12-2001

The Flexible Firm: Capability Management in Network Organizations

C. Annique Un
University of South Carolina - Columbia, annique_un@moore.sc.edu

Publication Info
Published in *Administrative Science Quarterly*, Volume 46, Issue 4, 2001, pages 787-790.

ratory and field methodologies. But there is little explicit discussion about the appropriateness of different research methods or the challenges associated with measuring organizational justice concepts. As the field of organizational justice expands and attracts more researchers interested in applying justice to their primary areas of interest, methodological concerns are becoming paramount.

Carol T. Kulik
Department of Management
Arizona State University
Tempe, AZ 85287

The Flexible Firm: Capability Management in Network Organizations.
Julian Birkinshaw and Peter Hagström, eds. New York: Oxford University Press, 2000. 248 pp. $65.00.

The overarching thesis of *The Flexible Firm* is that valuable capabilities are built at multiple levels inside the firm and in firms' external network of relationships. Some capabilities are developed in the external network, some are developed at the level of the firm, and others are developed at the sub-firm level in the networks between operating units and individuals. Therefore, the main research question is, How do network organizations develop capabilities? In answering this question, the book tries to link two streams of literature, the resource-based view of the firm and the view that organizations consist of networks of relationships going beyond the dichotomy of the market-vs.-hierarchy framework. Therefore, this book is intended for readers interested in strategic management, especially those interested in the management and development of capabilities. The empirical settings of most of the papers revolve around five European firms: Ericsson, Pharmacia & Upjohn, SEB, Skandia, and Volvo. The book is divided into three parts, with the first two dealing with capabilities management in firms' external network of relationships, particularly buyer-supplier relations and innovation using knowledge integrated from the external environments. The third part analyzes capabilities management in the internal network of relationships.

In chapter 1, Birkinshaw argues that the literature on strategic management has come to be dominated by the resource-based view of the firm. He questions whether the firm is a relevant level of analysis, however, since we know that there is tremendous internal heterogeneity of firms. Therefore, he calls for a disaggregated conceptualization of the firm, one that recognizes the importance of both sub-firm and supra-firm entities as sources of rent-generating resources and capabilities. Thus, the starting point of this book is a view of the organization as consisting of networks of relationships among individuals, groups, and subunits, which are embedded in a wider web of external relationships among customers, suppliers, competitors, and other organizations.

Part 1 opens with a comprehensive study by Sobrero and Toulan (chap. 2) analyzing the management of buyer-supplier relationships in the product development processes. Based on a study of Volvo and its suppliers, the authors found that there are two types of buyer-supplier relationships, supplier-led and original equipment manufacturer (OEM) led. They differ in performance depending on which of the two parties takes the lead in the relationship in performing these activities. When the development process is not complex or critical, it is perhaps better for the OEM to take the lead. Conversely, when the development is critical or complex, performance will be worse if the OEM takes the lead role. In chapter 3, Birkinshaw, Toulan, and Arnold show how the relationships between firms and their customers are managed in multinational enterprises (MNEs). Their key research question here is, What systems or approaches for managing a specific global account relationship are associated with superior account performance? Their results show that effective internal coordination and internal support mechanisms differentiate the performance of individual accounts.

Part 2 examines innovation in the external network, analyzing the role of links to the broader external network as a way of accessing new and valuable knowledge and ideas. In chapter 4, Bresman tries to understand how external integrative capability is built over time. In addressing this question, he analyzes a set of projects of a pharmaceutical company that has recently merged with another. He concludes that a great deal of internal coordination and group diversity are essential in having this capability. Regner (chap. 5) analyzes how strategies are created in organizations. Based on a study of four Swedish companies, with in-depth analysis of one, the author suggests that the external linkages and networks of peripheral organizational sections and actors actually play a critical role in strategy creation for the overall organization. Jonsson (chap. 6) examines the relationship between outsourcing, capability development, and innovation. The key finding is that it is necessary to build vicarious capabilities at the interface, not just absorptive capacity, if that relationship is important to the innovative capacity of the firm. Part 2 closes with an interesting study by Teigland (chap. 7), in which the author argues that tapping into internal and external sources of knowledge has either a positive or a negative effect on individual task performance, depending on the nature of the task. A study of individuals in an Internet company shows that for tasks that require creativity, as perceived by the individuals performing the tasks, external sources of knowledge are important. For tasks that require on-time performance, however, internal sources of knowledge are positive on performance; the opposite effect is found for external sources of knowledge.

