



Inter-firm learning and knowledge-sharing in multinational networks: An outsourced organization's perspective



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ABSTRACT

This research provides insights into how learning and knowledge are exchanged multinationally between customer firms and their outsourced suppliers who provide non-core, yet essential, services. The paper seeks to understand: (1) how information is exchanged in these networks; (2) how cumulative knowledge adds value in these networks; and (3) how boundary-spanners assist in the dissemination of knowledge and learning within the network. Based on a pharmaceutical industry case, the results suggest that: (a) multinational firms operate more effectively and interact by sharing knowledge with outsourced firms which reflect the customers' structure and fit; (b) networked firms benefit from interactions through economies of scope, but knowledge is not necessarily shared equally among partners; (c) learning and knowledge-sharing interactions are tightly coupled at the product development stage; and (d) outsourced firms interact with external boundary-spanners as needed. The research provides insights for managers of multinational organizations and managers of firms from where essential services are outsourced.

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1. Introduction

Businesses have long outsourced complex non-core activities in order to gain competitive advantage (Kotabe & Murray, 2004), with outsourcing becoming the norm in many business markets (Hui, Davis-Blake, & Broschak, 2008; Kogut, 2000). Outsourcing enables firms to create value and efficiencies by pooling resources, and sharing expertise and knowledge (Sanchez, Vijande, & Gutierrez, 2010). Such actions require collaborative investments in innovation that facilitate organizational learning, especially in new product development (Roy & Sivakumar, 2011).

Collaborative learning issues have been explored extensively by others, including the study of how knowledge transfer creates value (Sanchez et al., 2010), how knowledge influences organizational learning (Cambra-Fierro, Florin, Perez, & Whitelock, 2011), and how knowledge exchanges represent accumulated knowledge that enhances learning (Dekker & Van den Abbeele, 2010). However, Sanchez et al. (2010) suggest that further research should focus on the influence of organizational learning and sharing knowledge in strategic alliances, such as outsourcing, while Johnston, Peters, and Gassenheimer (2006) raise questions about the operation of network structures and inter-firm

strategic coupling within dynamic relationships, such as outsourcing complex essential tasks.

Boundary-spanners are economic agents representing their firms contractually to achieve specific goals (Aldrich & Herker, 1977). They are organizational actors, but, at the same time, closely involved in inter-organizational relationships with partner organizations (Hald, 2012). However, research on the role of boundary-spanners as agents of diffusion of innovation and cross-organizational learning is limited.

Based on the pharmaceutical industry this paper examines nodal clinical research organizations (CROs) and multinational pharmaceutical companies (MPCs) where interaction takes place within CROs (intra-organization) and between CROs and MPCs (inter-organization). Of late, MPCs have shed in-house clinical research activities and outsourced knowledge-intensive critical activities to CROs, such as research and development (R&D), biotechnology, data mining and bio-statistical analysis (Gupta, Woodside, Dubelaar, & Bradmore, 2009). Global outsourcing of clinical trials by accredited CROs has resulted in 20%–30% of trial activity being conducted in developing countries (Lamberti, Space, & Gambrell, 2004). This research will provide guidance to both practitioners and academic researchers. Therefore, understanding how knowledge and learning are shared within the nodal organization, and between the nodal organization and its network partners (i.e., multinational companies and regulatory authorities), and how competitive advantage is driven (Carlisle, 2004) through outsourcing to developing countries, are the focus of this research.

The aim of this research is to understand: (a) how information is exchanged between outsourced service providers and multinational

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customer firms; (b) how cumulative knowledge adds value to the exchange process; and (c) how boundary-spanners disseminate knowledge and learning within organizational networks. To understand the complexities of knowledge development we have adopted a case-based approach (Leenders & Wierenga, 2008), and developed a number of working propositions, which are then refined using data from the case research into a number of testable propositions (cf. Woodside, Gupta, & Cadeaux, 2004).

2. Literature review

2.1. Network structure and fit

Co-operative inter-firm relationships are acknowledged as strategic assets that require cultivation and relational investments if they are to achieve sustainable benefits (Johnson, 1999; Webster, 1992). Hutt, Stafford, Walker, and Reingen (2000) emphasize that "... relationship(s) can help firms gain new competencies, conserve resources and share risks, move quickly into new markets, and create attractive options for future investments" (p. 51). Narayandas and Rangan (2004) identify processes by which firms initiate access and maintain their business relationships, and suggest that flexibility and informal interaction are preferred in the initial stages to give time for the relationship to develop. They also claim that not only must both parties perform expected functions satisfactorily, but both must carry out extra-contractual actions to enable the relationship to evolve and remain competitive. Networks have also been examined within the strategic management literature (Gulati, 1995; Gulati, Nohria, & Zaheer, 2000), as network theory allows researchers to advance our understanding of strategy formulation as well as how networks affect the strategy and structure of inter-firm collaboration (Drazin & Van de Ven, 1985; Nath & Newell, 1998). Bailey, Leonardi, and Chong (2010) claim that both planned and emergent organizational structures can co-ordinate network actors (such as the CROs and the MPCs) who work inter-dependently, where co-ordination activities lead to better outcomes, such as learning.

