



## Inter-cognitive representations in business networks

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### ABSTRACT

This study aims at conceptualizing the different outcomes of inter-cognitive representations, such as manifestations of agreements between business actors, legally binding contracts, and industry standards and regulations which are developed through interactions between actors in business networks. Inter-cognitive representations inscribe shared understandings and thus prove an objectified basis for further interactions within the business network. To advance the study of inter-cognitive representations in business networks, we develop a conceptual framework that integrates two conceptual dimensions, namely, 1) 'shared understanding of rules' and 2) 'interaction among interdependent actors'. The framework allows us to formulate four theoretical propositions that provide alternative hypotheses, which deserve further research and empirical testing.

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### 1. Introduction

"[E]pistemology [which] is concerned with the prospects of human knowledge must work hand in hand with cognitive science" (Goldman, 1999, p. 280).

This study conceptualizes the different outcomes of inter-cognitive representations which are developed through interaction between organizations. We use the term *inter-cognitive representations* to describe organizational artifacts that inscribe shared understandings, such as manifestations of agreements between business actors, legally binding contracts, industry standards, and business regulations. Notwithstanding the well-rehearsed arguments on the relevance of cognitive representations (Gavetti & Rivkin, 2007; Salvato, 2009; Tripsas & Gavetti, 2000) or managers' subjective cognitive pictures (Abrahamsen, Henneberg, & Naude, 2012; Henneberg, Mouzas, & Naudé, 2006; Henneberg, Naudé, & Mouzas, 2010; Geiger & Finch, 2010; Leek & Mason, 2010; Ford, Gadde, & Håkansson, 2003) there is a paucity of discussion of the role of inter-cognitive representations developed through interaction practices between business partners (Öberg, Henneberg and Mouzas, 2012).

The term *representations* means *per se* that an objectified artifact is a model and hence a reduction that is created to represent the complexity

of business affairs. As Cooper (1992, p. 257) puts it: "[t]he affairs of the world are made pliable, wieldable and therefore amendable to human use through technologies of representations". In a broader context, inter-cognitive representations include diverse practices such as accounting rules, public procurement regulations, financial reporting, industrial classifications, and legislation. We also use the term *business networks* to describe webs of inter-related exchange relationships among organizations (Ford, Gadde and Håkansson, 2003). We thus employ the term *network* to move beyond simple dyadic relationships to examine effects on indirect relationships (Håkansson & Snehota, 1989; Mouzas, 2006a). In such a business-to-business context, our attention is specifically focused on, first, the business *interactions* among interdependent actors, and secondly, shared *rules* that govern these business interactions and thus transcend any individual organizational action or individual managerial cognition.

The present article is based on the following argument: business interactions between organizations do not occur in a vacuum; interactions are based on shared understandings of the rules that guide actors' behaviors; and the actors are affected by these rules. Shared understandings of rules can refer to a mutually perceived availability of exchange interfaces, trade practices and norms, or shared appreciations and values including explicit or implicit regulations and laws that govern business interactions. Consider in this context the relevance of *good faith* as a reasonable commercial standard of fair dealings. The threshold requirement of *good faith* is that each party must negotiate and perform the contract honestly. In case of a misrepresentation, where one counterpart has been induced to enter into a business contract as a result of a false statement of fact by the other party, the shared understanding of the interacting parties is that such misrepresentation can cause to rescind (set aside) that contract. Hence, each actors'

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interpretation supposes a 'shared understanding', or what Heidegger (1966) described as *prejudice*. This shared understanding becomes a *boundary object*, i.e. a tangible or intangible manifestation of a shared understanding of the interaction characteristics in a business relationship (Star & Griesemer, 1989). Such boundary objects are defining common practices for partners in a business network (e.g. open-book accounting agreements and financial templates used between a manufacturer and its first-tier suppliers; Kajüter & Kulmala, 2005); they are being interpreted similarly by all sides involved in business exchanges (i.e. the cognitive frames of actors are overlapping) and thereby provide organizational boundary-spanning manifestations of shared intent (Harrison, Hoholm, Prenkert, & Olsen, 2011; Mason & Easton, 2009).

