change from different theoretical traditions. At the community and population levels of analysis, evolutionary theory is serving as a mechanism for the integration of insights into IOR. Although Greve (2002: 573) asks whether there will, or should, be a distinct programme of evolutionary research rather than one that explicitly seeks to link knowledge in IOR studies, this process of integration of knowledge around a core set of evolutionary mechanisms seems to be an important and established trajectory. Network analysis, similarly, provides a basic conceptual framework that not only generates its own questions about IOR, but also has clear potential for synthesis with other theories that add explanatory power. For example, network analysis from an institutional perspective is becoming a more clearly developed combination.

There are, now, more frequent responses to the call for quantitative population and community-level studies but it is also important to examine change as context specific: comparative studies allow for sensitivity to institutional contexts and the effects of context on Inter-organizational practices. Multi-level studies may help to understand how, and to what extent, contexts bear on IOR processes (e.g. Marchington and Vincent 2004). Equally, there is an important line of work,just started, to explore how IOR and IOEs, more specifically, reshape prevailing institutional form and practice (Lawrence *et al*. 2002; Maguire *et al*. 2004; Powell *et al.* 2005).

Perhaps in some contrast to work on Inter-organizational change, there is sense of a more concentrated ‘programme’ of research into IOR process and dynamics, not least as scholars in different traditions of inquiry—network analysis, process studies, etc.—move towards the empirical examination of the patterning of change over time. We see ‘concentration’ in two respects. First, there is recognition of common starting points and conceptual foundations, at least in broad terms. For example, Ring and Van de Ven's (1994) summary of a process model has been very widely cited and used to inform further thinking about processes of Inter-organizational cooperation. And while life-cycle models differ in terms of the number of stages and the terminology, nevertheless, there is a body of material available from which to distil findings and questions for further research. Second, there is a sense

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of engagement and dialogue, critique and progression in understanding through this—for example, in developing a theory of tensions, dialectic, and instabilities in IOR, including attention to the patterning of change and continuity (e.g. Ullrich *et al*. 2005). In extending understanding of dynamics, there is a need for both more development of rigorous, theoretical understanding through engagement and critique—some fundamental as we have suggested in reviewing work on life-cycle conceptions of IOR—but also more focused programmes of empirical inquiry to test, enrich, and extend theory. De Rond and Bouchikhi (2004), for example, look to longitudinal in-depth, empirical studies (or comparative studies) that can explore how alliances (IORs) evolve through the attempted resolution of a rich variety of tensions under different conditions (stable as well as turbulent conditions). Such studies, seeking regularities in 'trajectories through time', might draw on methods used in narrative approaches to history (Abbott 2001, esp. pp. 288–93; Buthe 2002), where contextuality is high over time and (social) space and so important in accounting for the character of a phenomenon of interest.

Finally, against a background of very limited empirical research focused specifically on the significance and character of IOR time, there is nevertheless a sense of convergence on certain core concepts, problems, and lines of development that may be fruitful in thinking about temporality in IOR. These include opportunities for empirical research in settings (international, cross-cultural, cross-sectoral) in which time disparities are in sharp relief: as with change and dynamics, there are also significant methodological challenges to be addressed. Ancona *et al*. (2001) make some general suggestions about the future of temporal research in organizational and management studies:

- timing norms—shared expected patterns of paced activity—and their effects;
- leadership and organizational practices, including entrainment, management of pace and dynamics, managing in multiple time-frames, the design of organizational pace;
- time lags, including those following planned change interventions before intended (and other) attributable effects are observed.

Taking the first and second of these, the relatively little research reported on entrainment in IOEs such as alliances merits further examination. Standifer and Bluedorn (2006) suggest a need for empirical research to examine whether alliance-oriented entrainment is improved by greater shared awareness of rhythm and explicit agreement about dominant

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rhythms, in particular among alliances' teams (cf. Lefebvre's (2004) wider ‘rhythmanalysis’ project). Along the same lines Das (2006) concludes his exploratory piece with an invitation to study additional complexities of inter-temporalities of alliance horizons and opportunism horizons; that is, to enrich the formal argument about temporal horizons he has initiated.

Ofori-Dankwa and Julian (2001) take the example of time research to illustrate and reveal how theory can be enriched or otherwise made more complex. As our review has suggested, there are many entry points into research that focus on change, dynamics, and temporalities in IOR. Development of knowledge in terms of existing concepts and theories is certainly a priority—both assessing and integrating what is known within current lines of research, but also exploring the potential to transfer and synthesize insight across contexts of inquiry. But this is not a call for uncritical pooling of knowledge; since theories have particular ranges of convenience, problems can legitimately be seen and investigated from different perspectives and different accounts add to richness of understanding. ‘Understanding which models to use, processes to include, levels to analyze, units to observe and perhaps most important, how to make sense of paradox and contradiction, represents the craft of Inter-organizational analysis’ (Martin 2004: 1152).

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Intervening to Improve Inter-organizational Partnerships

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Abstract and Keywords

Actors who envision gaining collaborative advantage from aligning with others in an inter-organizational partnership face the often-daunting prospect of trying to integrate their diverse perspectives. The complexity and challenges of initiating and maintaining such partnerships have been chronicled extensively. This article reviews a variety of interventions aimed at improving the quality and the likelihood of alliance success. It defines interventions as deliberate actions taken by an alliance partner or a third party to influence the formation, design, or process of interaction among alliance partners. This article refers to five types of partnerships: strategic alliances, joint ventures, policy planning forums, community forums, and multisector collaborations. Interventions can originate from various sources. Additionally, the interventions have been tested and refined through practical application in numerous contexts and thereby reflect the best of theory-to-practice wisdom. This article reviews the underlying theory behind each intervention and assesses its utility for improving inter-organizational partnerships.

strategic alliances, joint ventures, policy planning forums, community forums, multisector collaborations

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Introduction

Actors who envision gaining collaborative advantage from aligning with others in an Inter-organizational partnership face the often-daunting prospect of trying to integrate their diverse perspectives and frequently competing goals. The complexity and challenges of initiating and maintaining such partnerships have been chronicled extensively (Gray 1995; McCaffrey *et al.* 1995; Vansina *et al.* 1998; Faulkner and de Rond 2000; Huxham and Vangen 2000*a*; Wondolleck and Yaffee 2000; Gray and Clyman 2003; Koppenjan and Klijn 2004; Gray and Schruijer forthcoming). For example, while initially intrigued about proposed alliances, partners often lose interest when the desired benefits are not quickly realized. While ostensibly pursuing a common goal, partners often espouse diverse aims that provoke difficult-to-reconcile conflicts (Huxham and Vangen 2005). Consequently, many partnerships succumb to collaborative inertia; that is, they experience slow progress or truncate their efforts without any tangible outcomes (Huxham and Vangen 2004). Whatactions are necessary to achieve one's Inter-organizational aspirations? How can collaborative inertia be prevented? To what extent can would-be partners build successful alliances, or is the fate of partnerships left to political manoeuvring or covert power brokering (Hardy and Phillips 1998), environmental exigencies (Sharfman *et al.* 1991; Denis *et al.* 2001), serendipity (Huxham and Vangen 2005), or pure chance?

In this chapter, I review a variety of interventions to improve the quality and the likelihood of alliance success. I define interventions as deliberate actions taken by an alliance partner or a third party to influence the formation, design, or process of interaction among alliance partners. While there are many names for these partnerships, I refer to five types in this chapter: strategic alliances, joint ventures, policy planning forums, community forums, and multisector collaborations (MSCs).

Interventions can originate from four sources. They can be either invited by the partners themselves or imposed if others (such as government agencies or resource providers) have authority or leverage over the alliance. They can be undertaken by the partners or by third parties who are invited to offer assistance. I argue that interveners can improve Inter-organizational alliances by undertaking several intervention tasks. Many of these interventions have their roots in the organizational development, social ecology, and conflict resolution or mediation literatures but have evolved and been adapted to meet the needs of developing Inter-organizational forms. Additionally, the interventions have been tested and refined through

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practical application in numerous contexts, often using action research methodologies (Lewin 1951; Elden and Chisolm 1993), and thereby reflect the best of theory-to-practice wisdom. In this chapter, I review the underlying theory behind each intervention and assess its utility for improving Inter-organizational partnerships.

I have organized this chapter into four sections. The next section reviews obstacles to successful partnerships and introduces a model of factors that motivate and block collaborative efforts. It conceives of the intervener's role in Lewinian terms (1951) as either decreasing the restraining or increasing the motivating forces for successful relationships. In the following section I introduce eight generic tasks that interveners can undertake to shift these forces in positive directions. These eight tasks offer a framework for organizing an array of more specific intervention activities. For each task, I review the theoretical premises undergirding it and outline specific intervention techniques that accomplish that task. I then provide an appraisal of each intervention technique and its utility for intervening in different types of IORs and link the intervention techniques to specific stages in the life-cycle of Inter-organizational partnerships.

Why Intervention is Needed: Overcoming Obstacles in Inter-organizational Partnerships

Working across organizational boundaries is neither easy nor straightforward. Partnerships are born of diversity and require capitalizing on that diversity to achieve joint ends (Gray 1989). Still, simply agreeing to work together does not automatically ensure success. Achieving collaboration is equivalent to becoming multi-voiced or polyphonic (after music of the same name that emphasizes the equitable juxtaposition of multiple melodies) (Bouwen and Steyaert 1999). This means ‘both generating an appreciation for the diversity of viewpoints that multiple parties bring to a problem (or opportunity) and, at the same time, corralling and channeling this diversity into problem solutions that all parties can accept’ (Gray and Schruijer 2007).

Many factors have been identified that contribute to the potential for collaborative inertia noted earlier. In a study of a business/education collaboration in New York City, several factors including differences in organizational cultures of the participants, histories of misunderstanding and the erosion of trust among parties, cultural differences, and institutional disincentives were identified as obstacles to successful collaboration (Gray 1995). Also, when parties frame the issues or the reasons for their interdependencies through different lenses, the quality of their agreement

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diminishes (Curseu and Schruijer 2005), and sometimes the potential for finding any areas of agreement disappears (Lewicki *et al.* 2003). Additionally, partnerships require the construction of new identities (Koot *et al.* 2003) that often live in tension with past affiliations, and partners may refuse to team up in the first place or exit the partnership rather than compromise their identity if its loss proves too threatening (Rothman 1997; Beech and Huxham 2003; Gray 2004). For example, the merger between a service-delivery and a teaching hospital ended in divorce after two years when neither would compromise their core mission. Even when partners freely join up, another major detriment to success is the absence of process skills among the partners (Wondolleck 1985). Sometimes psychodynamic factors that arise in the subconscious work of the group can also derail collaborative efforts (even when the parties are well intentioned about working together) (Vansina 2000; Gray and Schruijer forthcoming). Finally, at a more systemic level, institutional forces and power differences create imposing obstacles to success (Gray 1995; Himmelman 1995; Hardy and Phillips 1998; Denis *et al.* 2001).

	Driving forces	Restraining forces
Strategic/ organizational factors	Knowledge generation Need for resources Economies of scale Interdependence Hurting stalemate	Limited vision of domain Perceived loss of control Perceived loss of constituent support Internal conflict
Institutional/ societal factors	Government incentives Legal/regulatory mandate New opportunity arises	History of conflict and mistrust Disincentives Power differences

Fig. 25.1 Factors motivating/preventing collaboration

Source: Sharfman *et al.* (1991).

Building on Kurt Lewin's (1951) notion of force fields, the driving and restraining forces that affect collaborative alliances are depicted in Figure 25.1. Driving forces are those factors that propel the formation or continuation of collaborative efforts;restraining forces, those factors that slow or impede collaborative initiatives (similar to success and failure factors discussed by Hibbert *et al.*, this volume). Both driving and restraining forces can be further classified into strategic and institutional factors. Strategic factors are those over which collaborative partners have some control; institutional factors reflect forces beyond the purview of the partners. Strategic driving forces that motivate partners to ally include the need for knowledge or resources possessed by partners, desire for economies

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of scale within their operations, high levels of interdependence on other organizations, and hurting stalemate (Zartman 1981) in which rivals realize that perpetuating a conflict is worse than settling it. Institutional driving forces include incentives offered by government or other stakeholders as well as legal and regulatory mandates that make partnering with other stakeholders either required or highly desirable. Changes in the institutional environment also introduce new opportunities to initiate partnerships (e.g. funding agencies offer incentives for collaborating or make partnerships a necessary condition for funding).

Restraining forces create what Huxham and Vangen (2005) refer to as collaborative inertia by slowing or inhibiting the formation or continuation of collaborative relationships. Perceived loss of control, fear of loss of constituent support, and internal conflicts within the alliance partners are considered strategic restraining forces because partners can take steps to ameliorate them. Institutional restraining forces include economic or government disincentives, power differences, cultural mores, and a protracted history of conflict and mistrust—factors that have become institutionalized and therefore impossible for organizations to surmount individually.

Drawing on this model, then, intervention can be conceived of as a process of either reducing restraining factors or increasing driving factors among the partners within an Inter-organizational system. Some interventions primarily reduce restraining forces; others enhance driving forces; but most accomplish both simultaneously.

Intervention Tasks and Techniques

To advocate intervention implies that one believes that Inter-organizational relations are at least partly malleable and can be intentionally or strategically designed, managed, or guided towards someone's desired ends. While theories of IOR may not agree about the extent of control that interveners can exercise (Faulkner and de Rond 2000), most attribute some agency to the parties involved. If alliance partners are not totally at the mercy of exogenous forces, then, through intervention, individuals can exert leverage over how partners are interacting.

The tasks that interveners undertake to assist alliance partners in working more effectively have been described in a variety of different ways. Generally, interveners serve as matchmakers (Gray and Yan 1997) or

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conveners (Carlson 1999) who bring partners together, design experts who help partners structure their interactions, and process consultants who can play practical roles that include facilitators, mediators, recorders, educators, and advocates (Strauss 1999). In this section, I organize these roles into eight overarching tasks by which interveners can promote partnership effectiveness: (1) visioning; (2) convening; (3) process design; (4) reflective intervening; (5) problem structuring; (6) conflict handling; (7) brokering; and (8) institutional entrepreneurship. While it is possible that the same person(s) may execute more than one task within a given alliance, for analytic ease I describe them separately. I explain each task, present the theoretical rationale that informs it, and introduce specific intervention techniques for carrying it out within alliances. While the list of techniques is illustrative rather than comprehensive, it reflects a wide array of practices, grounded in theory and documented in the literature, that have been utilized in a host of Inter-organizational contexts. Table 25.1 provides a summary of this information.

Visioning

A critical task for launching a new partnership is that of *visioning*, which involves recognizing the potential value of a collaborative alliance, imagining how the parties

Table 25.1 Core roles, tasks, and phases of interveners for IOR types

Task	Description	IOR type and phase	Specific techniques	Conditions for use
Visioning	Appreciative work; recognizes and conveys need for IOR	All IOR types Phase 1	• Shared strategy maps • Search conference	• Identifies and clarifies future directions; trust exists; doesn't address implementation • Finds common

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				ground; doesn't resolve conflicts
Convening	Introduces partners; organizes means of identifying, selecting, and enlisting participants	All, Phase 1	• Feasibility assessment • Inviting partners	• Intervener seen as neutral, legitimate, and has clout • Representational issues are dealt with
Reflective intervening	Collects data from/with participants to assess the issues and stimulate dialogue and reflection on them	All, Phases 1 and 2	• Action research • Appreciative Inquiry	• High trust in intervener; transparency of process critical; respectful of confidential issues; large investment of intervener's and participants' time

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				• Values the positive aspects of partners' experiences
Process managing	Designs and manages the process of participant interaction	All, butJVs Phases 1,2, and 3	• Collaborative design • Large-scale system interventions	• Partners recognize they need process help; high mistrust, rivalry; cognitive overload; complex and novel • Many skilled facilitators; keypad technology desirable; large space needed; limited time possible; authorities remain ultimately accountable;

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				issues are public
Problem structuring	Introduces analysis of shared problem and options and method for deciding among them	Phase 2	• Analysing interconnected decision areas (AIDA) • GSS (SODA)	• Useful for volatile, transient problems; can't handle complex and continuous problems; any level of policy-making; parties are willing to assign MAUTs • Partners need rapport and modicum of trust
Brokering	Coordinates exchange of critical information among relevant parties; bridges	All, Phases 2 and 3	• Liaisons • Bridging	• Geographically dispersed partners; liaisons need

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	low and high power partners			to be authorized and trusted by other partners • Interveners need rapport and clout with low and high power groups and can handle conflicts
Conflict handling	Helps work through conflicts and disagreements	All, All phases, especially 2	• Mediation, facilitation, consensus building • Perspective taking • Trust building	• Intervener is neutral and accepted by partners; useful for resolving conflicts; may take considerable time; parties

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				accept responsibility for agreements • Parties willing to explore differences • Time commitment may be substantial
Institutional entrepre-neurship	Promotes establishment of norms to govern institutionalization; transfer of design to other settings	JVs, Strat. alliances, MSCs; Phases 3 and 4	• Structuring • Replicating	• Follow-up on agreements needed; new organization created • Multiple sites; need to get buy-in from partners in new setting

can collaborate, and conveying this vision to them (Gray 1989; Maguire *et al.* 2004). While any stakeholder can propose a collective appreciation for

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the others, this task is usually performed by someone who knows the issues, has legitimacy (in the eyes of other stakeholders) and enough political clout to frame the collaborative vision in a way that others cannot ignore (Gray 1989). According to Bryson and Crosby (1992: 33), visionaries need to understand the social, political and economic ‘givens’ in a situation as well as the relevant people involved.

