The Value Creation Process in Networked Organizations

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INTRODUCTION

The concept of the organizations as value creators is not new. The capacity to create value in a sustainable way is just recognized to the organizations that are able to innovate and to find other forms of continuously combining their resources, capabilities, and processes. Value creation corresponds to a complex exercise that appeals to a global and transversal analysis of the organization and its environment as well as to the knowledge and control of the variables that leads or affects its creation (value drivers) or destruction. For a question of efficiency and/or flexibility, organizations cannot perform all value chain activities and do it in a better way. Concentration in activities or knowledge areas in which they are competent enough and rely on the other members of the network's other responsibilities is a way to strengthen their own resources and capabilities; at the same time they preserve the flexibility to face change. On the other hand, firms do not control all the fundamental resources needed for the value creation process. In this way networks are not only important, but also critical to the success, or even the survival of the organization.

The technological factor has been eliminating a group of constraints that were obstacles to the organizations to adopt complementary organizational forms to develop their activities and to achieve the ultimate goal of value creation. Factors such as distance or time are no longer impediments to alternative ways of organizing, like networked and virtual organizations. It is possible to create complementary relations that allow organizations to gain efficiencies in key factors of competitiveness and/or to access to the critical resources they do not control.

So, it is appropriate to say that value creation is much more related to the complementary interfaces rather than individual actions: the value appropriation gives way to shared creation of value. On the other hand, the logic that the maximization of value to an organization is attained through the maximization of value of other participants in the network prevails against the idea that the value creation is a zero-sum process, based on the premise that the gain of one side corresponds to the loss of the other.

By its nature, the value creation process in networked organizations encases perfectly in those two assumptions. This short article will analyze the main aspects of the value creation process in networked organizations.

NETWORKED ORGANIZATIONS

Networked organizations refer to a different form of organization when compared to the traditional hierarchical view of organizing. It is consensual that it was the increasing technological development that impelled organizations in that direction, acting more as a system than a physical entity (Hope & Hope, 1997). This new organizational form may exhibit emergent structures that result from communication through information technologies that facilitate lateral communication and have little regard for traditional hierarchy (Ahuja & Carley, 1998). From a strategic point of view, network arrangements are organizational forms that companies can build up additionally to the existing structure. In that sense, networked organizations are seen as organizational extensions of the primitive structure. As Mintzberg (1979) pointed out, the structure of an organization can be defined simply as the sum total of the ways in which it divides its labor into distinct tasks and then achieves coordination among them. Evidence of network structures or of hybrid organizations can be found whenever we speak about virtual corporations, cluster organizations, or horizontal firms (Amigoni, Caglio, & Ditillo, 2003). However, according to Preston (1998), virtual organizations can be distinguished from hierarchical and network forms of organization by its rejection of status boundaries and the lack of impor-

tance it ascribes to proximity. Networked organizations differ from formal hierarchies in its emphasis on the informal patterns of communication that bring more and richer information and expertise to bear on problems and opportunities. However, networked organizations do not require the mobility and freedom from place that are defining features of virtual organizations. The fundamental distinction is that neither hierarchies nor networks can approach the flexibility of the interdependent relationships across space, time, and formal boundaries that characterize virtual organizations because they rely on the physical proximity of their staff to maintain an effective structure. On the other hand, Bititci, Martinez, Albores, and Parung (2004) make a distinction between extended enterprise and virtual enterprise stressing the *temporal factor* of the later: virtual enterprise is considered as a temporal case of an extended enterprise. Extended (*virtual*) enterprise is defined as a (*temporal*) knowledge-based organization, which uses the distributed capabilities, competences, and intellectual strengths of its members to gain competitive advantage to maximize the performance of the overall extended (*virtual*) enterprise.

Despite the differences between virtual organizations and networked organizations stated earlier, the true nature of a virtual organization is the networking relationship that exists among participants. In this way, any virtual organization is a networked organization, but not all networked organizations are necessarily virtual organizations. Or, put differently, virtual organizations are a kind of networked organizations; a network of autonomous organizations that cooperate based on complementary competences and connect their resources and capabilities to those of their partners via networks aiming at mutual benefits. So for the purposes of the present article, networked organizations are seen as alternative ways of organizing that firms use to face the constraints of the current structures (resources) and/or to improve them to create synergetic effects that create value. Networked organizations may be formal or informal, transitory or durable, planned or not planned, contingent or deliberate.

THE RESOURCE-BASED VIEW OF THE FIRM

Recently, the perspective on resources associated with the resource-based view of the firm had established

new concerns respect to the importance of resources, including intangible resources, on value creation process. This perspective is based on the developing and exploitation of resources and capabilities to support the creation of sustainable competitive advantages. Theorists of the resource-based view of the firm advocate that firms are a set of resources and capabilities, that combine and use for different purposes and that determine its competitive capacity and, therefore, its capacity to generate value.

The firm is thus the unit of analysis, and attention is paid on resources, on characteristics, and on organizational processes that facilitate the creation of new combinations of resources to cause or reinforce heterogeneity between firms: valuable resources, rare and with imperfect mobility. From the resource-based view logic, we may infer that (Barney, 1991): (1) organizational processes based on valuable, however common, resources provide no more than competitive capacity; (2) organizational processes based on valuable and rare resources may configure situations of temporarily competitive advantages; and (3) organizational processes anchored on valuable, rare, and non-imitable resources (without equivalent substitutes) may configure situations of sustainable competitive advantages.

The non-imitable issue, which is crucial for the sustainability of competitive advantage, is associated with three fundamental prepositions that have been deeply exploited by resource-based view theorists (see Barney, 1991, 1995; Dierickx & Cool, 1989; Helfat & Peteraf, 2003; Mata, Fuerst, & Barney, 1995): (1) the *performance* of the firm depends, among others factors, on the utilization of resources that are closely associated to its trajectory (*path dependency*); (2) relationship between resources controlled by the firm and its sustainable competitive advantage are not understood or, at least, are not fully understood by other firms (*causal ambiguity*); and (3) firm resources could be socially complex (e.g., organizational culture), which formation could be independent on the management capacity, so that it is difficult (if not impossible) to find the way how they add value (*social complexity*).

Each firm has a value creation process, that is, a number of activities (both internal and external) that has to be performed in order to accomplish the final purpose of value creation. The performance of these activities is based on firm's resources and capabilities, whose combinations lead the firm to experience

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