Lastly, part 3 explains how firms manage networks that are purely within the boundaries of the firm. Birkinshaw and Fey (chap. 8) open the section with an introduction of the concept of an internal market, which is a mode of governance in which market-like organizing mechanisms are used within the legal boundaries of the firm. The results of their study show that there are some elements of the internal market in these firms, and, in terms of capabilities management at the lower level, business unit or R&D unit managers need to be accountable for their own performance. At a higher level, corporate managers need to create structure that allows the business units to have autonomy but must set the rules of the game for these organizations. Arvidsson (chap. 9) analyzes how MNEs identify the operative units that have "best practices," and he examines whether best practices transfer from high to low performers. The first finding is that corporate headquarters and subsidiary managers disagree about where best practices lie. The second finding is that best practices are not necessarily transferable from high to lower performers. The main implication is that a heterarchical structure limited to operative managers is more effective in transferring best practices in MNEs than is hierarchy (p. 191). This section closes with Hagström's important discussion on the effects of information technology on the strategy and structure of the firm. He then concludes the book by reiterating some of the main points presented in chapter 1.

There are two critical points that I would like to make before recommending this book to readers. The first relates to the issue of level and unit of analysis within the resource-based view of the firm, especially as these relate to the capabilities literature. As the book acknowledges, strategic management is about the search for sources of competitive advantage over other firms. Its level of analysis has therefore been the firm, and the discussion will probably remain at the firm level. After analyzing the literature on capabilities for my own research, however, I found that while the level of analysis is the firm, the units of analysis are actually the substructures of the firm, particularly projects (Henderson and Cockburn, 1994) and teams (e.g., Nonaka and Takeuchi, 1995). These teams or groups of individuals, coming together from within and/or outside the firm to explore and exploit knowledge for various ends, and the relationships among them are important. Therefore, I applaud the effort put forth in this book to expand our conceptualization of the firm beyond the firm. Nevertheless, it is necessary to differentiate the level from the unit of analysis.

My second point deals with the lack of empirical explanations of mechanisms and/or management practices that enable and sustain the network organization. We have been hearing that a flexible organizational structure that is built on relationships is more effective for the knowledge and information sharing that is essential for learning and managing capabilities and thereby allows for better adaptation to changes in the external environment (e.g., Lawrence and Lorsch, 1967). Therefore, I would like to have seen the book take one step further by providing some empirical explanations on the specific management practices and/or mechanisms that give rise to and sustain network organizations.

Overall, while there is little material here that breaks new conceptual ground, the book addresses an important and timely question. Of course, as in any edited volume, some papers make better contributions than others, but given the variety of relationships explored at different levels of the organization, this book provides a broad introduction to the literature on capabilities and how they might be managed.

C. Annique Un
Assistant Professor of Organizational Behavior
Johnson Graduate School of Management
Cornell University
Ithaca, NY 14850

REFERENCES

Henderson, R., and I. Cockburn
1994 "Measuring competence? Exploring firm effects in pharmaceutical research." Strategic Management Journal, 15: 63–75.

Lawrence, P. R., and J. W. Lorsch
1967 Organization and Environment: Managing Differentiation and Integration. Boston: Division of Research, Graduate School of Business Administration, Harvard University.

Nonaka, I., and H. Takeuchi
1995 The Knowledge-creating Company: How Japanese Create the Dynamics of Innovation. Oxford: Oxford University Press.

Remade in America: Transplanting and Transforming Japanese Management Systems.
Jeffrey K. Liker, W. Mark Fruin, and Paul S. Adler, eds. New York: Oxford University Press, 1999. 418 pp. $39.95.

One question a potential reader may raise when considering this book is Why should I read another book on the Japanese management system now? It is no secret that interest in "Japanese management systems" has been on the wane at leading business schools in the U.S. and also at leading U.S. companies. Among the many reasons for this, two stand out as particularly noteworthy. First, the immediate competitive challenge presented in the 1980s by Japanese companies has been deflected. U.S. companies and industries are no longer falling like dominos before the competitive force of Japanese companies. In fact, the reverse now appears to be the case as many Japanese companies struggle to restructure in an economy that no longer grows at the miraculous rates seen from the 1960s through the 1980s. In spite of the collapse of the dot-com mania, many American managers still brim with confidence in the "American way," assuming that in time it will become a world standard for organizing management activities. All this is hauntingly reminiscent of the way Japanese managers used to talk about the "Japanese way" just before the economic bubble burst. If it needs to be pointed out, Japanese business organizations in the automobile and electronics industries, the two main industries studied in this book, are still among the most competitive in the world. There is much that can be learned about the practice of organizational knowledge transfer from the careful study of these organizations, which operate in the world's second-largest country economy.

Second, the number of studies done on Japanese organizations' use of total quality management and just-in-time production systems and the like has transformed what was once something mysterious, perhaps even mystical, into some-