Background Theory: Social Ecology

The notion of appreciation was introduced by Vickers (1965) and adopted by social ecology theorists Emery and Trist (1965). They pointed out that when a group of interdependent organizations take unilateral, maladaptive actions with respect to the problem, these generate unanticipated and dissonant repercussions for each other (Emery and Emery 1977). Rather than decreasing uncertainty, this increases the level of turbulence (or uncertainty) at the domain level (Emery and Trist 1965; Trist 1977; Trist 1983). Effective intervention can help reduce turbulence in Inter-organizational systems by encouraging partners to adopt a system-level perspective and develop an understanding of how each one's actions influence choices and outcomes for their partners. The process of appreciation enables stakeholders to develop common knowledge about the domain and about their interdependencies (Friend and Jessop 1969) and to design correlated responses (Trist 1983).

Visioning Techniques

There are several techniques that interveners can introduce to promote joint appreciation. One appreciative technique involves the construction of *shared strategy maps* (Eden 1989; Bryson and Finn 1995). This process involves querying each individual stakeholder and constructing a cognitive map of their views on a topic. Then, individual maps are combined into a computerized composite map that reflects the perspectives of all. In a group setting, the composite map becomes the basis for discussion, revision, and, hopefully, agreement about future directions. This mapping process facilitated identification of a common vision and mission for forty-five representatives of a school district engaged in strategic planning (Bryson and Finn 2005).

Another appreciative technique is actually called visioning. ‘Visioning is a process in which people build consensus on a description of their preferred future— the set of conditions they want to see realized over time’ (Moore *et al.* 1999). Visioning processes can take many forms including *search*

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conferences, priority boards, and *charettes* among others (Moore *et al.* 1999). Visioning processes are designed to build common awareness of domain issues among diverse stakeholders.In a search conference, a dialogue is constructed among stakeholders about the broad contextual influences affecting the domain as well as their individual and collective aspirations and preferred strategies for influencing the future of the domain (Emery and Emery 1977; Emery and Purser 1996; Weisbord and Janoff 2000). Two critical early steps in the search conference promote domain-level understanding: (1) identifying common futures directs partners' attention to their mutual aspirations for the future of the domain; (2) identification of current and anticipated trends likely to affect the domain encourages partners to build a common interpretation of the various factors governing their interactions and promotes understanding about how each one's actions influence the others' outcomes. Often the realizations produced through such analyses break down boundaries among potential collaborators and promote awareness of their common plight. As Weisbord and Janoff (2005: 80) note, ‘a short, intense, whole system meeting enables something not available in any other way: A gestalt of the whole in all participants that dramatically improves their relationship to their work and their coworkers’.

Convening

A second intervention task is *convening*. The primary tasks of conveners are to assess whether a partnership is feasible and to identify and motivate potential partners to participate (Carlson 1999). While conveners are sometimes the same individuals who initially appreciate the potential for partnerships in the first place, separate conveners are often hired to test the feasibility and assist in the launch of a potential collaborative alliance. If critical stakeholders withhold participation, a convener may advise against going forward.

Background Theory: Social Ecology

Like appreciation, convening has its origins in social ecology theory (Trist 1983). Successful convening hinges not only on recognizing who has a stake in an issue, but also on having sufficient influence to attract or persuade stakeholders to join a collaborative alliance. In joint ventures and strategic alliances, individual businesses may rely on third party matchmakers to help them identify appropriate partners. In multiparty contexts, conveners need breadth of vision, legitimacy, and clout (Gray 1989).

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Intervention Technique: Feasibility Assessment

A primary intervention technique employed by conveners is *feasibility assessment* (conflict assessment if the presenting issues are conflictual). This activity involvesdetermining whether the potential partners (or disputants) have the requisite motivations to form an alliance. In preparing for a joint venture, partner selection has been shown to be a critical component of success. As Beamish and Banks (1987: 8) have argued: ‘If one or both partners were dissatisfied with the performance, the venture was considered unsuccessful’. Consequently, careful assessment of several potential partners is valuable before embarking on business-to-business partnerships.

In policy and community partnerships partners often have less, if any, discretion in selecting each other. In these contexts, getting the right mix of representative points of view to participate becomes paramount in solving the problem. Representation involves decisions about who can participate in a collaborative initiative and for whom they can speak. The degree to which representation needs to be circumscribed will differ depending on the purpose of the partnership, but alliances often falter because representational issues, such as how inclusive the group of participants will be and who has ‘authority’ to act on behalf of the collaborative group, were neglected during initial discussions (Carlson 1999). When partnerships are convened primarily for information exchange, decisions about who should be included to ensure availability of needed information is critical, but including parties with redundant information may not be necessary. Also, groups engaged primarily in information exchange may not need firm decision rules. For example, social service agencies collaborating to keep track of common clients or promote client referrals may want wide and open-ended representation whereas a policy-making partnership should have explicit criteria about stakeholder representation and decision-making guidelines. However, ‘being representative of’ is not the same as ‘representing’ (Carlson 1999: 186). When there are too many stakeholders to effectively participate in consensus decision-making, the larger group can be asked to select a smaller group to represent them (Carlson 1999). Process designs can also distinguish participation levels between those parties that only provide input and others with decision-making authority.

Ineffective resolution of representational issues can cause collaborations to fail. When a federal agency tried to organize ten local partnerships to address issues related to the spotted owl controversy in the US Pacific Northwest, the agency didn't enlist community members in each location in

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issue identification or selection of partnership representatives, but instead made decisions unilaterally (Carlson 1999). Consequently, participants ‘were concerned…about the federal government's motives, the balance of power at the table, and the availability of resources to enable all groups to participate on an equal footing (KenCairn 1997)’, as cited in Carlson (1999: 173). Ensuring psychological safety in the ensuing discussion and reaching agreement upfront about decision authority and ownership of outcomes can prevent later withdrawal by participants (Carpenter 1999), misunderstandings, and accusations of failure to negotiate in good faith (Bingham 1986). Such accusationsand attendant mistrust often derail negotiations when parties later announce they don't have the authority to make decisions for their organizations and must seek ratification of an agreement with higher ups. Achieving clarity upfront about representatives' levels of decision-making authority and necessary feedback loops can reduce such trust violations. In general, ensuring process transparency is critical to maintaining trust.

Problem Structuring

A third intervention task involves *problem structuring* in which alliance partners faced with a challenging problem attempt to dissect it, identify and compare possible solutions, and select the best one. Problem structuring approaches range from very simple visual arrays to comparisons of multiple probabilistic scenarios, often with the help of computer models.

Background Theory: Cognitive Mapping and Multiattribute Utility Theory

To the extent that partnering is viewed as involving a series of choices that need to made by the alliance partners, each partner has an idea of the key factors that impinge on the problem and the levers for influencing it. This image of the problem or joint task can be thought of as a cognitive map (Bougon *et al.* 1977). Cognitive maps show what each partner sees as key components of the problem and how they believe these components are linked together. Thus, they reveal chains of reasoning (Eden 1989). One model of partnership construction, then, involves building a joint map of the key constructs and levers that affect the problem of interest.

Multi-attribute utility theory (MAUT) offers another basis for problem structuring. From this perspective, partners are presumed to be boundedly rational decision-makers (March and Simon 1958) whose task is to decipher the various options that are possible within a problem context. This approach

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draws heavily on the belief that decision-makers have sufficient information about the parameters of the problems under consideration and also that they are able to assign values or utilities to their preferences (Keeney 1992). A utility function ascribes rankings to a decision-maker's preferences among all possible outcomes. By quantifying preferences, partners can determine where their priorities converge and can search for trade-offs among the various choices that satisfy the most important issues for each partner (Keeney 1992). Quantification also enables aggregation of preferences and prioritization across a large group. A fundamental premise of this approach is the notion that there is a single dimensional value measure that can be used forranking choices, but for some sensitive issues (such as the value of life), this premise has been challenged by participants.

Problem-structuring Interventions

When interveners adopt a *problem-structuring* role one technique they can used that draws on multiattribute utility theory is called *analysing interconnected decision areas (AIDA)* (Friend and Hickling 2005). A decision area refers to an opportunity to act in at least two alternative ways with respect to a problem. Interdependent decision areas can be linked to produce decision graphs. After selecting a set of decision areas (or problem foci), decision-makers map out the decision options associated with each decision area and then compare the compatibility of options across decision areas. The AIDA approach offers various visual methods for distinguishing viable from infeasible options. Once a feasible range of options is identified, a multi-attribute utility process is employed to help decision-makers weigh the advantages and liabilities of each option.

Other approaches to problem structuring enable the partners to identify the various components of a problem and examine their interrelationships through cognitive mapping. Rather than structuring a choice among alternatives, as in MAUT, these approaches use a ‘modeling method to capture, analyze and play back to participants the substance of the issues under discussion’ (Huxham 1996: 142). An important variant of these approaches is utilization of *group decision support (GDS)* to help manage the data and map the interactions among problem components. For example, interveners using Strategic Options Development and Analysis (SODA) (Eden 1989) build cognitive maps from issues suggested by participants, thereby enabling them to better visualize a composite set of interrelated components of the problem. A secondary consequence is that concerns

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about the partnership also frequently emerge during this process (Huxham 1996).

Reflective Intervening

The task of *reflective intervening* refers to interveners seeking information about the alliance in concert with the partners. The reflective aspect of this role stems from the activities the intervener promotes in which participants study themselves, their past and current interactions, and decide on needed changes to the partnership arrangements.

Background Theory: Organization Development/Action Research

The underlying theoretical perspective that informs reflective intervention is rooted in the literature on organizational development and action research.While originally designed to guide participatory interventions *within* organizations, organization development processes (diagnosis, feedback, intervention, and evaluation) have been extended to Inter-organizational systems (Cummings 1984) in order to facilitate learning among the partners. Similarly, action research processes involve the co-creation of reality by those involved (Reason 1994), and, in Inter-organizational settings, stress the active involvement of stakeholders in shaping the outcomes of or changes to the alliance along with the interveners.

OD/Action Research-based Interventions

Although there are many strands of action research (Elden and Chisolm 1993; Reason 1994), some common tenets are particularly relevant for interventions in Inter-organizational settings. One key premise is involvement of the partners in diagnosing the primary reasons for seeking alliances and the primary obstacles preventing an alliance. By building this *joint diagnosis*, collaborators then agree on action steps to take to rectify these limitations. Many approaches to action research stress the importance of developing an ongoing learning process among the partners. These learning models intervene by trying to instil double loop learning (Argyris and Schon 1978; Argyris *et al.* 1985)—observing and reflecting on how one learns, among partners, and then initiating change in their interactions.

One particular reflective technique is called *appreciative inquiry*. This technique stresses the positive potential inherent in working together (Cooperrider and Srivastva 1987; Barrett 1995). Participants are encouraged

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to ask questions about each other's strengths, achievements, visions, and the possibilities each envisions for what they might jointly create. By valuing the positive, rather than emphasizing threats or problems, appreciative inquiry tries to minimize social-psychological resistance to change.

Some forms of action research (known as participatory action research) stress the importance of levelling the playing field among partners. Community empowerment is an express premise of participatory action research interventions (Tandon 1989; Fals-Borda and Rahman 1991; Elden and Levin 1991; Himmelman 1995). This approach ‘aims to confront the way in which the established and power-holding elements of societies worldwide are favored because they hold a monopoly on the definition and employment of knowledge’ (Reason 1994: 328). Key tasks of interveners in these circumstances are to take preliminary actions to guard against cooptation and to ensure lower power partners have a legitimate, independent base from which to raise their concerns. For example, interveners may need to mobilize low power groups to present a coherent voice and gain the attention of more powerful parties in order to initiate a partnership (Schumaker 1975).

Process Design

Process intervention makes a critical distinction between the content (or task work) of a partnership and the process (or interactions among the partners) (Schein 1978). Paying attention to the stages in which collaboration unfolds (McCann 1983; Gray 1989; Ring and Van de Ven 1994), to how meetings among the partners are conducted, and the patterns of interactions occurring over time, constitute important tasks for process designers (Gray 1989; Schuman 1996, 2006). Explicit consideration of the principles by which the deliberations will be conducted and decisions will be undertaken can mean the difference between a well-managed process and one in which various parties feel ‘used’ by others.

Background Theory: Process Design

Process interventions have their roots in the action research/organization development tradition informed by Lewin's (1951) early work, but are also informed by the Tavistock tradition of group dynamics (Bion 1961) and by more recent work on group facilitation (Schuman 1996, 2006). The group dynamics approach argues that individual behaviour is highly influenced by group membership and that understanding dynamics at the group and intergroup levels is essential for intervening to facilitate Inter-organizational

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relations. For example, groups often divert from the task of joint problem solving to address members' underlying anxieties and needs (such as concerns about belonging, influence, and dependence versus independence) (Bion 1961).

Attention to process dynamics helps groups address these underlying anxieties and redirect their attention to the task of alliance building. Schuman (1996: 128–9) identified three types of process: cognitive (dealing with the information, values, beliefs, and ideas of partners), social (concern with interpersonal interactions and communication), and political (focus on shifts of influence and resources). While many Inter-organizational partnerships proceed without explicit attention to the processes by which the stakeholders interact (e.g. those which evolve very organically over time; see Cropper and Palmer, this volume); ‘conveners and negotiators frequently underestimate the critical role of process in ensuring successful collaboration (Patton 1981; Wondolleck 1985)’ (cited in Gray 1989: 265). Process designers can advise partners and encourage discussion among them about the principles governing representation within the partnership, expectations regarding participation, decision-making processes, ownership of and responsibility for outcomes, power sharing, and interactions with constituents, the media, and with the larger community in which the partnership is occurring (in the case of policy and community forums and MSCs). These issues are discussed in detail below under mediation because of their importance in fostering transparency and constructive norms for Inter-organizational interactions.

Process Interventions

Interveners engaged in process design assume responsibility for thinking through and executing a design for how the parties will interact and gaining commitment to the process from them. ‘Agreeing on what would constitute a fair and sufficiently comprehensive process is usually easier than agreeing immediately on the solution’ (Potapchuk and Polk 1993). Not all collaborators have or think they even need a process designer, but someone with knowledge of meeting design and group dynamics can help to ensure the parties' interactions are constructive and to avoid classic pitfalls that can derail even well-intended partnerships. In addition to building in a discussion of the ground rules or norms of interaction, process designers wrestle with ‘shape of the table’ issues and decide when plenary versus small group meetings, caucuses or joint data collection may be productive. They can also introduce or design computerized tools to aid the partners'

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deliberations (Huxham 1996; Ackermann *et al.* 2005) and procedures to ensure that the two-table problem (Colosi 1985)—gaining consent of back-home constituents for any agreements reached—is satisfactorily addressed during implementation.

Mistrust of the process, and the anxiety associated with it, also arises when participants have differing conceptions about what will happen. Tensions can arise because partners have different ideas about the issues and about how to collaborate, and alliance partners differ in the degree of process knowledge they want to assume (Huxham 1996). ‘Conferring with the parties about what is going to happen next and who is going to do it ensures that expectations are not mismatched and that the parties retain ownership of everything that happens’ (Gray 1989: 266). Still, since collaborating frequently involves coordinating in the face of ambiguity (Huxham and Vangen 2000*b*), even the most careful designs can go awry because of environmental exigencies, unwitting behaviour by participants, or deliberate power plays (Hardy and Phillips 1998). For example, in an MSC, a collaborative agreement unravelled because, within a six month period, several key members left the alliance to pursue other career opportunities. In this situation, a useful ‘process’ remedy would have been to ensure redundancy of representation so that institutional memory of the agreements negotiated through collaboration is not lost when key participants leave the process (Gray 1995). While this remedy might have prevented collapse of the partnership, in reality, increasing the size of the partnership may reduce the group's ability to work together effectively.