Drazin and Van de Ven (1985) posit that organizations must fit (i.e., work together) if the network is to perform and survive. Nath and Newell (1998) argue that internal organizational structures also need to be dynamic and adaptive to facilitate fit between strategy and structure, leveraging partners' core capabilities and networks effectively (Eisenhardt & Galunic, 2000). Thus, co-ordination efforts, learning and flexibility, facilitate fit and are especially important for organizations that operate in networks.

Networks have to be dynamic entities through involving managers, continually acquiring and shedding resources, and integrating and recombining them to generate new value-creating strategies (Eisenhardt & Martin, 2000; Grant, 1996; Pisano, 1994). Dynamic structures are, therefore, necessary to address the market's strategic requirements, which might require the outsourcing of non-core yet essential services to specialized firms with complementary capabilities. These dynamic network structures consist of value-adding routines and services, such as product development, or, in the case of pharmaceuticals, clinical trials.

Knowledge-sharing might also arise from related parties in the network. For example, the USFDA has established an office in India to ensure that knowledge about safe and effective practices is adhered to for US-targeted drugs (FDA, 2011). In the context of structure and fit, the Indian-based USFDA offices provide valuable information and accreditation to Indian-based CROs which may lead to the reduction of development cycle times for the US-targeted pharmaceutical products.

Research has established that relationship-building interactions are dependent on network ties (loosely or tightly coupled) but, to date, research has not focused on how these ties, in turn, affect the diffusion of knowledge between organizations operating in multiple countries (Guler, Guillen, & Macpherson, 2002). For example, the diffusion of knowledge (particularly between MPCs, US-based CROs, and the US

regulatory authority) is dependent on there being strong or tightly coupled interpersonal ties (Guler et al., 2002).

Guler et al. (2002) suggest that organizational practices tend to diffuse unevenly between parties in networks and are driven by the actors' skill, activities allocated to tasks within partner organizations, and the level of resources expended. This is consistent with Drazin and Van de Ven (1985), who advocate that structural relationship fit between the multinational and its network partners is dependent on the resources, skill, and activities of all the actors in the network.

Alternatively, over time, partnering and sharing of knowledge and learning will lead to the development of cost-effective, strong structures and practices between MPCs and CROs accelerating the innovation diffusion process. The following working proposition follows from this perspective. WP₁: Accredited CROs need appropriate structure and fit with MPCs, whereas MPCs need to economize their limited resources and invest in sharing knowledge with network partners.

2.2. Diffusion of knowledge in networks

In diffusion theory (Rogers, 1995), organizations learn about a specific new product, and, at the start of the innovation have some understanding of the outcome, and develop R&D programs to integrate the development into activities that will lead to new product development. For example, MPCs learn about a pharmacological development, have some understanding of how the innovation will affect a health treatment, and initiate an R&D program to integrate the development into activities that will lead to drug discoveries. MPCs interact with CROs in order to test and further understand the implications of innovation for existing and future practice. This interaction and knowledge-sharing may lead to CROs designing more efficient testing processes, and acceleration of compliance processes, thus reducing the diffusion cycle times for new drugs to market. Fig. 1 is a conceptual map of how knowledge and learning are exchanged between the CRO (focal) firm and its network partners (i.e., MPCs, regulatory organizations and boundary-spanners).

Interactions between CROs and MPCs not only facilitate innovation, but must also comply with regulatory protocols required for drug approval. Interactions and protocols (drug trial procedures) are extensively discussed within the network and lead to improved collaboration, where communication is supported by organizational structures that accommodate current and evolving interdependence among network partners (Burgelman & Doz, 2001).

Scholars, like Inkpen and Tsang (2005), argue that the social network approach (i.e., the relationships and interactions within a group of individuals or actors), can examine both the content and the pattern of relationships in order to determine how and what resources (i.e., knowledge

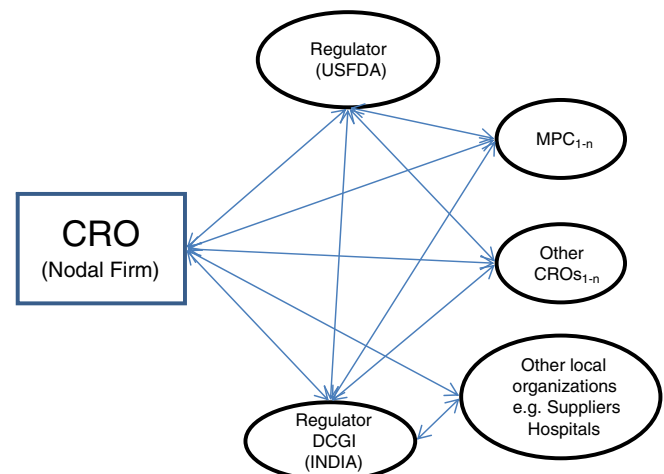


Fig. 1. Conceptual map: Clinical Research Organizations (CRO), Multinational Pharmaceutical Companies, Regulator Authorities and other organizations.

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