In this article, we argue that inter-cognitive representations inscribe shared understandings and thus prove an objectified basis for further interactions within the business network. Previous research (Ford et al., 2003; Henneberg et al., 2006, 2010; Johanson & Mattsson, 1992; Weick, 1993, 1995; Welch & Wilkinson, 2002) provides valuable insights about how individuals make sense of a network and how interactions work within it. For example, Henneberg et al. (2010 p. 356) make clear that "*managers' cognitive representations of the network and its characteristics can be seen as embracing an individual's 'frame of reference', [...]. However, such sense-making happens via interacting with others, e.g. managers, customers, or other experts*". Recent research pushes this inquiry forward by providing empirical evidence of the emergent role of value representations in managing business relationships (Corsaro, 2014). Questions remain about the interplay between cognition, managerial action and outcomes in business networks and how the research based on managers' 'network pictures' (Ford et al., 2003) can be developed to better understand collective decision-making and inter-action in business networks. For example, previous research on cognition and sense-making (see Henneberg et al., 2010, Special Issue, Sense-making and Management in Business Networks) does not explain sufficiently the development of shared understandings in business networks. Such research remains routed in individual cognition, i.e. managers' subjective cognitive views and does not consider the creation of a 'collective mind' in, as well as between, organizations (Weick & Roberts, 1993). There is thus a need for improved clarity and for a stronger integration of research advances from related disciplines such as psychology, economics and strategy with existing conceptualizations of business-to-business marketing. What are the determinants of inter-cognitive representations? What are the implications of inter-cognitive representations on interaction in business networks? While our argument does not relate to the process of creating a shared, inter-cognitive understanding, or to the relationship between individual network pictures on the one hand, and inter-cognitive representations on the other, our reasoning is aimed at conceptualizing the different outcomes of such inter-cognitive, shared understanding. The evidence hitherto is that business managers face tremendous difficulties in integrating disperse pieces of individual cognitive views held by various actors in their surrounding business networks (Mouzas, Henneberg, & Naude, 2008). There exists a lack of theoretical discussion regarding the role of shared understandings in business networks. This theoretical deficiency has prevented researchers from investigating the outcomes of the amalgamation of individual perceptions into inter-cognitive representations, which is a precondition to getting to grips with collective decision-making and interaction in business networks, such as *networking* decisions regarding influencing the network position of a firm (Ford & Mouzas, 2010, 2013; Ford et al., 2003).

As inter-cognitive representations are created through recurrent interactions among actors embedded in networks of exchange relationships, they differ from individual cognitive representations (Tripsas & Gavetti, 2000) or individual managers' network pictures (Henneberg et al., 2006, 2010). In other words, inter-cognitive representations express the knowledge individual actors have about other actors' knowledge, which is based on interactions between these actors. For this

reason, the efficacy of inter-cognitive representations will depend on their prominence or salience (Mehta, Starmer, & Sudgen, 1994). Prominent or salient bearings of what is expected from actors can be found in almost every part of organizational life. Vivid examples are *industry standards* or explicit *regulations* within certain industries. Organizations, such as the American National Standards Institute (ANSI), the British Standards Institute (BSI), Deutsches Institut für Normung (DIN), or the International Organization for Standardization (ISO), develop inter-cognitive representations of many kinds. For example, ISO 9000 certifications comprise internationally agreed standards of managing a corporation to gain the confidence of customers and other business partners in networks.

Using further practical examples, we illustrate how prominent objectified artifacts such as *manifestations of agreements, contracts, industry standards* and *regulations* affect business relationships in networks. Our aim is to provide a theoretical foundation that will enable us to investigate and analyze inter-cognitive representations. For this reason, we propose a conceptual framework for the analysis of objectified artifacts that contributes to the literature on cognitive representations through an inter-cognitive perspective, i.e. a shared inter-organizational and objectified perspective. In this way, the present study answers calls for more research on the amalgamation of individual cognitive approaches to business network representations, both within a firm (i.e. between individual managers; Öberg, Henneberg and Mouzas, 2012) and between firms (Henneberg et al., 2010).

The article is organized as follows: an initial discussion of the shared understanding of rules will be followed by an outline of the interactions within business networks. Based on this review, a conceptual framework of inter-cognitive representations is developed, and its theoretical implications are discussed via positing propositions. Managerial implications as well as suggestions for future research conclude our argument.

## 2. A shared understanding of rules

In developing a network perspective on rules encountered in business relationships, a study of the constitution of networks (Mouzas & Ford, 2009) invites us to an imaginative world in which raw material suppliers, manufacturers, equipment suppliers, logistics companies, wholesalers, and retailers would buy and sell goods and services without reliance on any shared system of rules. In this imaginary world there would be no manifestations of business agreements, no legally binding contracts; no industry standards, rules and no regulations regarding fair trade, quality controls, predefined patterns of advertising and promotions, or specified interfaces for logistics. As a result, actors would lack a shared or inter-cognitive understanding of rules, no one would conform to a particular pattern of behavior; and no one would expect other actors to conform to some previously learned pattern (Lewis, 1967; Young, 1993). What would be the problem in this imaginative world? According to Mouzas and Ford (2009), the problem would not simply be the existence of anarchy, but rather the inherent difficulty for actors of *interacting* with each other; thereby, the possibility of exchange between actors would be severely constrained (Buchanan, 1975, 1988, 1988; Biggart & Delbridge, 2004).

In this imaginative world of a business network in which no rules are shared among actors, resources that are needed may not be identified by buying or selling firms (Pfeffer & Salancik, 1978). Thus, firms would face "*prohibitive costs in terms of the time and effort needed to access other actors, to negotiate the terms for interaction, to conclude and manifest deals and to oversee and enforce agreements*" (Mouzas & Ford, 2009, p. 495). In the absence of a shared system of rules among actors, information asymmetry and symmetric ignorance of business opportunities would prevent actors from deal-making and building up the business relationships on which their companies depend (Ford et al., 2003).

The existence of shared rules is, therefore, important for the functioning of business networks. Shared rules have been evident in trade

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