In some collaborative settings it is desirable to involve large number of participants in the process to ensure diversity of viewpoints and widespread support for agreements that are reached. In these *large-scale interventions* sponsors may employ interveners to assist with the convening function and to design and conduct a large-scale system intervention. Particularly on public issues when incorporating the viewpoints of a wide array of participants (as in deliberative democracy projects)is desired, process facilitators can bring both the technological expertise and the process skills to assist in convening and managing the process. For example, using what they refer to as the 21st Century Town Meeting, America*Speaks* successfully convened a citizen engagement effort in which 4,500 New York residents, representing the city's demographic diversity, offered reactions to the initial site plans for the design of the World Trade Center memorial (Lukensmeyer and Brigham 2005). The participants met in face-to-face facilitated roundtable dialogues and used simultaneous voting via electronic

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keypads to test for group consensus on the major issues. The consensus recommendations informed the next phase of planning for the project (Lukensmeyer and Brigham 2005). For a helpful review of process methods, see Bryson and Anderson (2000).

Conflict-handling

The task of *conflict-handling* can be performed by one of the partners or by a third party. Since conflicts can arise at any point during Inter-organizational partnerships (Gray 1989) and are likely to negatively impact performance (Lyles and Salk 1996; Steensma and Lyles 2000; Gray and Schruijer forthcoming; see also, Schruijer, this volume, for a discussion of conflict from a social psychology perspective), without formal or informal means of working through these disruptions, potential collaborations may succumb to inertia (Yan and Gray 2001; Huxham and Vangen 2004). Interventions designed to address and resolve conflict often distinguish successful from failed partnerships. Thus, conflict handling is a critical skill for interveners and it becomes increasingly important when the number of partners is large and when historical animosities among partners are imported into new partnerships. While there are many approaches to resolving conflicts effectively, I focus here on mediation.

Background Theory: Mediation

Mediation is a dispute resolution process in which a third party neutral helps disputants to jointly educate each other about the issues and interests involved in the dispute and to design and possibly implement a solution (Moore 1986). ‘The goal of formal mediation is to change a competitive conflict to a cooperative interaction characterized by (1) effective communication, b) less obstruction, c) orderly discussion, d) confidence in one's ideas coupled with support for the ideas and concerns of other participants, e) coordinated efforts to resolve the conflict’ (Deutsch 2000: 25). The advantages of mediation over other forms of dispute resolution (e.g. negotiation, arbitration, litigation) are: (1) the parties are treated with respect, their personal worth is confirmed, and they experiencepsychological success and are more willing to accept change (Argyris 1970); (2) the process is voluntary (which ensures a sense of personal control over one's participation); and (3) the parties themselves, who are the most knowledgeable about their own needs relative to the issues under consideration, design and select alternative courses of action (rather than having solutions imposed by a judge or arbitrator).

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Even with mediation, some stakeholders are highly resistant to partnering because they hold incompatible frames about the issues. By framing I mean ‘shaping, focusing and organizing the world around us’ (Lewicki *et al.* 2003). When parties frame their worlds in ways that cast other stakeholders as their enemies, view them as antithetical to their interests, experience threats to their own identity framing and/or construe options for overcoming their differences with these others as hopeless, launching a successful partnership will be difficult if not impossible. If an intervener cannot assist parties to reframe their experience (e.g. a trusted visionary creates a plausible argument for partnering) or exogenous factors call attention to unrecognized interdependencies, frames can inhibit parties from even searching for joint interests (Lewicki *et al.* 2003; Gray 2004).

Conflict-handling Interventions

Mediators search for ways to reframe disputes and construct social accounts of the parties' various needs to promote win-win solutions (Moore 1986; Gray 2005). Mediators also help partners assess the value of partnerships, design the process and ground rules for partners' interactions, facilitate disclosure of interests and construction of alternative solutions, and ensure sustainability of the agreements reached (Gray 1989; Carpenter 1999; Susskind 1999).

Mediators also help to build trust among partners in contexts where trust is absent. Trust issues can arise from the moment parties consider joining forces. Decisions about whether to enter into an alliance with a partner are based on trust levels in past alliances (Gulati 1995), and many collaborators decry the lack of trust in their partnerships (Vangen and Huxham 2003). If a history of trust already exists, interveners can reinforce it by asking potential partners to recount instances in which they behaved trustworthily (Moore 1986). When partners' relationships are characterized by mistrust, trust must be demonstrated repeatedly to be restored. An iterative process of forming expectations followed by demonstrations of good faith will be necessary to overcome the vulnerability they may feel towards one another (Vangen and Huxham 2003). ‘Through increasing the number of promises and congruent actions that reinforce the belief that the commitment will be carried out, negotiators gradually build a relationship of trust’ (Moore 1986: 142). ‘When business, government and civic leaders attempted to revitalize the city of Newark, New Jersey, community groups refused to begin work on the process design until the business sector demonstrated its commitment to the city’ (Strauss 1999: 142).Several concrete short-term projects were

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identified and completed as a demonstration of good faith before a longer consensus-partnership commenced.

When parties harbour ingrained stereotypes about each other and mistrust is long-lived, multiple experiences of matching experience to expectations may be necessary before they begin to trust one another. Research has shown that unless parties spend time within positive interactions with each other (Amir 1994), they continue to employ stereotypes in their views of each other. Supplanting stereotypes with more realistic appraisals of other stakeholders can be accelerated through joint data-gathering trips (Redford 1987; Gray 1989), in which participants share common experiences and get to know each other as individuals, and perspective-taking exercises that enable groups to acknowledge and work past their biased views of each other. These perspective-taking activities encourage parties to reconsider the ways they have framed each other and try on alternative interpretations (Sessa 1996; Tenkasi and Mohrman 1999; Gray 2006).

As noted earlier, process interventions that establish clear ground rules also enhance trust if they are actively enforced by facilitators and participants (Dukes *et al.* 2000), as does transparency in the agenda and efforts to ensure voice for all parties. Use of interest-based negotiation techniques also help to honour everyone's preferences to promote the search for win-win alternatives (Fisher *et al.* 1991). Interveners may also elect to conduct preliminary interviews with participants (as part of the feasibility assessment) and then feed back a composite of this information so that parties learn the level of issue consensus and gain a clear understanding of the issues. In situations where the potential for defection from a trusting relationship is perceived to be high, interveners can assist parties to construct contractual provisions that mitigate against breeches of trust and ensure that future interests are protected (Ring and Van de Ven 1994; Das and Teng 1998).

Internal Brokering

Internal brokers handle information-sharing among partners. Like conflict handlers, these individuals are usually partners themselves (although third parties can also perform this task). Brokering becomes increasingly important as partnerships extend in duration or grow in size. The task involves ensuring that all relevant parties have opportunities to provide input and receive information about domain issues. In alliances with geographically

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remote partners, brokers may be their primary link to a larger network of organizations.

Background Theory: Social Network Theory

Network approaches have been used to explain how firms can create collaborative relationships and to distinguish effective from ineffective alliances. Socialties provide access to reliable, inexpensive information about the quality and trustworthiness of others in one's network (Burt 1992; Stuart 1998; see also Kenis and Oerlemans, this volume). Because acquiring information is costly, relying on trusted network sources is prudent as is engaging in repeat alliances with trusted others (Gulati 1995). How a firm is situated within a wider network of other firms will affect its propensity (Walker *et al.* 1997) and its ability (Stuart 1998) to form strategic alliances. In the context of organization development (OD), 'the reported success of OD interventions, such as whole system design and search conferences, can be explained at least partially by social network theory, in that such forums enable the creation of networks and strong ties between networks of actors in an organization' (Tenkasi and Chesmore 2003: 297). Effective innovators, for example, have critical cross-departmental linkages (Tsai 2000) and a greater density of ties (Provan and Milward 1995). Network perspectives emphasize the dynamic and reciprocal nature of alliances, which are shaped by and can reshape networks over time. For example, search conferences can reorient the centrality and influence patterns of actors within a collaborative group (Clarke 2005: 43).

Other network interventions can adjust the power structure within the network. Centrality in networks is associated with power, but some intervention theorists explicitly conceive of alliances as arenas for power-sharing (Gray 1989; Bryson and Crosby 1992; Himmelman 1995). Others emphasize the role that discursive power plays in shaping collaborative agendas (Lawrence *et al.* 1999). When more powerful parties have discursive legitimacy (Hardy and Phillips 1998) and/or control access to the decision-making arena (Schumaker 1975; Bouwen *et al.* 1999; Gray 2004), a critical challenge of intervention is to ensure that cooptation (Selznick 1957) of lower power partners does not occur.

Network-inspired Interventions

One network-based intervention strategy is *establishing brokers* at key points in the network. Brokers play vital roles in joining actors from unconnected

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networks by filling structural holes (Burt 1992; Fernandez and Gould 1994; Gray *et al.* 2005). Brokers 'intervene' by building linkages and increasing information flow among unrelated parties (Westley and Vredenberg 1991). By inserting themselves into key positions, brokers also serve as entrepreneurs (Burt 1992) and as conflict handlers (Gray *et al.* 2005). Brokers with cultural fluency can serve as *translators* to facilitate alliances across cultural boundaries. Cultural fluency refers to the capability to 'experience from as many angles as possible the multiple levels of meaning, identity, and communication in cultures' (LaBaron 2003) and is an important skill for bridging cultural conflict within alliances. One concrete way this can affect collaborative design is in the selection of the ground rules. 'Most common ground rules in use today have evolved from a Western tradition that emphasizes efficiency andindividuality' (Dukes *et al.* 2000). If participants hail from non-Western cultures, then sensitivity to selecting ground rules that respect the values inherent in these cultural traditions would go a long way to beginning to reduce stereotypes and engender trust.

A second network-inspired technique is p*ower bridging*, which is particularly important in networks when there is considerable asymmetry among stakeholders. When the field is not level, a key task of interveners is to mediate between stakeholders who can exert different levels of power. Power bridgers can be powerful stakeholders themselves or third parties who have the necessary clout to bridge the gap between low and high power partners. Their primary function is to provide standing for low power partners and to play bridging roles (Westley and Vredenberg 1991) in the negotiations among partners of differential power. For example, the Catholic Church played this latter role in Ecuador in 1995 to garner a role for indigenous people in land reform negotiations with the government and the International Development Bank (Treakle 1998).

Once at the table, interveners can help to level power differences by building checks and balances to prevent cooptation and ensure elite compliance with collaborative agreements. For example, independent watchdogs can be enlisted to oversee the fairness of the proceedings or sanctions agreed upon in advance can be evoked if powerful parties abuse their power during implementation. Powerful parties can voluntarily make themselves dependent on other stakeholders. For example, the partners can stipulate that if any of them fail to comply with the agreement, decisions can revert to traditional enforcement procedures (such as agency enforcement of codes).

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Institutional Entrepreneurship

The task of *institutional entrepreneurship* involves promoting the institutionalization of norms and agreements within an emerging field of organizational actors (Lawrence *et al.* 2002). Their role becomes salient during the implementation and institutionalization phases when agreements reached by the parties need to become routinized and monitored for consistency.

Theoretical Background: Institutional Theory

Osborn and Hagedoorn (1997: 272) have noted that ‘alliances and networks can be seen as experiments in institution building’. Forging new relationships and new ways of working not only requires a cognitive shift, but also a shift in routines and practices and may require forging new structural arrangements. Emerging fields are devoid of norms that specify legitimate behaviour so these need to be agreed to and specified, which Trist (1983) refers to as structuring. If the new practicescan be embedded in existing routines and align with prevailing values, they will be easier to institutionalize, but when partners are initiating new fields, the task of norm construction and implementation must accommodate values and practices from diverse partners (Maguire *et al.* 2004). For example, partners may differ in the degree to which they find formal rules, procedures, and contractual specification advantageous. While under-institutionalization may thwart coordination, over-institutionalizing—by establishing tight boundaries, formal structures, and clearly specified rules and procedures to regulate partners' interactions—may backfire, by curtailing the flexibility needed to incorporate diverse views (Westley and Vredenberg 1997), reduce partners' ability to learn from each other, cause alliances to revert to pre-alliance power relations, and lead to disappointment when expected outcomes are not realized.

Institution Theory-based Interventions

While no specific intervention techniques for institutional entrepreneurs have been identified, some guidance can be offered. This includes anticipating resistance from back-home organizational members not part of alliance-building efforts and designing in a way to bring them on board. *Replicating* a partnership involves translating a successful Inter-organizational design to a new context. This work may involve a corporation starting up additional joint ventures in a venue, duplicating an MSC among new partners in a new

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venue, or promoting multiple innovative alliances simultaneously in multiple locations and/or on different topics. As noted in an earlier example, a critical step in the success of replications is to get buy-in from stakeholders in the new context before proceeding.

Applying the Intervention Techniques

Interveners who are not caught up in the dynamics and concerns central to an Inter-organizational partnership can prove potentially useful in navigating the minefields that lead to collaborative inertia. While most of the evidence for this statement is case-based, it is possible to speculate on when specific intervention techniques may prove most useful. Phase models of partnership formation involve distinct periods of sequential activities. While these have been demarcated and labelled slightly differently depending on the type of IOR (cf. McCann 1983; Gray 1989; Ring and Van de Ven 1994; Doz 1996; Strauss 1999), here I work with four phases: problem setting, direction setting, implementation, and institutionalization. In Phase 1, intervener tasks of visioning, convening, process design, and brokering, across power differences are most useful. In Phase 2, process design, reflective intervention, problemstructuring, brokering, and conflict handling are beneficial. For Phases 3 and 4, brokering and institutional entrepreneurship are valuable.

Table 25.1 provides an overview of all eight intervention tasks and indicates the phase of alliance formation in which they are advantageous and some general conditions for their use. While a more extensive analysis would require another whole chapter, I can offer some general considerations here. Assessment of which intervention technique to apply should consider the phase of development of the alliance, the extent of mistrust and conflict that characterizes the partners' interactions, the type of IOR problem (e.g. public policy development or joint venture formation), the complexity of the issues, and the number of participants. While many of the interventions can be adapted for multiple contexts, careful review of the strengths and weaknesses of each technique should be undertaken before selecting one. Finally, returning to an initial point, while partners themselves can serve as interveners, many of the techniques described here require considerable knowledge, training, and skill, best provided by a third party.

Conclusion

In this chapter I have made a case for why intervention in Inter-organizational partnerships is often necessary and advantageous. I have

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also identified multiple tasks that interveners can undertake with the hope of improving partnership formation and evolution. While this review has emphasized interventions for improving Inter-organizational partnerships that have grown out of well-reasoned theories of group and organizational dynamics and change, it is worth noting that to date there has been no systematic basis for evaluating or comparing the utility of these intervention techniques. Alliance formation does not lend itself to laboratory study, and few, if any, natural experiments permit such comparisons.

In lieu of more experimentally based evaluations, future researchers might carefully scrutinize each form of intervention to discern its major strengths and weaknesses and the conditions most conducive to it producing its desired ends. Research should also articulate the requisite competencies for individuals attempting such interventions and which interventions are most appropriate for different types of Inter-organizational partnerships. With this additional knowledge, skilful interveners (those equipped with theoretical knowledge about organizational change and unassailable process skills) will have the best chance of making interventions to improve Inter-organizational partnerships that have the greatest likelihood of success.

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Evaluating Inter-organizational Relationships

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Abstract and Keywords

Despite the prevalence of inter-organizational relationships (IORs) in organizational life and despite the vast amount of research that has been conducted on the topic, there is considerable confusion over exactly what outcomes are actually achieved. One major reason for this confusion is simply that evaluation is complex. It is difficult to determine with any precision what specific outcomes result from an IOR and what outcomes might have occurred in the absence of an IOR. This article presents a general discussion of the rationale for evaluation, and then discusses and categorizes the various ways in which IORs have been evaluated over the years so that researchers, and also practitioners, will be able to address the important issue of evaluation in a more systematic way. Finally, it concludes with a discussion of the evaluation process, and how it might best be managed in light of current trends towards a collaborative approach to evaluation and the obvious path dependencies of evaluative practices.

inter-organizational relationships, organizational life, research, evaluation process, collaborative approach

Introduction

Despite the prevalence of Inter-organizational relationships, or IORs, in organizational life and despite the vast amount of research that has been conducted on the topic (see reviews by Oliver 1990; Alter and Hage 1993;

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Oliver and Ebers 1998; Baker and Faulkner 2002; Borgatti and Foster 2003; Brass *et al*. 2004), there is considerable confusion over exactly what outcomes are actually achieved. One major reason for this confusion is simply that evaluation is complex. It is difficult to determine with any precision what specific outcomes result from an IOR and what outcomes might have occurred in the absence of an IOR. The problem is compounded by the prevalence of different theoretical perspectives for explaining IORs. For instance, is the outcome financial as economists would claim, is it enhanced power and resource acquisition capability as resource dependence theorists would claim, or is it increased legitimacy as argued by those adopting an institutional theory perspective? Furthermore, the problem is complicated by questions aboutthe appropriate level of analysis. Who generates and appropriates IOR outcomes? Is it the specific firm engaged in an IOR, the IOR dyad, a more complex network of IORs, or even the hub firm organizing a network of IORs?

