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Conceptualizing and validating organizational networking as a second-order formative construct

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ABSTRACT

Based on an existing conceptualization in the literature, this study operationalizes the construct of organizational networking, through a rigorous two-stage scale construction and validation process. Organizational networking refers to firm behaviors, i.e. the activities/routines/practices, which enable an organization to make sense of and capitalize on their networks of direct and indirect business relationships. We conceptualize the measurement model as a second-order formative construct with four first-order reflective constructs based on a four-dimensional view of organizational networking comprising information acquisition, opportunity enabling, strong-tie resource mobilization and weak-tie resource mobilization. The scale validation was undertaken at the first- and second-order levels. The result confirms the four distinct first-order measurement models. At the second-order level, a MIMIC (multiple indicators and multiple causes) model was employed to assess the validity of the formative measurement model. The results suggest that all four components significantly contribute to the overarching construct of organizational networking, with strong-tie resource mobilization being the most important contributor. Thus, our operationalization confirms the uniqueness of the different dimensions of organizational networking that should be configured as a strategy of sensing and seizing opportunities in the network. The organizational networking scale will provide future research with a basis to explore different strategic patterns of networking behaviors in varying contexts, and its role in relation to other organizational behaviors and outcome variables, such as firm performance.

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1. Introduction

The implications of firms being embedded in business networks have been well established in the literature, suggesting that the business relationships, which make up these networks, enable firms to identify opportunities, access rich information, and undertake effective and efficient knowledge transfer and resource mobilization (Achrol & Kotler, 1999; Möller & Rajala, 2007; Uzzi, 1996). From a network structure perspective, achieving a 'beneficial' network position that allows firms to explore business opportunities is critically important and a main strategic aim of firms (Baum, Cowan, & Jonard, 2013; Hagedoorn, Rojakkers, & Van Kranenburg, 2006). However, understanding organizational behaviors, i.e. how a firm can increase its competitiveness through consciously changing its network position and utilizing resource synergies identified in its network, is a complex and under-researched issue. Given the importance of this topic and its

potential implications for practitioners operating in business markets, there is surprisingly little in the current literature when it comes to empirical studies that investigate the scope and the content of such active strategic network management.

Academics in business-to-business marketing have attempted to conceptualize and operationalize different perspectives of network management from the vantage point of a focal firm; this was mostly based on a dynamic capability perspective (e.g. Mitrega, Forkmann, Ramos, & Henneberg, 2012; Ritter, 1999; Walter, Auer, & Ritter, 2006). This approach has deepened our understanding of how firms can efficiently and effectively manage their relationship portfolio (and therefore their network position) by developing and establishing internal processes to deal with multiple *direct relationships* simultaneously. However, there is an underdeveloped and yet steadily growing stream of research focusing on the strategic aspect of outward-facing networking behaviors, aimed at *indirect business relationships* as well. These behaviors are employed by firms to understand the wider network dynamics and capitalize on them based on their perceptions of the network (Håkansson, Ford, Gadde, Snehota, & Waluszewski, 2009). In this wider context the concept of *organizational networking* becomes important.

From a conceptual perspective, a better understanding of the definition as well as the dimensions of organizational networking is needed.

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Recent studies have contributed to the conceptualization of organizational networking, which established the essence of such focal firm behaviors that are aimed at the wider network context through the theoretical lens of the industrial network approach (INA) (Ford & Mouzas, 2010, 2013; Håkansson et al., 2009). In addition, economic sociology embedded in the wider social exchange theory has provided some evidence to indicate the strategic implications of utilizing different types of relationships in relation to firm performance from a structuralist perspective (Granovetter, 1985; Uzzi, 1996). However, further research is needed to understand the implications of a focal firm being embedded in a network, and its strategic organizational behaviors in terms of networking in response to a networked environment. To date research in this area remains largely conceptual, and it is still in need of empirical and quantitative research to further advance our understanding of organizational networking.

Such conceptual considerations are linked to issues around operationalization: a scale for measuring organizational networking behavior is needed, which will enable future studies to advance our understanding of the implications of such a construct in relation to other existing organization behavioral constructs and outcome variables (e.g. firm performance). In addition, since existing studies identify different aspects of organizational networking, specific justification needs to be provided for specifying organizational networking as a measurement model, for example as an overarching higher-order construct that includes different aspects of networking. In short, a conceptually derived and empirically tested measurement model specification for organizational networking is needed. This will also provide useful managerial implications, as firms operating in business markets will benefit from a clear framework of how they might be able to sense and seize network opportunities embedded in direct and indirect business relationships, which will help them to interact more responsively and effectively with their partners in the business network.