Our intent here is not to resolve these fundamental differences in perspective. Nor will this be an exhaustive review of the literature on IOR evaluation, especially since the evaluative aspect is so prominent in many studies of IORs. Rather, we present a general discussion of the rationale for evaluation, and then discuss and categorize the various ways in which IORs have been evaluated over the years so that researchers, but also practitioners, will be able to address the important issue of evaluation in a more systematic way. Finally, we conclude with a discussion of the evaluation process, and how it might best be managed in light of current trends towards a collaborative approach to evaluation and the obvious path dependencies of evaluative practices.

Our work is guided by two basic assumptions. First, we assume that IORs are the product of purposeful choices by organizational managers, even if these choices are motivated in part by pressures to conform. Second, our focus is at the strategic level of the organization. Thus, we do not consider those relationships developed between the lower level participants of multiple organizations to further their own personal or departmental ends.

Why Evaluate IORs?

The simplest answer to this question is that evaluation provides a benchmark for judging success, which allows managers to decide if a particular relationship or type of relationship is worth maintaining. It also gives researchers a mechanism for meaningful comparison of IORs, facilitating decisions about whether or not the study of IORs even matters, and if

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so, what structures or processes seem most likely to contribute to IOR success. In this way, generalizable theory on the topic can be built. Thus, it is reasonable to expect that IORs can and should be evaluated, and that the formation of an IOR will actually lead to some sort of positive outcome.

In part, the question of why IORs should be evaluated depends on whether one considers the needs and perspectives of the researcher, key stakeholders, or the practising manager. From the manager's perspective, IOR evaluation becomes a task of matching expectations with reality. What does top management expect to get from the IOR? Over what period of time? Have these expectations been met, either based on perceptions of goal accomplishment or on actual achievement using hard data? From a managerial perspective, evaluation procedures are not only used to establish the effectiveness of IORs but to launch, improve, or discontinuethem. This action-oriented purpose is reflected in the long-established distinction between summative and formative evaluation (Clarke 1999). Key stakeholders, like customers and shareholders, will also have expectations for the outcomes of IORs. Engaging in IORs will most likely incur costs to organizational partners so stakeholders will want to know how new products, better service, and overall performance are affected. At least in the for-profit context, these expectations are likely to favour typical stakeholder demands for short-term results.

Beyond the rationalistic concerns of managers and other stakeholders, evaluation is both fashionable and expected, and for a very good reason. In an ‘age of evaluation’ (Guba and Lincoln 1989) or, more generally, in an ‘auditing society’ (Power 1997), there is an increased pressure on practitioners to legitimate their actions, including the formation and maintenance of IORs.

Perspectives on Evaluation

Evaluation has been characterized as ‘disciplined inquiry’ (Cronbach and Suppes 1969; Guba and Lincoln 1989). Hence, any assessing, auditing, or monitoring activity should be considered as evaluation, at least in a narrow sense, only if it follows formal procedures that are informed by scientific methods of collecting and analysing information about programmes, projects, planned interventions, organizations, IORs, and the like. This ‘information’ may concern the structure, the process, and/or the outcome of IORs and thus help researchers, as well as practitioners, to establish the value of IORs for an organization, an Inter-organizational network, or even more encompassing social systems like an organizational field or population.

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This form-oriented and method-based understanding of evaluation seems to be widely shared not only among evaluation researchers (cf. Clarke 1999) but also among those interested in evaluating dyads or networks of IORs (Provan and Milward 2001; for a review see Sydow and Milward 2003). Nonetheless, a considerable debate continues about the appropriate scholarly foundations of evaluation and evaluation research. This debate is centred on paradigm choice, determining the most suitable ontological, epistemological, and methodological path for pursuing evaluation as a disciplined inquiry.

Positivistic and Constructivist Paradigms

Though both evaluation research and research on IORs make use of a broad range of diverse paradigms, the debate between positivists and constructivists iscertainly among the most pronounced and consequential. Positivists basically believe that organizational outcomes are both predictable and explainable and that these outcomes can be determined through use of appropriate scientific methods. The ontological assumption here is that there is an objective reality 'out there', existing independently of human perception and interpretation. Given the appropriate methodology, which is developed according to the standards set by the natural sciences, it should be possible to describe and explain this reality independently of the researcher, as is possible in the natural sciences (Clarke 1999). Positivists believe that this perspective should also be valid for evaluation research, and by extension, for research on IORs. For evaluating IORs, the positivist view is best illustrated by the abundant structural approaches that focus on objectively detecting allegedly stable patterns of interconnections and then, their behavioural and economic consequences.

Evaluation research started off in this positivistic tradition, now referred to as the first three generations of evaluation (Guba and Lincoln 1989). Using this approach, an objective evaluation of a programme, policy, or practice is considered to be feasible, given a clear *ex ante* understanding of what constitutes a successful programme, policy, or practice. The long-standing dominance of this paradigm in evaluation research, however, eventually led to criticism during the 1980s that the approach lacked creativity and contextual sensitivity. In response to this criticism, the positivist approach was finally supplemented, but not substituted, by a constructivist paradigm (Clarke 1999).

This more recent paradigmatic shift in evaluation research, often referred to as a switch to 'fourth generation evaluation' (Guba and Lincoln 1989),

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puts not less, but a different, emphasis on how evaluation is conducted as disciplined inquiry. Constructivists believe that there is no one reality that can be established objectively, but rather, multiple, subjective, and fluid realities. In consequence, they acknowledge that evaluations are based on systematically 'uncertain' data that have multiple, contested, or even unclear purposes that may be used to further the interests of some actors at the costs of others, and, hence, be considered as politically charged processes of exercising power and control. These realities can be best documented and, finally, understood by using 'thick' descriptions that require a method very different from structural or quantitative methods. Nevertheless, the claim for evaluations to be carried out as disciplined inquiries stands.

For evaluating IORs, we follow Clarke (1999: 40–1) in his quest for a rather strict separation of 'the debate over the supposedly distinct and opposing methodological paradigms from the debate about the relative advantages and disadvantages of two types of research methods'. Evaluators should be aware not only of the full spectrum of research methods and the assumptions behind the positivist and constructivist approaches, but also they should have insight into how to choose between the two when conducting an evaluation. Evaluators of IORs should also know when, andunder what circumstances, the two approaches can be combined in a single study (see Hassard 1991, for an example).

Normative and Practice-based Approaches

A second, related debate focuses on the question of whether evaluation research should simply describe and document actual evaluation practices, or rather, inform how evaluation should be done in a normative manner. Since surprisingly little is known about the actual practice of evaluating IORs, we advocate an approach that builds on a descriptive understanding of how IORs have actually been evaluated, both by researchers and in practice (cf. Sydow and Milward 2003).

Strangely enough, despite the economic importance attached to IORs and the obvious need to legitimize them in what has become an 'auditing society', IORs still do not often seem to be subject to a systematic evaluation by practising managers (Bamford and Ernst 2002). This is quite surprising given the importance and prominence of IORs, including the need to select and reselect Inter-organizational partners. Even instruments developed for practical use in supply chains and networks, like variants of the balanced

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scorecard (Kaplan and Norton 1996), do not seem to be widely accepted for evaluating IORs. If IORs are evaluated, the procedures followed tend to be organization-focused, ad hoc, informal, and diverse. Empirical studies of actual IOR evaluation practices illustrate this clearly. Child and Faulkner (1998), for example, report on the evaluation practices of half a dozen joint ventures and collaborations and conclude that the partner's initial contribution to the alliance is mostly evaluated, if at all, using quite simple, informal, and inexact calculations. What is more, the specific evaluation approaches used were quite diverse, depending not only on the type of alliance, but also, on the partners' attitudes towards alliances and the way in which partners expected their relationship to be managed and evolve over time.

In another study, Sydow (2004) investigated a network of seven, and later twelve, medium-sized insurance brokers over a period of more than ten years. The complexity and formality of the evaluation procedures used by the brokers varied significantly over time. Specifically, formal evaluations were applied only infrequently in both earlier and later stages of network development. During the middle stages several rather simple and ad hoc evaluation methods were used.

In yet another study, the evaluation practices of a managed care network of more than 40 health and human service providers serving the mentally ill in one city was investigated. Provan, Isett, and Milward (2004) found that the network administrative organization focused primarily on measurable, organization-centred indicators, like speed of client intake and maintaining treatment plans, which were not necessarily closely tied to the network activity that was supposed to have been assessed.

In sum, those few studies that have reported practice-based approaches to IOR evaluation (see also Tyler and Steensma 1998) reflect the fact that these approaches tend to be organization-focused, ad hoc, informal, and diverse in terms of the specific measures used. Therefore, they also document vast opportunities for methodological improvement. In sharp contrast to these purposefully descriptive, practice-oriented studies, almost all other evaluation studies of IORs follow a more normative, theory-based approach. For that reason, the following discussion of relevant constructs and levels is almost exclusively based on this type of study, which predominantly follows the positivist paradigm.

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Relevant Constructs and Levels

IORs have been evaluated by researchers in many different ways using a variety of constructs and at different levels of analysis. Because so many specific approaches and measures have been utilized by researchers, it is difficult to generalize about what constitutes an effective IOR or even how IOR evaluation should be conducted. If real progress is to be made in understanding what IORs can and cannot accomplish, researchers must be able to identify when certain measures and approaches might be more appropriate than others, rather than selecting measures and approaches based on availability of data or for reasons that may be unconnected to any particular theoretical rationale. A thorough review and synthesis of all the research done on IOR evaluation is beyond the scope of this chapter. However, a more narrow examination of a range of IOR studies should help to provide a good understanding of the ways IOR evaluation has been done.

Our method here is to explore the various approaches that have been used to evaluate IORs, organizing them in several ways. First, we organize the approaches into the three commonly used categories for assessing effectiveness developed by Donabedian (1980): structure, process, and outcomes. These three categories are sequential, both in terms of time and complexity of evaluation, and each provides data and an understanding of effectiveness that is somewhat different. This categorization also implies that evaluating IORs, in practice, has to consider the trade-off between more input- and more output-oriented measures of effectiveness. While practising managers generally seek output-oriented indicators, these are often not available. Moreover, such indicators do not necessarily reflect system improvement, which is typically required in the case of formative evaluations. Under these circumstances, more input-oriented indicators are often preferable, even if their relationship to outcome indicators may be unclear.

Given the very different objectives, occasions, conditions, and approaches for evaluating IORs, the three categories we use thus provide a reasonable way of organizing thinking about IOR evaluation. It is important to note, of course, that the sharp distinction between categories and the strict sequentiality implied in our model are not entirely realistic, especially in light of the recursive interactions emphasized by a constructivist perspective.

Within each of our categories, we present and discuss evaluation approaches at both the organizational and network levels. We also demonstrate how

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each category of measure reflects one or more of the various theoretical perspectives that have been used to explain IORs. Though most IOR studies still address the organizational level, focusing on the organizational effectiveness attributed to IOR involvement, we are not alone in our conviction that the network level of evaluation, or what has been referred to as network effectiveness (Provan and Milward 1995), will increasingly complement work done at the organizational level or even at other levels of analysis (e.g. field or department). A complete IOR evaluation approach might well call for not only consideration of several structural, process, and/or outcome indicators, but also measurement of these indicators at both the organizational and network (and other) levels. Such reasoning is very much in line with recent claims for a multi-level perspective on IORs in general, and on networks in particular (Brass *et al*. 2004).

Structural Indicators

Structural indicators of IORs are those that focus on the connections between organizations. Most cross-sectional research that addresses IOR evaluation utilizes the structural properties of the relationship as an independent variable. The assumption is that relational structure, which itself is an input-oriented measure of organizational or network effectiveness, leads to various outcomes. This is the basis of much of the research on network embeddedness (see also Kenis and Oerlemans, this volume). This work examines the extent to which organizations are structurally connected to the larger social system in which they operate, which in a 'society of organizations' (Perrow 1991), often consists of other organizations. The nature of these links is typically considered as long-term and trust-based, rather than resulting from a short-term economic calculus. The implicit assumption is that some ideal level of structural embeddedness is critical for effective performance (Uzzi 1997; Rowley *et al*. 2000) and other outcomes, like charitable contributions (Galaskiewicz 1997).

At the most basic level, a structural indicator simply reflects the existence of a link. Structure may also refer to the type of IOR, such as alliance versus joint venture (Gulati and Singh 1998), dyadic versus multi-party joint ventures(García-Canal *et al*. 2003), the organizational level at which the link occurs (Bolland and Wilson 1994), and the variety of types of ties between partners, such as business versus friendship versus information sharing (Human and Provan 1997). These more complex structural indicators can be utilized to evaluate organizations and Inter-organizational networks, even when only cross-sectional data are available. For instance, the existence of

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multiplex ties between partner organizations can be used as an indicator of network strength and likely sustainability (Provan *et al*. 2004), especially when compared with IORs based on only a single type of link.

When utilizing longitudinal data, structural indicators potentially become much more valuable for IOR evaluation. For instance, work by Gulati (1995) examined the change in type of tie between partner organizations. He found that formal, equity-based ties were important as a testing ground for firms trying to work together. The experience gained from these previous ties then led to a shift in the structure of the relationship, from formal and equity-based, to more informal and trust-based. Following on this logic, an evaluation study that detected an abundance of more informal, interpersonal ties would indicate an advanced, rather than an early, level of network evolution. This conclusion does, however, contradict the intuitive assumption that the development of IORs starts with informal, trust-based personal relationships that evolve into more formal, system-level relationships, or that the two types of relationships often coexist (cf. Isett and Provan 2005).

Structural measures often used for evaluating Inter-organizational networks, especially as they evolve, include changes in both density and multiplexity, as they develop from early formation to maturity (Human and Provan 2000; Owen-Smith and Powell 2004; Provan *et al*. 2004). *Density* is usually defined as the number of actual relationships in a network divided by the maximum number of ties that are possible. The point here is that as networks develop, effectiveness depends in part on building connections among organizations that either already are, or should be, involved with each other in order to accomplish both organization-level and network-level non-structural outcomes. In some cases, however, dense networks have been found to be associated with lower effectiveness than networks characterized by less density (Granovetter 1973; Burt 1992; Provan and Milward 1995). *Multiplexity* refers to the number of different kinds of exchanges or different types of relationships between two or more actors. Multiplex relationships are often considered as more interactive, trustful, and stable (Kilduff and Tsai 2003). Thus, increased multiplexity of an IOR would likely mean that the relationship would be stronger and more enduring than an IOR based on a single type of tie, which if broken, would terminate the relationship. Other structural constructs like centrality, reciprocity, or fragmentation may also be used to evaluate IORs, especially from a network perspective. All these indicators acquire a process quality if measured over time.

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Process Indicators

Because performance-based outcomes are often difficult to obtain and assess, and because structural indicators often have limited utility as a dependent variable, process indicators are frequently utilized by researchers attempting to evaluate IORs. When evaluating individual organizations, process indicators typically focus on those actions and activities (rather than structures) that are likely to result in effective outcomes. They may also be viewed as first-order outcomes, whereas actual performance indicators may be seen as second-order outcomes. Following Donabedian (1980), process indicators refer to whether or not the appropriate processes, like learning, training, and methods of task accomplishment, are being followed. For instance, in health care, while patient cure and symptom-free recovery may be ideal end states, measurement may be problematic. Thus, process indicators are used, such as ongoing training for nurses or developing and conforming to standardized procedures for disease management. Most organizational researchers would probably agree that process indicators are a critical component of IOR evaluation, although these indicators typically represent only a partial rationale for justifying the formation of an IOR. While it may be somewhat difficult to specify exactly what measures are process indicators as opposed to outcomes, our review of the IOR literature suggests several: namely, learning, trust, fairness, legitimacy, and power. While these indicators may be viewed by some as sufficient reasons for developing an IOR, we argue that they best represent important intermediate indicators of IOR success.

Learning has been viewed as an important consequence of IOR involvement (see also Nooteboom, this volume). By working closely with other organizations, a focal organization can develop new knowledge and information in a wide range of areas. This learning is often indirect and implicit, as when relationships built around one set of needs result in unintended learning in another area. Such learning is often the basis of mimicry (DiMaggio and Powell 1983). Of course, learning may also be far more strategic, directly related to the reason for developing the IOR in the first place, such as forming an alliance to learn more about competitors, new products and services, or even administration (Hamel 1991; Larsson *et al*. 1998). Thus, while learning certainly encompasses innovation and they are closely related, learning is much broader in scope.

Trust has been the focus of a large amount of research on IORs, especially since attention over the past 15 years has turned to the study of networks

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(see also Bachmann and Zaheer, this volume). Trust is a key element of 'bonding' social capital, and is generally seen both as critical for holding a network together and as an outcome of network involvement (Adler and Kwon 2002). Although trust has proved difficult to measure and the concept can be interpreted in a variety of ways (Rousseau *et al*. 1998), its existence seems critical for IOR and network maintenance and success. It is a process indicator for IOR evaluation because it is anecessary condition for enabling organizations and their managers to work together in ways that can ultimately produce desired outcomes (cf. Zaheer *et al*. 1998). Few organizations in business seem likely to form IORs with the intention of creating trust as an outcome in its own right. Nonetheless, under the somewhat vague term of 'community capacity building' (Chaskin *et al*. 2001), networks of organizations in health and human services have been formed with the explicit goal of building trust as a way of ensuring that as-yet unidentified problems and needs can be addressed at some future time.

Fairness (or equity) is a process indicator that, like efficiency, is closely related to trust and assumed to play an important role in building sustainable IORs (Ring and Van de Ven 1994). The broad literature on justice or, in more operational terms, fairness, usually distinguishes procedural from substantive or distributive fairness (Greenberg 1987). While the former is a process quality in a very narrow sense, the latter is more concerned with a fair or just distribution of the final value created in an IOR via negotiations. The still limited empirical research on Inter-organizational fairness focuses mainly on distributive fairness (e.g. Scheer *et al*. 2003; Schreiner 2005). According to this research a distribution of Inter-organizational value is considered as just or fair if the actors involved in the IOR receive benefits proportional to their contributions. Subjective needs and expectations influence this fairness perception, and positive inequality is assumed to have less problematic consequences for IORs than negative inequality. Since fairness depends upon subjective perceptions, it may simply be restored by re-evaluating the balance of the benefits and investments of a focal organization relative to its linkage partners, without changing the facts.

Legitimacy is another process indicator that is relevant for IOR evaluation. The issue of legitimacy of organizational action and form is a critical component of neo-institutional approaches that define legitimacy as 'a condition reflecting perceived consonance with relevant rules and laws, normative support, or alignment with cultural-cognitive frameworks' (Scott 2001: 59). Thus, legitimacy is considered to be a symbolic resource that is not possessed by an organization or network but is constituted in its

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relationships with relevant stakeholders. Similarly, Suchman (1995: 574) defines legitimacy as ‘a generalized perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs, and definitions’. Such systems may be anchored in the network, the organizational field, or the wider society that surrounds an organization or Inter-organizational network.

Institutional theorists often argue that legitimacy is an end in itself (Scott 2001). But since our focus here is on IOR involvement as a strategic decision, considering legitimacy as a process indicator is appropriate. Legitimacy is critical to IORs internally, providing value and credibility to the relationship itself, thus encouraging involved partners to continue to work together. Legitimacy can be important externally as well, especially when a purpose of the relationship is to deal withoutside groups on a collective basis. Quite often internal and external legitimacy do not go hand in hand, and are loosely coupled at best. This dilemma is highly relevant for evaluating IORs. While some evaluation procedures may comply with external conventions (e.g. international accounting standards), they may not be helpful in managing IORs internally (and vice versa). In practice, this implies that sometimes different, and not necessarily compatible, procedures may need to be used to address different legitimacy requirements.

While the topic of legitimacy has received a great deal of attention in recent years, work on the topic has focused nearly exclusively on the organizational level of analysis. The limited empirical work that has been done on IORs and legitimacy (Human and Provan 2000) has, however, clearly demonstrated the importance of the construct for explaining network success and failure. The importance of legitimacy as a process indicator of the effectiveness of IORs is also illustrated by the debate about codes of conduct and their role in organizing supplier networks, particularly in the shoe and clothing industry (Fichter and Sydow 2002).

The final process indicator we will discuss is *power* (see also, Huxham and Beech, this volume). Power is a key consideration for resource dependence theorists (Pfeffer and Salancik 1978), who argue that the formation of IORs is a critical way for organizations to enhance their power relative to others in their environment (Provan *et al*. 1980). Power has generally been defined as the capacity of one social actor to influence the actions and behaviours of others in intended ways. It is based on relative dependencies (cf. Emerson 1962), especially concerning the control of resources (Giddens 1984). Although power has often been used by network researchers as an

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outcome in its own right (Burkhardt and Brass 1990; Oliver and Ebers 1998), we consider power to be a process indicator for purposes of IOR evaluation. It is the outcome of the acquisition of power through a network or other form of IOR that subsequently increases capacity to attract scarce resources and to enhance competitiveness. This is especially true when power in an IOR is considered as functional and legitimate, as is the case in many strategic networks (Sydow and Windeler 1998).

Outcome Indicators

Consistent with early discussions of organizational effectiveness based on goal accomplishment (Perrow 1961; Parkhe 1993; Ariño 2003), IORs can also be evaluated based on what they set out to achieve and eventually do achieve. We take a narrow view of outcomes, focusing only on innovation, financial performance, non-financial performance, and survival. In contrast to most structural and process indicators, these outcome indicators are often specified and determined by societal institutions such as regulatory bodies and national and international accountingstandards. Thus, it may seem that managers have little flexibility when responding to these outcome demands. However, as noted by Oliver (1991) and others, even these outcome indicators are subject to organizational and Inter-organizational influences and can be changed if collective action is organized. Moreover, the meaning and legitimacy derived from these outcome indicators is subject to at least some interpretation and modification, within as well as between organizations (cf. Sydow and Windeler 1998).

Innovation has been viewed by many as an important outcome indicator for development of cooperative IORs, especially in those industries where knowledge plays a key role, change is rapid, and competitiveness is high (see also Nooteboom, this volume). Much recent work in this area has focused on the biotechnology industry (Powell *et al*. 1996; Owen-Smith and Powell 2004), with a focus on the introduction of new patents and new products. But the beneficial effects of IOR involvement for innovation has also been examined in industries as diverse as women's dresses (Uzzi 1997), chemicals (Ahuja 2000), and computer technology (Browning *et al*. 1995). One type of IOR that is considered to be of particular importance for innovation is the establishment and maintenance of relationships with key customers. Close ties to so-called ‘lead users’ (Von Hippel 1988), for example, are most likely to trigger product innovations, though IORs to other types of customers may also be a valuable source for both product and process innovations (Danneels 2002). As an outcome measure, innovation (or innovativeness) *per*

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se is assumed to be an important indicator of the success of certain types of IORs. We take a more conservative view, considering innovation to be on the borderline between process and outcome indicators, since the extent to which innovation actually leads to improved organizational financial success and survival is not always clear.

Performance is something of the Holy Grail of IOR research. Most efforts to evaluate IORs either explicitly or implicitly discuss some aspect of organizational performance. While performance can be measured, there are two basic problems. First, which measures of performance should be considered? Second, to what extent is an organization's performance attributable to its involvement with other organizations? The second question is difficult to answer, especially in the absence of a well-controlled experimental design of the sort that is mostly not attainable using field research methods. Nonetheless, the question can be answered to some extent by considering a combination of structure, process, and outcome measures. Specifically, in the absence of positive findings for many (but not all, as noted above) structural and/or process indicators of the IOR being studied, it seems unlikely that performance gains can be attributable to IOR involvement. Conversely, positive structural and process indicators would provide some evidence that conditions are in place for a positive impact of IOR involvement on organizational performance. Under these conditions, if outcome-based performance indicators are positive, it would be reasonable to conclude that the IOR had a major impact.

The first question, about types of performance, is no less challenging. We break performance down into two basic categories—financial and non-financial, although we recognize that distinguishing between output and process performance for IORs may also be useful (Ariño 2003). Financial indicators have been used in many IOR studies and include such measures as sales growth (Lee *et al*. 2001), hotel occupancy rates (Ingram and Roberts 2001), firm growth (Powell *et al*. 1996), market share (Rowley *et al*. 2000), profitability (Geringer and Hebert 1991), stock market value (Kale *et al*. 2002), relational rents (Dyer and Singh 1998), transactional value (Zajac and Olsen 1993), and revenue growth (Baum *et al*. 2000). Some of these measures are theoretically well-reasoned, but difficult to operationalize. This is particularly true for relational rents that are derived from the emerging relational view of the firm. Relational rents are defined as ‘profits jointly generated in an exchange relationship that cannot be generated by either firm in isolation and can only be created through the joint idiosyncratic

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contributions of specific alliance partners' (Dyer and Singh 1998: 662). Other performance indicators, like occupancy rates, sales growth, or market share, are of a rather pragmatic nature, easy to measure but less indicative of the specific value of a single IOR or network. In general, researchers have found a positive relationship between IOR involvement and financial performance. However, the exact impact of the IOR on outcomes is often difficult to determine, and findings typically vary depending on the specific type of relationship structure being considered (i.e. strong versus weak tie, central versus peripheral, etc.) and the performance indicator used.

A performance measure of pivotal importance in IOR research is efficiency, emphasized by economic approaches in particular. Efficiency is generally defined as an input to output ratio but measured in a variety of ways. If distinguished from effectiveness at all, efficiency focuses on the question whether and with what input a given objective has been achieved, while effectiveness addresses whether or not the 'right' objectives are pursued (Barnard 1938). More precisely, microeconomics focuses on production (cost) efficiency as it may be affected by IORs (by less adversarial supplier relationships, for instance; see Sako 1992). Institutional economics concentrates instead on the relative coordination or transaction costs of different organizational arrangements (Williamson 1991), including the transaction (cost) efficiency of an IOR or, as referred to by transaction cost theorists, a 'hybrid' organizational form (see also Hennart, this volume). The behavioural theory of the firm, in sharp contrast, focuses on goal (attainment) efficiency in a more general way (Cyert and March 1963); for example, as perceived by the organizations that are involved in a joint venture (García-Canal *et al*. 2003).

What is common to all these measures of efficiency is that they relate the benefits of IORs to the costs they incur. Taking the cost of establishing, maintaining, and even ending IORs into account is extremely important as will be discussed in more detail below. Such costs include not only increased time and resources spent on coordination efforts but potential loss of organizational autonomy, commitmentto a certain path of development, diffused responsibility for outcomes, and non-recoverable investments, among others. In consequence, it should not be assumed that more involvement in IORs is necessarily better, but that cost considerations instead, lead to a curvilinear, reverse-U-shaped relationship. Too little IOR involvement signals isolation and a lack of embeddedness with buyers, suppliers, and others in the organizational field. Too much IOR involvement is likely to result in excessive IOR maintenance time and costs, plus the

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problems of being over-embedded (Uzzi 1997). While the costs of over- versus under-involvement will, no doubt, vary across organizations and industries, the basic curvilinear pattern is likely to hold.

Non-financial performance indicators include such measures as quality of product or service, customer satisfaction, and faster response times (cf. Zaheer *et al*. 1998), as well as broad indicators of overall economic development (Saxenian 1994). While some of these indicators are used by researchers of business firms, especially in service industries, many more are used to assess IORs in public and non-profit contexts. In addition, much of the work in this area has focused at the network level, rather than at the organization level. For instance, Provan and Milward (1995) found that more centrally controlled networks for provision of mental health services were more effective than networks that were highly integrated, but decentralized. Overlapping cliques of providers were also found to result in more effective client outcomes than when cliques were more fragmented (Provan and Sebastian 1998). In business, work on industrial districts and economic clusters has found evidence that increased network activity among organizations has a positive effect on economic development and employment (Saxenian 1994; Brenner and Fornahl 2003).

Survival is, of course, a very long-term outcome indicator. Not surprisingly then, most of the research on organizational survival has been conducted by population ecologists (see also Lomi *et al*., this volume). These researchers tend to downplay the strategic actions of individual organizations to form relations with others as a survival mechanism. Nonetheless, survival has been found to be enhanced by the development and maintenance of IORs (Wiewel and Hunter 1986; Baum and Oliver 1991), even though the survival rate of specific types of IORs, such as joint ventures, is often not very high (see Park and Ungson 2001, for a review). Thus, the mere formation of an IOR, which is a structural indicator, cannot necessarily be viewed as a viable way of assessing IOR effectiveness on the outcome side. For example, some types of IORs, especially joint ventures and strategic alliances, are only set up for a limited period of time. Thus, while their termination may indicate failure from a structural perspective, their termination may actually be the result of the effective accomplishment of desired, but short-term performance outcomes (Hennart *et al*. 1998).

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Construct	Focus	Theoretical roots	Theories (examples)
(1) Survival	Outcome	Economics	• Micro-economics • Transaction economics
(2) Financial and non-financial performance			• Financial economics • Resource-based view
(3) Innovation		Organization theory	• Theories of innovation
(4) Legitimacy and learning	Process		• Neo-institutionalism • Structuration theory, Theories of learning
(5) Trust and fairness		Network theory	• Developmental theories • Evolutionary theories
(6) Structure of relations between organizations	Structure		• Social capital theories • Structural embeddedness

Fig. 26.1 Focus and theoretical roots of important IOR effectiveness constructs

Figure 26.1 summarizes the key structural, process, and outcome indicators we have discussed (in reverse order) and relates them to the relevant theoreticalperspectives that have been used to explain IORs. For the particular definition of each construct, its assumed relevance and causal embeddedness depend on the economic, organization, or network theory used to interpret and understand the construct.

Inter-relationships Between Indicators and Across Levels

Almost all the indicators outlined in the figure can be used for evaluating IORs at both the organizational and network levels of analysis, although the specific measures used may differ somewhat. For instance, one can focus on the impact of IORs on the survival and legitimacy of organizations, just as one can do for Inter-organizational networks, though empirical data on the latter have been rare and difficult to obtain (see Human and Provan (2000) for an exception). Innovation, learning, and other process indicators can also be measured at each of these two levels of analysis, although again, data collection and even interpretation are likely to be more problematic at the network level. Finally, structural indicators are relevant for evaluating IORs at both organization and network levels, although here, the differences are perhaps greater than for process and outcome measures. For instance, examples of organization-related structural measures would be degree centrality and multiplexity, while other structural measures, like density, betweenness and closeness centrality, and structural holes must be measured and interpreted at the network level. The point here is that despite the usefulness of a broad range ofstructural, process, and outcome indicators that can be utilized to evaluate IORs in general, specific indicators need to be carefully selected. While some may be relevant for both levels, or even for levels ‘below’ the organizational and ‘above’ the network level, others

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may be far more appropriate for evaluation of IORs at the organization level, but not at the network level, and vice versa. Which indicator is appropriate depends much on the research question and the purpose of the evaluation, as well as the theory behind it.

Interrelationships also occur, and in fact, are likely, among IOR evaluation indicators. We have presented each indicator as though they were separate, although in practice, it is often difficult to disentangle the effects of one on the other. For instance, outcome measures of performance, including resource acquisition, financial performance, efficiency, and survival, certainly contribute to the legitimacy of IORs. However, they are neither a sufficient nor a necessary condition to explain why IORs exist, at least not if considered from a neo-institutionalist perspective (Scott 2001). Like all constructivist approaches, this perspective-accounts for the possibility that legitimacy may precede more performance-oriented measures of IOR effectiveness at either organizational or network levels. It may also be that for some types of IORs, legitimacy occurs independently of performance, especially when the relationship itself is costly. The same sort of interrelationship (or absence of one) is also likely among other IOR evaluation indicators, including innovation and learning, trust and fairness, and structure, especially regarding their tie to more performance-based outcome measures.

Considering Cost and Risk

Even where there is consensus on the importance of IOR evaluation and the methods to do it, evaluation indicators themselves only provide a partial picture of actual IOR effectiveness. In particular, the process of forming and maintaining an IOR is itself time-consuming and costly, in terms of human resources, capital, and opportunity costs (Ring 1999). While it is beyond the scope of this chapter to introduce a full discussion of IOR costs and how they should be weighed when assessing IOR effectiveness, it is important that they be considered by both researchers and practitioners as part of the evaluation process.

Besides the more obvious cost of time and resources, IOR partners also incur costs through the potential loss of decision autonomy (cf. Pfeffer and Salancik 1978; Provan 1983). Since strongly connected organizations are characterized by outcome interdependence, decisions made by one member of an IOR will affect the other, sometimes in ways that are detrimental to performance. In this way, positive structural and/or process indicators may actually have a negative impact on outcome measures. With regard

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to non-recoverable investments it should be noted that long-term and trusted IORs are particularly likely to require transaction- orrelation-specific investments that cannot fully be recovered for use in other relationships (Håkansson 1987; Williamson 1991). These investments alone may commit an organization, or even a network of organizations, to a certain path of development that cannot easily be abandoned, though management may recognize that it leads into a 'lock-in' (Arthur 1994).