Our argument will provide such a conceptually derived and empirically tested measurement model specification for organizational networking. Based on the above issues, this paper is organized as follows. First, we review, compare and contrast the existing organizational networking studies in the literature. Secondly, a two-stage research design for the scale development as part of the measurement model will be introduced, and the data analyses regarding scale purification and testing, as well as the empirical results will be presented. Finally, we will conclude with a discussion of our findings, contributions to the existing literature, as well as identifying limitations and future research direction.

2. The construct of organizational networking

Networking as a concept has been commonly used at a personal level to reflect the set of social skills of a person (e.g. owner of a firm) to leverage social relationships in order to benefit from them (e.g. Chetty & Campbell-Hunt, 2003; Ferris et al., 2007; Jaklic, 1998; Semrau & Sigmund, 2010). As such, the ability to realize benefits that arise from the network structure and the web of different types of relationships can be seen as an actor's social capital (Coleman, 1990). However, we focus our discussion on *organizational networking*. We are interested in the strategic aspect of organizational networking (in line with the INA), and therefore we refrain from studying personal networking in business (such as in the area of entrepreneurship and SMEs) (e.g. Ferris et al., 2007; Semrau & Sigmund, 2010).

In this context of organizational networking, the perspective of our study is a focal firm embedded in its business network which consists of various types of direct and indirect business relationships that link this firm to the wider network context (Anderson, Håkansson, & Johanson, 1994; Pfeffer & Salancik, 1978). The position of the firm in the network is therefore related to these relationships and provides unique opportunities as well as threats. The set of available resources, which can be mobilized by the firm, is linked to its network position, i.e. derived from its web of relationships and the wider context (Burt,

2000; Zaheer & Bell, 2005). As such, the focal firm's behaviors and decisions are influenced and shaped by the dynamics derived from its web of relationships (Astley, 1984). In line with the INA it is posited that companies affect their network position by certain strategic activities, such as behaviors aimed at instigating new business relationships, changing existing ones, as well as ending some interactions with business partners (Mitrega et al., 2012). These strategic activities are subsumed under the concept of *networking* as part of Ford, Gadde, Håkansson, and Snehota's (2003) theory of managing in business networks. However, while the concept is well introduced in studies of business marketing and supply chain management, there exists only very limited empirical research on aspects of organizational networking (Ford & Mouzas, 2013). Therefore, in this section we first position the construct, i.e. organizational networking, in relation to the relevant research area, i.e. network management. This allows us to proceed to a critical appraisal of the relevant studies that specifically focus on aspects of organizational networking.

2.1. Differentiating organizational networking

The literature provides a number of studies that focus on conceptualizing and operationalizing different aspects of network management, which are conceptually related but different from the construct of organizational networking. For clarification purposes we provide a concise summary of the key differences based on a detailed analysis by Thornton, Henneberg, and Naudé (2013). The conceptualization and operationalization of *network competence* by Ritter (1999) signify the need for a firm to develop routines and practices in response to the embedding multi-firm network. Such competence allows a firm to execute relationship-specific tasks. Based on this initial conceptualization of network management, various studies follow this perspective, often using a dynamic capabilities perspective (Teece, Pisano, & Shuen, 1997). For instance, *networking capabilities* consider a firm's ability to manage and utilize business relationships (Mitrega et al., 2012), with particular attention to the completeness of the relationship life cycle. The key components of networking capabilities are relationship initiation, development and termination. The above studies deepen our understanding of how a firm can manage its web of *direct* relationships by establishing certain internal organizational practices. Based on Day's (1994) categorization of organizational capabilities, such conceptualizations of network management capture the *inside-out practices*, which are established as internal processes to deal with the efficiency of a firm's relationship portfolio.

Following the logic of Day (1994), organizational networking on the other hand should be viewed as the *outside-in capabilities* of organizations, which are related to network sensing and strategizing (Holmen & Pedersen, 2003). The focal point of these practices is therefore externally focused. In contrast to research in network management, organizational networking captures the strategic intent of a firm in relation to its embedding business network (Thornton et al., 2013). Organizational networking goes *beyond* managing direct relationships. Instead, the structure of the network, related to a firm's network position, gives rise to the patterns of interactions by the focal firm (Ford & Mouzas, 2013). These interactions are not only with directly connected counterparts of a firm, but also indirectly connected ones. Within this context, direct relationships of a firm serve not only as the means to capture resources (Zaefarian, Henneberg, & Naudé, 2011), but also as the bridge for mobilizing the resources that are embedded in indirect relationships (Mouzas & Naudé, 2007).

In contrast to existing research on network management, organizational networking is a relatively underdeveloped construct (Ford & Mouzas, 2013). Existing studies, which contextualize and conceptualize the construct, provide limited empirical evidence to suggest what constitutes organizational networking (Thornton et al., 2013). We therefore collated studies that specifically focus on the conceptualization of organizational networking to form the basis for the discussion and analysis.

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