A final example of costs that potentially outweigh the benefits of an IOR is the diffused responsibility for outcomes that is typical for decentralized forms of organization in general and for Inter-organizational relationships in particular. The coordination costs of IORs are especially apparent when attempting to build the multiple Inter-organizational relationships that characterize those forms of networks that require multilateral cooperation among many organizations. Despite their potential benefit to involved organizations (Browning *et al*. 1995; Human and Provan 2000), these network relationships are especially complex to coordinate and manage. As a result, costs may outweigh benefits, especially measured using outcome indicators, for many years. Overall, the point here is that the costs of establishing and maintaining an IOR must be considered in any evaluation effort and balanced carefully against more positive evaluation criteria.

Outcome-oriented measures like efficiency and effectiveness, or financial and non-financial performance, are sometimes supplemented, both in practice as well as in research, by risk considerations. Though cooperative IORs are often used in order to reduce organizational risks (Oliver 1990; Alter and Hage 1993), they are themselves risky. Das and Teng (1996), in particular, refer explicitly to IORs when they discuss the difference between relational and performance risk, both of which have to be considered in a risk-sensitive evaluation of IORs. Relational risk relates to the question of whether organizations establish and maintain a truly cooperative IOR, where such process indicators as trust, learning, and fairness take place with little fear of opportunism. Performance risks have to do with the likelihood of achieving the performance, or outcome, objectives of a joint venture or another type of strategic alliance, given full cooperation. Das and Teng suggest that equity-based IORs (as to be found in partial ownership agreements and joint ventures) are adopted to control relational risks, while relationships that do not involve any equity transfer or creation of a new entity are established in order to minimize performance risks.

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Managing the Evaluation Process

Deciding on appropriate indicators and level of analysis are only two among many decisions to be taken by researchers or practitioners in evaluating IORs. Especially for practitioners interested in learning whether or not their IOR efforts have been useful, the evaluation process also involves a number of other decisions. These include the identification of suitable opportunities, influentialstakeholders, relevant evaluation questions, and appropriate time horizons; the choice of appropriate benchmarks for comparison of evaluation findings; decisions concerning the most suitable methods of data gathering and analysis; the format and process for ultimately presenting the results of any IOR evaluation back to stakeholders; and a determination of who should play the role of the evaluator and to what extent those who are evaluated should actively participate in the evaluation process.

Our discussion here concerning management of the evaluation process only touches the surface of these practical problems, because there still is a significant lack of 'theory of evaluation' (Clarke 1999) in this method-driven field, not to mention the complete absence of a theory of evaluating IORs. However, many insights for managing the IOR evaluation process can be gained by drawing an analogy with designing research projects. As stated at the beginning of this chapter, evaluation is a disciplined inquiry and, as such, an undertaking that differs from other types of research more in terms of intention (i.e. establishing the effects of IORs or to improve them) rather 'than in the nature of its design or the method of its execution' (Clarke 1999: 2). As noted earlier, however, much depends on the paradigm followed when conducting evaluation research.

Experimental and Quasi-experimental Designs

The ideal design for an evaluation study is an experiment. In particular, the randomized experiment has often been referred to as the 'flagship' or 'gold standard' of evaluation research that, because of its very design, ensures internal validity and allows causal inferences (Clarke 1999; Rossi *et al*. 2004). However, in real-life settings like organizational and Inter-organizational arrangements, conducting such randomized experiments is seldom feasible because it is too costly and time-consuming, difficult to control over a specified period of time, or ethically problematic (Clarke 1999). In addition, organizational managers are unlikely to be willing to have their decisions guided or influenced by the needs of researchers to establish ideal experimental conditions.

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For these reasons, non-randomized quasi-experimental designs are recommended as the best alternative to randomized experiments for conducting evaluation research (see Clarke 1999; and Rossi *et al*. 2004 for details). For evaluation research on IORs, this approach could mean several things. First, researchers could conduct cross-sectional evaluation of IOR effectiveness based on data collected from organizations (or networks) after a systematic site selection process (cf. Provan and Milward 1995). An alternative to this approach that is commonly used in IOR research at the organizational (rather than network) unit of analysis is to collect data from samples of organizations operating within the same narrowly defined industry or tightly bounded organizational field.

Second, researchers could examine the impact of IOR activity on structure, process, and/or outcome indicators longitudinally for the same set of organizations (cf. Gulati and Gargiulo 1999; Human and Provan 2000; Owen-Smith and Powell 2004; Provan *et al*. 2004). Given a large enough sample, various control variables could be introduced in an attempt to isolate the impact of IOR activity. Practitioners could also evaluate the impact of IOR activity on their own organization over time, even though statistical controls would obviously not be possible.

What is least helpful for making meaningful progress in the study of IORs are research methods that rely on cross-sectional analysis of convenience samples that cross industry or organizational field. These studies can provide useful general data on relationships between IORs and evaluation indicators, but the absence of causal links and the variance in organizational mission often makes it difficult to determine from these studies what the impact of an IOR really is. In general, progress in developing a better understanding of IORs is most likely to come from conducting evaluation research based on quasi-experimental designs. While this approach also has its shortcomings, it provides a reasonable compromise for IOR researchers.

Methods: Towards Collaborative Evaluation?

Over the years, more responsive, participative, or collaborative approaches to evaluation have become popular (Guba and Lincoln 1989; Clarke 1999). These approaches depart even more from the ‘gold standard’ of evaluation studies, the randomized experiment. They consider individual as well as corporate actors not as ‘objects’ of evaluation studies that are conducted by a distant evaluator, but as subjects that take an active part not only in

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data gathering, but also in data analysis. This could even extend to the development of evaluation questions and the design of the evaluation study, including establishing the appropriate level of analysis and selecting suitable structure, process, and output-oriented indicators.

The reasons for this trend towards more participative and collaborative approaches are many, but the most important one is certainly that this kind of evaluation approach is more likely than others to have an immediate (formative) impact on the development of the system, programme, or relationship in question. That is, from the practical perspective of organizational managers involved in an IOR, the concern for utilizing an evaluation study's results for purposes such as ‘improvement’ of the system, programme, or relationship, is established first and drives the evaluation process. Involvement of organizational actors may also be helpful to better capture the political context of evaluations and, thereby, further enhance the utilization or action orientation of the study's results. In the case of broader collaborative arrangements such as Inter-organizational networks, some kind ofcollaboration in setting up a joint evaluation study seems almost unavoidable. In consequence, evaluators have to understand the functioning of networks, not only of (isolated) organizations.

Evaluation as a Path-dependent Process

One aspect of particular importance in managing the evaluation of IORs is the insight that evaluation procedures are usually path-dependent. The notion of path dependency was originally coined in economic studies of technology (David 1985; Arthur 1994) and goes well beyond the ruism that history matters. Path dependency is defined as a self-reinforcing process that is triggered by a small or big event, gains momentum due to increasing returns, learning, and coordination effects, and then leads to inertia, persistence, and finally, a ‘lock-in’. In the case of an IOR, it may be that a particular evaluation method that was chosen to respond to demands made by a stakeholder group becomes institutionalized, or ‘locked in’, even after the stakeholder demands have ended.

Probably more than other managerial tasks, evaluation procedures should be considered as being potentially path-dependent. Once a certain procedure has been chosen, switching to an alternative becomes less likely, especially since the evaluation procedure will generally have required significant organizational investments and as it becomes commonplace due to frequent use. In addition, the value of a certain procedure increases once it has

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produced data that are accepted by organizational members as legitimate and can be used for comparison and improvement. As a consequence, the direction, or path, chosen by managers or researchers for evaluating IORs is likely to be continued, even though the original methodology chosen may be sub-optimal. The path dependency is not only likely to occur with regard to a particular procedure or method, but also with respect to the paradigm underlying the procedure or method chosen. 'Making the switch' (Guba and Lincoln 1989: 74–8), from a positivist to a constructivist paradigm for example, may be particularly difficult for researchers as well as for practitioners, given the common belief in the 'scientific' method and the (alleged) objectivity, validity, and reliability of its methods.

Nevertheless, from time to time an 'evaluation of evaluation' (Clarke 1999: 13–14) seems advisable that does not restrict itself to the consideration of the benefits and cost of the evaluation process (including its opportunity costs), but looks instead into possible path dependencies that may be sub-optimal. Such a meta-evaluation would increase the chance of questioning common and almost routinely applied evaluation procedures and paradigms. The consequence of detecting the eventual path dependencies of IOR evaluation practices would be to 'unlock' the previously chosen path and create a new path that may more closely match the needs of the organization or the Inter-organizational network.

Conclusions

This chapter has been an attempt to provide an overview of how Inter-organizational relationships have been evaluated, drawing on the perspectives of both researchers and practising managers. The vast majority of research on IOR evaluation has been positivist in orientation, and our discussion here has reflected that dominant perspective. However, we have also discussed constructivist views, thereby including the subjective, political, and fluid aspects of organizational life and, thus, attempting to broaden how researchers might ultimately think about IOR evaluation and how IORs might best be assessed.

It seems obvious to conclude that IORs are an extremely common and important part of organizational life that can and should be evaluated. We have discussed the fact that researchers of IORs have utilized a number of key structural, process, and outcome measures for evaluating IORs at two levels of analysis: the organization and the Inter-organizational network. What is less clear is which of these evaluation indicators should be utilized, under what conditions each might be most appropriate, and how

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and if structure and process indicators interact to affect outcomes such as performance and survival. What is also unclear is how these two (and other possible levels of analysis) interact, and thus, whether they should be taken into account simultaneously for purposes of IOR evaluation.

We have also addressed the practical considerations faced by managers trying to evaluate whether or not to engage in a particular IOR and which of several IORs might contribute most to overall organizational effectiveness. This discussion focused on costs versus risks, the various approaches to measurement that might be considered, including the value of more participative and collaborative approaches, and the path-dependent nature of the IOR evaluation process.

Despite the lack of consensus about which approaches should be used and exactly what each implies, it is clear that IOR evaluation is extremely important for advancing both the study and practice of organizations and Inter-organizational networks. This chapter has been an effort to demonstrate this importance while presenting the range of measures, perspectives, and issues that make the topic so challenging to study.

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The Oxford Handbook of Inter-Organizational Relations
Steve Cropper, Chris Huxham, Mark Ebers, and Peter Smith Ring

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The Field of Inter-organizational Relations

Steve Cropper, Mark Ebers, Chris Huxham, Peter Smith Ring

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Abstract and Keywords

This article concludes that at this point in its development, and from the vantage point of organization science, inter-organizational relations (IORs) seem to constitute an emerging sub-field of organization science focusing on the inter-organizational level of analysis and beginning to develop its own institutional trappings. The empirical and conceptual basis which draws together scholars interested in IORs can be found in a specific focus on questions about the boundaries or identities of inter-organizational entities, including bilateral and multilateral partnerships and alliances, clusters, groups, and networks, their relational structures, contents, and practices. As IOR's perhaps most important mother discipline, organization science, has successfully demonstrated throughout its history, it can be most fruitful if research endeavours draw on, and learn from, concepts, theories, and methods first developed in other disciplines and fields of scientific enquiry.

inter-organizational relations, organization science, inter-organizational entities, multilateral partnerships, alliances, clusters

One of the more pleasant challenges associated with editing this kind of Handbook is being open to the very real likelihood that what we thought we knew, individually and collectively, about Inter-organizational relations would be seriously challenged in the work undertaken by our authors. We did indeed find ‘ahas’ in each chapter, but the insights also affirmed our a priori sense of IOR as evolving as a field of study. We begin our closing chapter

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with a review: this includes an appraisal of the ‘state of the art’ but we are more concerned to look forward, drawing implications ofthis Handbook's assessment of current knowledge for future research into IOR. We then analyse whether the chapters in the Handbook suggest an optimistic picture in regard to the sense of a rather fragmented (silo-like) field structure that we reported in the introductory chapter. Drawing upon that analysis, we close the book by considering how IOR is developing as a field of study.

IOR Research—Now and the Future

Each chapter in this Handbook contains an explicit assessment of priorities for future research that would extend and deepen an understanding of IOR. Given the diversity of contributions to this volume, it is perhaps not surprising that recommendations for future research are varied. And because the three sets of contributions start from different points—empirical manifestations, theoretical and disciplinary perspectives, and thematic interests—so the recommendations, too, might be expected to lead along different paths, ‘cutting’ and framing future research topics in different ways. Nevertheless, as others have suggested (Brass *et al*. 2005) it is possible to see some points of convergence across all three parts of the Handbook. We begin our discussion of the contributions and suggestions for the future by focusing on these points of convergence. We then look in turn at the specific ideas that emerge from, and relate to, the specific framings of each of the parts. Finally, we draw together insights about methodological issues.

Points of Convergence

As the extant research on IORs reflected in the chapters of the Handbook clearly demonstrates, organizations that participate in IORs are motivated to do so for a diverse set of reasons. Business firms continue to form IOEs in pursuit of resources that they need for strategic reasons but do not have or cannot make. But they also participate in IORs with organizations from other sectors of the economy with increasing frequency as they seek to deal with other, and increasingly more active, stakeholders of the firm. Governments, and governmental agencies, employ IORs not only to share scarce resources in service delivery, but also to create new resources. In this respect, their motivations in relying on IORs are not very different from those of counterparts in the private sector. And as issues that confront societies become more complex and multifaceted, we find IORs (and IOEs) in which firms, public agencies, non-profit-making organizations, and non-governmental agencies are engaged in seeking solutions to issues such as

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climate change, health care,educational reform, etc. In short, it is clear that the basis for collaboration among and between organizations is institutionally much more developed today than it was when scholars initially began to focus on them in the 1960s and 1970s.

Those who have focused on why organizations collaborate have provided us with a much better understanding of the kinds of resources that collaborators seek. This is particularly true in the case of knowledge, especially when so-called ‘tacit know-how’ is sought by one or more organizations engaged in IORs. What we know in this area is also a function of the kind of theory that is being employed. The frequent use of transaction cost theory (TCT) (see Hennart, this volume) as a lens through which to study collaborations is one reason why we know so much more about resources than other reasons why organizations collaborate (e.g. the pursuit of greater political power by business firms). The theory of the resource-based view of the firm has also produced a more refined understanding of why and how a search for resources leads to IORs, in part as its advocates contrast it with TCT and in part because of its frequent use in studies into the use of IORs for purposes of learning and/or innovation (see Nooteboom, this volume).

As the nature of the content of relationships between organizations has become more complex, so has the structure of those relationships. Thus, the chapters in the Handbook report increased empirical evidence of, and research on, private sector IORs involving multiplex objectives and relationships such as: business groups, chaebol, consortia, cooperatives, constellations, federations, inter-firm networks, keiretsu, network organizations, and so on (see e.g. Gomes-Casseres 1994; Jones *et al*. 1998;Granovetter 2005). And as Geddes, Klijn, Knoke and Chen, and Sandfort and Milward clearly demonstrate in their contributions to this volume, these multiplex structures manifest themselves in the public sector as well.

We started the Handbook by stipulating that a fundamental building block for IORs is the dyadic or multilateral relation. Dyads certainly persist as a key unit of analysis and for many important reasons continue to be the dominant form of IORs under study by scholars. As a result we have some understanding of the impact that asymmetries such as different partner organizational structures (tall versus flat) or types of organizations (functional start-ups collaborating with MNCs) have on the structure of IORs. We know much less, however, on how differences in structure play out in networks involving large numbers of organizations. There appears to be a strong trend in attention towards such aggregates of IORs—networks, fields,

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domains, communities, and populations. Whilst these offer both interest, in themselves, and explanatory power, the increase in research on these kinds of IORs is perhaps also due to the development of powerful analytical tools designed to identify the existence of networks among organizational actors, to define the structure of those networks, and to explore how such structures change over time (see e.g. Freeman 2004; Moody *et al*. 2005; de Nooy *et al*. 2005). In reviewing the work of the authors found in Part II of the Handbook, we conclude that the use of this approach and unit of analysis is much more prevalent in studies of privatesector organizations than in the case of those in the public sector (though see Klijn, this volume, for a discussion of its developing use in the study of policy networks).

There is also some recent work that privileges other units of analysis. For example, although we do not yet see Simmel's (1950) preoccupation with the properties of the triad becoming a strong feature of IOR research, more attention to 'third party roles', triad formations, and the effects of the third party both on dyads and on wider systems of IOR would seem justified, as Bachman and Zaheer noted in their discussion of trust (see also Caplan 1956; Burt 1997; Gulati and Gargiulo 1999; Obstfeld 2005; Nooteboom 2006).

In choosing which units of analysis to privilege, then, there is agreement that the menu is rich and that care is required. There are calls for more rigorous thinking about the character of each unit and about the way in which relationships between different levels of analysis are theorized and investigated. IOR research is increasingly bridging different levels and units of analysis. As Brass *et al*. (2005) argue, 'understanding network change requires understanding cross-level pressures'. They point to consequential linkages between individual, group, unit, organizational, Inter-organizational, and contextual actors and to some shifts in emphasis that signal a greater refinement in organizational network research. In their chapter on evolutionary theory, Lomi, Negro, and Fonti talked of the

> Chinese box-like character of intra- and Inter-organizational hierarchies (which) implies that evolutionary change is essentially a multilevel process: what happens at one level is difficult to understand without reference to what is happening simultaneously at lower and higher levels of aggregation …For this reason, many questions remain open about the appropriate level and unit of evolution in organizational research.

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Kenis and Oerlemans in this volume also reveal the extent to which the concepts of social network theory have contributed to our understanding of the structure of relations among and between organizations.

Given the increased complexity of the reasons why organizations are collaborating with each other, and the concomitant complexity of the structure of these relationships, one might expect to find similar degrees of variety in the governance of IORs. Our sense of the research, however, suggests that this is not the case. Unified governance (Williamson 1985) persists in the case of equity joint ventures. Bilateral and trilateral approaches to governance also manifest themselves as governance mechanisms in the case of many strategic alliances (in which a written contract remains the primary approach to memorializing such agreements). Nonetheless, the network appears to be an increasingly important approach to the governance of IORs, both in practice and in theory (see e.g. Rowley *et al*. 2000).

The topic of trust as an approach to governance is, without question, one of the most intensely studied aspects of IORs. The roles that incentives play in governing IORs have been less studied than trust, although more of in the case of dyads thanin the case of networks. Surprisingly, less attention has been paid to reciprocity as a governance mechanism than one might have expected (except as it relates to the formation of trust). Where attention has been paid, it tends to emerge as a factor in studies that explore the role of social capital in the formation and evolution of IORs (see Nahapiet, this volume). Finally, studies of the governance of IORs have produced much greater understanding of the ways that administrative controls function in the governance of IORs, particularly in public sector policy networks and public sector service delivery collaborations.

Having provided a brief, general assessment of what is available to those interested in the study of IORs in this volume, we will now turn our attention to somewhat more specific syntheses of the work undertaken by contributors to the Handbook. We will deal with each of the three main parts of the Handbook in the following discussion.

Empirical Manifestations

We have given some sense of where empirical knowledge about IOR has started to accumulate in the section above. Whilst there has been a steady accumulation of findings, such as those we have described above related

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to content of relationships between organizations, the structure of IORs, and the ways in which they are governed, equally, there are many gaps in knowledge, and important points of uncertainty and disagreement to address.

Many of the contributions have started from a view that IORs are increasingly common organizational forms. If the prevalence of IOR is increasing, then two sets of questions are raised. First, descriptively, how significant a presence in the populations of organizational forms and organizational behaviours are IORs? And if, as many contributors to this Handbook have argued, the trend has been one of continuous growth in the formation and continuing existence of IORs, what is the evidence? Studies of populations and communities of organizations that have included measures of IORs (e.g. Granovetter 2005; Saxenian 2006) have been a useful first source of evidence, but longitudinal studies that confirm the prevailing arguments about trend are needed to validate assertions and add to our understanding of the patterns of formation, continuation, and density of IOR. And, as well, precisely what types of IOR are observed in what kinds of contexts? Lazerson and Lorenzoni give us some sense of what appears to be happening to the changing nature of IORs in Italian industrial districts. Yet it remains to be seen if this is transitory or if it reflects a pattern that will be found in the future in other districts in other countries.

These questions of measurement and description are challenging conceptually and methodologically. How should IORs, IOEs, and populations or communities of organizations be defined for the study of IOR? This question is importantsince IORs start to challenge received classifications of organizational domain and raise questions of hybridity: the identity of organizations engaged in IOEs is both placed in sharp relief, and subject to change, as the relationship between them develops. Mandell and Keast make the point most forcibly in their chapter, by reviewing the variety of ways in which voluntary and community organizations are now relating to public sector (and business) organizations. Indeed, categories such as ‘community enterprise’ and ‘non-profit business’ already blur these identities. And Mandell and Keast ask (rhetorically) whether there is a need for a new language of IORs, especially to describe the new relationship between VCOs and the government.

Whilst a more generalized knowledge of IORs may be starting to appear, there remains a strong sense in which the character of IORs and the identity of partner organizations are still strongly rooted in particular and historically

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significant institutional contexts. For example, Klijn's argument about the importance of work to explore forms of democratic network governance is not mirrored in Lazerson and Lorenzoni's review of industrial clusters or Johnsen, Lamming, and Harland's review of business networks, where stakeholder theory and ideas of accountability have, as yet, no clear equivalent. It is not simply cross-sectoral difference that is important here. Although Nooteboom does suggest paying more attention to the nature of the industry in which a network approach to innovation is employed, Nooteboom also concludes that attention to types of technology and knowledge is likely to increase our understanding of the role of IORs in fostering innovation and learning.

The second set of questions is to do with explaining how IORs form, stabilize and are sustained, or change and with understanding the effects of IORs. As Ebers (1999) pointed out, there is a basic analytical division between endogenous explanations that locate agency within the component parts of an IOE and exogenous explanations that point to IOEs as responses to pressures in a wider context. The discussion of IORs in IT-related industries by Hui, Fonstad, and Beath provides evidence that IORs amd IOEs in those industries are responses to outsourcing of what once was considered a source of competitive advantage for many firms. In practice, IOR research may give privilege to one or the other in the explanatory figure that is offered or developed to frame the research. Or, indeed, explanations may incorporate both exogenous and endogenous factors. The chapters in Part II provide many examples of specific ways of addressing questions of this sort. For example, Lazerson and Lorenzoni's analysis pointed to the linked changes in the form of IOEs and the institutional contexts in which they are situated. They suggested,

> our understanding of the contribution of industrial districts, local networks and traditional community bonds to economic development needs to be revisited …the argument that interfirm cooperative relationships among roughly egalitarian firms and backed by publiclysubsidized innovation centres could invariably produce solutions to each succeeding wave of competitive challenges from low-cost producers seems to be undermined by evidence of the effects of more powerful economic realities.

But they also point to the importance of those ‘leading firms’ that do survive by building longer-term, complex, and effective relationships into multiple networks stretched across large distances to distributors and markets. In

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contrast to the conclusion of Johnsen, Lamming, and Harland, Lazerson and Lorenzoni found evidence that the networks that they observed are being managed, and strategically so.

Yeung's chapter provides a second example. He asked how future GPN (global production networks) research should address the mutual interdependencies of the social/cultural and the economic, or agency and structure, as the ‘economic’ is increasingly reconceptualized to incorporate social and cultural dimensions in the ‘new economic geography’. His argument is to draw together complementary theories: thus ‘political economy has much to offer in terms of explaining the structural and institutional preconditions of human action, while Actor Network Theory … helps to focus on the agency dimension in producing IORs’.

A third example is provided in Sandfort and Milward's chapter. They questioned how the purpose of collaborative service delivery impacts on its implementation and its consequences. Does the level of partnership—policy, organizational, programme, front-line—and alignment among these levels influence collaboration implementation and outcomes? How does time influence how collaborative structures operate and how they produce results? How should we theorize about the causal mechanisms that link these new service arrangements to tangible results?

A final perspective on explaining how IORs form or are sustained is encapsulated by Johnsen, Lamming, and Harland's note that little research has been conducted which provides a truly comprehensive classification of different types of networks. What might such a research programme include? Klijn offers some suggestions when he notes that further development is certainly needed. First, he argues that there may be justifiable interest in understanding the characteristics of networks and how to analyse them: these require theoretical and methodological attention respectively. Second, he suggests, more research is needed to investigate the way that the institutional features of different networks clash— an institutional approach holds out possibilities for separating different network forms. And, Klijn suggests, since any given policy initiative tends to require the involvement of different networks, one way of examining fundamental differences in networks is to explore how policy draws in, or even constructs, different types of network and so exposes graphically the ways in which networks of different types rub up against one another, precisely because they differ in fundamental ways.

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Perspectives

Starting from theoretical and disciplinary knowledge—what we have labelled ‘perspectives’ in this Handbook—future research directions are equally varied. As the contents of Part III—and our discussion of the framing of topics in Part IV—reveal, the parent discipline of organization studies is both theory—and concept—rich. A central question, then, is how to select from among theoretical and disciplinary orientations. The scope of a perspective—that is, its capacity to provide traction at, and across, different levels and units of analysis—is one obvious way to address the issue.

A second criterion of importance may be the extent to which the theory or discipline has engaged with or has incorporated IOR as a subject. This clearly varies. The majority of perspectives that we have included here have developed their IOR focus quite substantially. Typically, they have taken IOEs both as an empirical matter to investigate from the given perspective and as an interesting application area that can be used as a trigger for the development of new concepts. In these areas, as with the discipline of economics, theoretical options may be relatively easy to assess. By contrast, Schruijer's straightforward conclusion was that ‘the psychological study of Inter-organizational relations still needs to be developed’. She argued that we can learn much from the social psychology of intergroup relations since comparable psychological processes may be involved in Inter-organizational relations. The opportunities for contribution to IOR are great, but the challenges may indicate why more has not been done from this base in the past. Problems with working with a social psychological understanding of Inter-organizational relations arise from its focus and methods: its concern with groups rather than organizations; its predominant concern with understanding conflict and conflict reduction rather than cooperation; its emphasis on laboratory work and on ‘ad hoc’ groups; and, its aim to understand rather than to find out how to work with Inter-organizational forms and how to improve their functioning. With an eye partly on methodological development and partly on the use of theory to illuminate IOR and IOR practices, Schruijer argued that, for psychology, the challenges are to create the conditions in which ‘real organizations and their interactions are studied, their relevant histories and future perspectives understood, the dynamics occurring at various system levels looked at …’.

A third criterion concerns the IOR specificity and relevance of theory and concept. As Lomi, Negro, and Fonti suggest, the general body of concepts in evolutionary theory has clear applicability to IOR but, nevertheless,

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there remain tests of its relevance. They note that ‘Reaching a detailed understanding of the feedback structures that regulate processes of evolutionary development—or “evo-devo”—is a crucial task for contemporary evolutionary theories… and is perhaps the final test for the relevance of evolutionary interpretations to the study of Inter-organizational relations.’

A final criterion might be the extent to which there is potential to add to or enrich understanding—either theoretical or empirical—through processes of elaboration of theory. Anselm Strauss distinguishes between processes of theory ‘supplementation’ (making a jigsaw piece by piece) and processes of ‘intension’ (filling out/enriching/complicating/focusing). For example, as Hibbert, Huxham, and Ring suggest in the context of the management perspective, relatively little attention has been paid to the day-to-day management of IOEs. There is much scope for (micro and intermediate scale) research that investigates and conceptualizes how IOE managers spend their time. Equally, they point to the lack of work focusing on affect in IOR and ‘the relative paucity of useful theory related to decision-making, ethics, and motivation, all of which seem likely to be important in IOR contexts’.

A debate has been recently initiated about the value of theory to managerial practice; specifically that seeking to explain the performance of strategic alliances. Bell, den Ouden, and Ziggers (2006) are concerned about the lack of accumulation of relevant knowledge in the area of alliance dynamics. Hennart (2006), responding, agrees that research has tended either to produce rather superficial variance theories, based on the cross-sectional analysis of secondary data, or ‘vague and complex’ process accounts of case studies. But he rejects the charge that there is no relevant research, pointing to what he argues is a powerful and potentially more helpful theoretical base addressing the effects of governance structure of alliances on alliance performance. As the journal editors conclude (Editors 2006), there are dangers in a narrow search for relevant knowledge and in a simple dismissal of the inadequacy of research as a guide to managerial practice. Ring, this volume, makes a similar point with respect to the relative failure of scholars grounded in economics, psychology, or management to incorporate both contract law and contract theory into their arguments about the governance of IORs and IOEs. Both theoretical inquiry and relevance challenges, then, can usefully clarify limits, on the one hand, to the range of convenience of any one theory and to the importance of theory selection, and on the other hand, to the possibilities of linkage to improve the explanatory or prescriptive plausibility of theory.

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Topics

Topics are a potentially important part of the agenda for future research. As we have seen in Part IV, they provide a way of framing questions both about the empirical manifestations of IOR and about theories that are employed in studies of IOR. In particular, topics raise questions about the comparative value of different perspectives, the ways in which theories might complement one another, and the potential for integration of theories into our understanding of IOR. They also highlight the difference that institutional contexts might make to the character or fabric of IORand raise questions about the extent to which knowledge can be generalized across manifestations. The introduction to Part IV indicated a number of ‘gaps’ in this Handbook's coverage of IOR research, but also suggested that, despite reference to the phenomena, there is little knowledge yet to gather in relation, for example, to Inter-organizational identity, communication and goal negotiation, emotion, accountability, rupture and repair, and ethics.

Where research has, by comparison, been more substantial, future research might start equally well from empirical or from theoretical questions. Starting from the empirical, Huxham and Beech suggest, there is scope for further investigation of power in IORs. In particular, they point to what they term ‘macro-power’ as it occurs in different circumstances and given a presumption of multiple types of power source. This is consistent with Knoke and Chen's reading of the future research agenda from a political perspective, in which they argue that empirical studies should seek to identify which power sources—resources, regulations, or networks—weigh more than the others. But Huxham and Beech also suggest that the concept of micro-power warrants further investigation. This might involve a close examination of relational processes and the individual power implicit in them as well as attention to different empirical contexts. And they suggest, too, that there is scope for investigation of the relationship between macro-and micro-power.

Starting from questions raised by theoretical contest over the character and importance of trust in IOR, Bachmann and Zaheer's discussion of the research agenda recognizes the sometimes conflicting assumptions and premises of different disciplinary approaches. Bachmann and Zaheer suggest that a detailed examination of the role of trust in Inter-organizational relations from both the economic and sociological perspectives might be the most fruitful focus for work to explore and potentially reconcile differences/ conflicts and so pave the way to a deeper understanding of the issues in this

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context. We agree and also agree that, in turn, such understandings could help identify appropriate research questions to better empirically investigate the precise role of trust in Inter-organizational relations and differences in the sources, meaning, degree, and outcomes of Inter-organizational trust in different national contexts. This might be revealed most powerfully, providing both theoretical and substantive insight, when IORs bridge contexts where trust differs in degree and meaning. Bachman and Zaheer suggest that such research will need advanced methodologies, such as repertory grid technique.

One likely point of convergence in these kinds of diverse interests (as well as others) is between scholars concerned with power and trust as central qualities of relationships and Inter-organizational processes that approximate to outcomes, such as learning and innovation. Nooteboom demonstrates that the roles of IORs in facilitating innovation and learning within and between firms is critical as the costs and risks associated with innovation increase and as firms become more specialized. He argues that an important shortcoming in the extant research is a failure to more extensively explore relationships between issues of competence of the parties andthe governance of their relationships. In particular, he observes, there is a need to reconcile contradictory findings in research dealing with the nature of network structure and the strength (or weakness) of network ties. He observes that tradeoffs are an inevitable consequence of reliance on networks and suggests that more attention be paid to explorations of the implications of seeking optimal rather than maximum flexibility and variability in relations between partners to dyads and/or members of networks. Finally, as we observed above, he advocates greater attention to triads, since these provide a context in which relational practices are likely to be especially rich.

Social capital reflects another topic on which scholars interested in explanations for increased reliance on collaboration have begun to converge. As Nahapiet demonstrates, it has been employed by scholars in economics, sociology, political science, as well as in organizational and management studies. In each of these disciplines, definitions of the topic have been ‘massaged’ to fit with existing assumptions but looking at them collectively can provide scholars interested in its application to an increasingly varied array of IORs and IOEs with a means of crossing sectoral boundaries with greater ease.

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Provan and Sydow note that ‘performance is something of the Holy Grail of IOR research’: although combinations of structure, process, and outcome measures may be available and capable of measurement, the choice of indicator needs to be carefully made. Like Gray and Cropper and Palmer, whose chapters work through theory dependence in systematic fashion, they argue that the choices of measure should be coherent theoretically and this, in the absence of good experimental or quasi-experimental controls, may provide some basis for attributing change to the distinctive contribution of the IOR. Provan and Sydow also suggest that it is helpful, and potentially necessary, to assess performance at multiple levels of analysis—the organizational and inter-organisational levels at least.

Future Research Strategies and Methodology

The question of research strategy and method is one which has not been separately or explicitly treated in the Handbook. However, a number of contributors note the need for further development of methods and the broadening of strategies for inquiry.

That the area is largely devoid of comparative assessments is noted more than once. Hibbert, Huxham, and Ring noted, in the context of the management perspective, that ‘there are few cross-sector assessments of how managers treat issues such as “partner” selection or trust building’. Jones and Lichtenstein commented that ‘few comparative studies exist on IO projects across industries or fields’. To spark and support a move to such comparative research, Yeung's suggestion has some merit. He noted that there is no explicitly articulated methodologyfor doing IOR research in economic geography. There is therefore a need to coordinate geographical research into IORs that span different countries and/or regions.

The call for longitudinal research into IOR is also increasingly heard, not least in Cropper and Palmer's review of research into change, dynamics, and temporality in IOR research. Brass *et al*. (2004) in their review of network knowledge emphasized the need to extend IOR research from its base, primarily in cross-sectional studies, and we have seen attempts to develop temporally sophisticated methods (e.g. Moody *et al*. 2005) for the representation and analysis of networks. Huxham and Beech suggested that ‘development of deeper understanding of both the way power is perceived and of the effect that has on inter-party interactions is important to understanding the nature of Inter-organizational relationships, and this

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includes scope for longitudinal work to investigate how power changes over time and the dynamics of shifting power in the shorter term'.

Use of quantitative methods have been concentrated in particular knowledge and national 'silos'—US strategic management scholarship, etc. The development of more aggregate units of analysis—networks, populations, and communities— starts to open up the possibility of wider usage. As Lomi *et al*. argue, 'Progress in the evolutionary understanding of Inter-organizational relations is heavily dependent on our ability to develop, specify, and test statistical models for network dynamics … [Yet] the application of these models to the study of Inter-organizational relations is in its infancy.'

Finally, there are challenges not just to method and technique in research, but also to the governance, conduct, and 'moral stance' of researchers that are pointed up by a tendency towards action and towards committed or partisan research. As with the wider field of management inquiry (Hodgkinson 2001; Van de Ven and Johnson 2006; Cummings 2007), there have been a number of calls for more applied, or engaged, research. Huxham and Beech noted the 'clear possibility for research on the management of power in practice, preferably within an action research methodology so that attention to practice can be directly incorporated'. Schruijer, too, argued for action research so that real-life problems can be worked with. Both she and Gray concluded that experimental research—whether laboratory or natural—is unlikely to provide a basis for IOR research. Reluctantly, Provan and Sydow agree, though they press for non-randomized quasi-experimental designs as the best alternative to randomized experiments for conducting evaluation research. Gray argues not for one specific design or another, but in the context of discussion intervention approaches for IORs, suggests that

> … future researchers might carefully scrutinize each form of intervention to discern its major strengths and weaknesses and the conditions most conducive to it producing its desired ends. Research should also articulate the requisite competencies for individuals attempting such interventions and which interventions are most appropriate for different types of Inter-organizational partnerships. With this additional knowledge, skilful interveners (thoseequipped with theoretical knowledge about organizational change and unassailable process skills) will have the best chance of making interventions to improve Inter-organizational partnerships that have the greatest likelihood of success.

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Interestingly, the concern with practice has also spread to critical theory. Thus Lotia and Hardy commented that ‘a cautious engagement with management practice has emerged’, which, following Alvesson and Willmott (1996), is to foster the development of organizations in which communications … are less distorted by socially oppressive, asymmetrical relations of power’.

IOR: A Silo-ed Field? The Evidence

It is clear from the above discussion that there are many points of overlap in the many standpoints taken by the chapter authors in this Handbook. We noted in the Introduction to this Handbook, however, that these different research perspectives and their bodies of knowledge over time tended to form specialized ‘silos’ of IOR research, with scholars rarely building on, contributing to, or even acknowledging the work conducted outside their own particular research silo. Specialization of IOR research in itself certainly is not a bad thing, as it may contribute to greater scrutiny and a deepening of our understanding of IORs. Yet the current seeming fragmentation of IOR research does raise the question of whether it is justified to speak of IOR as a distinct field of scientific enquiry, or whether it represents an array of specialist contributions firmly grounded in other fields (e.g. organization theory, economic geography, institutional theory, research on social capital, etc.) that just happen to focus on the same study object, IORs, but share little else. Before discussing that question in more depth, we first examine the evidence in this Handbook for the continued existence of silo-ed research.

In our introductory chapter we argued that we believed that the early ‘silos’ into which IOR research could be deposited were, perhaps, buckling under their own weight. Thus, we were interested to see the extent to which that was evident in this Handbook. For example, would those writing about one particular manifestation of IOEs—for example, alliances or networks—make reference to other manifestations of IORs? We also wondered how frequently those writing about a particular manifestation would rely on theories that were being addressed by authors making contributions in Part III of the Handbook, or would focus to some degree on topics that were being reviewed by authors in Part IV.

Not surprisingly, the results reflect a significant amount of variation. For example, networks were addressed in all chapters in Part II. Strategic alliances, covered in the chapter by Dacin, Reid, and Ring, were also referred to in five other chapters inPart II. By contrast, joint ventures, also covered by

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Dacin *et al*., were discussed in only two other chapters addressing empirical manifestations of IOR. As a final example, no other author in Part II made explicit references to industrial districts, covered by Lazerson and Lorenzoni, as a manifestation of IOR.

Six of the chapters in Part III made reference to the use of these theories they had introduced for the study of alliances and joint ventures. By contrast, none of the authors in Part III explicitly referred to use of their theoretical perspectives in studies of non-profit-making organizations and voluntary collaborations. Needless to say, collaborations involving both non-profit-making and voluntary organizations have been explored using disciplines and theories represented in Part III (see e.g. Galaskiewicz 1985; Brass *et al*. 2004). In contrast, manifestations falling under the general heading of networks were referred to in every chapter in Part III.

Almost all of the authors in Parts II and III touch on the Part IV issues of trust, power, and knowledge or learning, but social capital, change, dynamics and temporality, intervention methods, and evaluation are rarely mentioned. At face value, this might suggest a breaking down of the silos in the former areas, but this may belie the truth of the matter. Other authors' approaches to these topics are not necessarily consistent with those taken by Bachman and Zaheer, Huxham and Beech, and Nooteboom in Part IV; neither are they consistent with each other. In some contrast, most of the Part IV authors draw on an even wider variety of theoretical bases than are covered in Part III, suggesting that drawing insights across theoretical bases may be becoming more acceptable. Two Part IV authors, however, draw only on a more restricted range of theories.

Another way of looking at this is to use the amount of cross-referencing that we find across chapters in this Handbook—both with regard to references to the same publications and to other chapters in this Handbook—as an indicator of the degree of silo-thinking. Although public sector service provision partnerships (see Sandfort and Milward, this volume) arguably share many features and challenges with supply chains and networks in the private sector (see Johnsen *et al*., this volume) and voluntary and community sector partnerships (see Mandell and Keast, this volume) exhibit commonalities with business alliances and joint ventures (see Dacin *et al*., this volume), the degree of overlap between the lists of references in the respective chapters is miniscule (two common citations among a total of 262 in the first case, and two of 238 in the second). On the other hand, we see many cross-references in Handbook chapters to the same body of theory or

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topics, with the social network perspective (see Kenis and Oerlemans, this volume) and institutional theory receiving the most, followed by transaction cost theory (see Hennart, this volume) and trust (see Bachmann and Zaheer, this volume).

Yet another indication can be gained by examining the extent to which authors writing on manifestations in Part II recognized the labels given to other manifestations as hiding IOEs that are in essence the same or similar to theirs. Forexample, did those writing about public service delivery partnerships acknowledge that what they were describing might equally be labelled ‘alliances’ (and thus, that alliances research might have relevance!).

The answer appears to be that the chapters in Part II rarely explicitly acknowledge similarity, a conclusion not too surprising given that authors were asked to focus on a specific manifestation. However, it is clear that they all tended to see relationships between organizations in the same kinds of terms: driven by a need for resources. There was also a tendency—even for some authors concerned with public or community sector relationships—to frame or orient the discussions of IOEs as falling somewhere along a continuum between markets and hierarchies.

Taking these ‘results’ together, we may conclude that the silos have not disappeared altogether, but that the walls between them are becoming more permeable. We will return to this line of thinking again in the following discussion of IOR as a field.

Is IOR a Field?

Our discussion of the development of IOR in the introductory chapter depicted it as growing rather wildly: a jungle with no clear borders and many different beasts living by different rules, wildly competing for survival. In the light of chapters in this Handbook, then, it seems to us that IOR has developed some of the trappings of a distinct field of scientific enquiry yet still lacks others. We mean by field roughly what is implied by the term organizational field; that is, those scholars who ‘in the aggregate, constitute a recognized area of institutional life’ (DiMaggio and Powell (1983); see McKelvey (2003) for an alternative conceptualization and discussion of what constitutes a ‘field’ and a ‘science’ that rests on epistemological criteria). Based on this institutional view, we would suggest that a field of IOR would be rather more like an Italian garden, elegantly designed with its variety strictly regulated, than a jungle. It would exist if there is a community of scholars mutually recognizing one another as contributing to the common

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scientific undertaking of studying IORs and engaging in research activities leading to some form of institutionalized outcome, such as a shared body of knowledge, dedicated IOR conferences or journals, or IOR entering the curricula of degree programmes. A field of scientific enquiry is different from a discipline, as it uses a discipline's concepts, methods, and basic research focus but applies these to a particular substantive study area. A discipline may therefore comprise a number of different fields of scientific enquiry—sociology, for instance, is home to distinct fields such as the sociology of religion, organizational sociology, economic sociology, urban sociology, and so forth.

Perhaps the most basic precondition for the development of a distinct field of scientific enquiry is that a community of researchers shares a set of core concepts that define the object of study, frame related research questions, and thus boundthe field of enquiry. This does not imply that everyone needs to agree on the same definitions for these concepts or on their dimensions; rather, it suffices if scholars recognize that by and large they write and speak about the same things and can relate their own work to that of others in the field. As we outlined in the introductory chapter of this Handbook, IOR focuses on the properties and overall patterns of relations between and among organizations pursuing a mutual interest while remaining independent and autonomous in the course of following their separate interests. The basic building blocks constituting IOR thus are notions about the nature of relations (their content, governance, and structure) that exist between and among organizations. While there is some heterogeneity in IOR as to the significant dimensions and their attributes of both relations and relevant features of interrelating organizations, it seems to us that this heterogeneity is a sign of a healthy scientific competition and of the struggle for a better understanding rather than an indication of a fragmented and ill-defined field. After all, even physics with its much longer research tradition and much larger scientific community is still in intense dispute over, and in search of, the number and precise nature of the basic building blocks of matter.

A second condition for the existence of a field of IOR is that the community of researchers engages in a dialogue about their study object that recognizes the possibility of mutual learning. Such dialogue may involve exchange and comparison of concepts, methods, and findings as well as the deliberate juxtaposition of perspectives and knowledge. In these ways, scholars engaged in the field can accumulate, refine, and extend knowledge about IOR, foster mutual learning and, potentially, enrichment between the

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perspectives and bodies of knowledge. For instance, it becomes possible to clarify the assumptions on which different perspectives are based, to assess the ‘direction’ of theory in terms of core concepts, units of analysis, questions, and propositions. Moreover, such dialogue may provide some sense of the fruitfulness, or scope, of different contributions to understanding, coverage, and quality of knowledge in different areas.

Our hope is that this Handbook will be instrumental in promoting such dialogue, at least in certain areas. At present, however, it seems that there is still more dialogue within each of the research silos in IOR than across them. It remains difficult to relate contributions from different silos to one another, as each silo has its own theories, concepts, research traditions, and style. Nevertheless, it seems that some boundaries between silos may be more permeable than others. Silos of manifestations of IORs (especially from different sectors) and of particular disciplines appear less permeable than those of theories or themes.

A third and still more far-reaching condition in terms of the development of a field would claim that many scholars should agree on a set of core assumptions, concepts, propositions, methods, and exemplars on which they then routinely base research. In Kuhn's (1962) terms, the field would have established a paradigm and would be engaging in ‘normal science’. In addition, we would be able to observesome of the institutional trappings of an established field of scientific enquiry, such as dedicated journals, a tradition of regular conferences on aspects of the field, curricula and chairs at universities that would be devoted to IOR, etc. As this Handbook testifies, research on IOR currently is far from having developed a paradigm, as there does not seem to be an unchallenged set of core assumptions, propositions, and research exemplars that regularly guide IOR research across the various manifestations of IORs, theories, and disciplines. However, IOR nevertheless has fleshed out a few institutional features that characterize a distinct field. For instance, the British Academy of Management (BAM) in 1999 established a Special Interest Group on Inter-organizational Relations (SIGIOR) that regularly holds workshops and organizes a track at the BAM Annual Conference; the European Group of Organization Studies (EGOS) since 1994 at its annual conference has regularly devoted a track to IOR and networks that was institutionalized in 1999 as one of EGOS's Standing Working Groups; not least, we should also not forget to mention the fact that a highly reputed publisher has now produced a Handbook, this one, on IOR.

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Finally, perhaps the most far-reaching requirement is that IOR would be worthy of recognition as a distinct field of scientific enquiry only when (and because) there is less variance exhibited among contributions to IOR than there is between IOR research and the disciplines and theories on which it draws. Thus if IOR were an established field, we would expect to find more conceptual similarities and more overlap in the body of knowledge between, for instance, a discussion of IORs from the perspective of economic geography (see Yeung, this volume) and an account of industrial districts from a business perspective (see Lazerson and Lorenzoni, this volume) than between either chapter and publications on other topics in their respective disciplines.

Given the particular slant of this Handbook towards organization science, it perhaps seems more appropriate, however, to discuss this fourth condition for the existence of a field of IOR in the context of organization science: to what extent and how might research on IOR be distinct from organization science? A look at the table of contents of this Handbook indicates that the degree of overlap between IOR and organization science is indeed almost complete, both with regard to the disciplinary and theoretical perspectives taken up and with respect to research themes. The specificity of IOR rather lies in its focus on particular manifestations at a supra-organizational level of analysis: the study of relations within Inter-organizational entities, their formation, evolution, functioning, and dissolution. However, these manifestations are not the exclusive terrain of IOR. Scholars who would regard themselves primarily as organization scientists would claim too that, say, their research on alliances and joint ventures or on Inter-organizational projects was part of organization science. This overlap in research practice between IOR and organization science is further underscored by the fact that one of four subsections in a recently edited handbook on organizations (Baum 2002) is devoted tothe Inter-organizational level of organizational analysis. Conversely, IOR scholars regularly also study the implications of IORs for the organizations involved. It thus seems that to date there is no clear boundary between IOR and organization science other than, perhaps, a difference in the prime level of analysis (IORs versus organizations) on which research concentrates. Yet with regard to research practice, this boundary too seems blurry and highly permeable.

In sum, we conclude that at this point in its development, and from the vantage point of organization science, IOR seems to constitute an emerging sub-field of organization science focusing on the Inter-organizational level of analysis and beginning to develop its own institutional trappings. The

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empirical and conceptual basis which draws together scholars interested in IORs can be found in a specific focus on questions about the boundaries or identities of Inter-organizational entities, including bilateral and multilateral partnerships and alliances, clusters, groups, and networks, their relational structures, contents, and practices. With regard to these study objects, scholars examine how they emerge, evolve, work, and dissolve as well as how they affect the participating organizations, their members and constituencies. With regard to these questions, a dialogue is beginning to emerge, hopefully further fostered by the publication of this Handbook. Despite its distinct research focus and institutionalized dialogue among the community of IOR scholars, however, IOR is not yet a fully developed field of enquiry in the sense that it possesses its own, exclusive concepts, theory, or research themes that are significantly different from those applied elsewhere, particularly in organization science. But does this matter for the potential progress of the study of IORs? Hardly. As IOR's perhaps most important mother discipline, organization science, has successfully demonstrated throughout its history, it can be most fruitful if research endeavours draw on, and learn from, concepts, theories, and methods first developed in other disciplines and fields of scientific enquiry. So even if scholars should simply see IOEs as an interesting study object, an empirical site for investigation of theory and the application of concepts and methods originating in other disciplines or fields of enquiry, they will nevertheless contribute to an enhancement of knowledge about IOR.

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The Oxford Handbook of Inter-Organizational Relations

Steve Cropper, Chris Huxham, Mark Ebers, and Peter Smith Ring

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The Oxford Handbook of Inter-Organizational Relations

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