

## Chapter II

# Knowledge Creation in Commitment–Based Value Networks in Multinational Organizations

**Leslie Gadman**

*London South Bank University, UK*

### ABSTRACT

*The digital networked economy has gone global and is reshaping traditional business models. “Free” and “open source” software (Raymond, 1999), along with more recent successes in the private, public, and social sectors, offer a vision of a radically new globally networked economy. This economy is characterized by new sources of value creation and competition, as barriers to entry are lowered and substitution made easier. It also requires a more stratified, localized approach to the marketplace (Hart & Milstein, 2003) to meet more specialized demands from customers and the societies and environments within which they live. These challenges have implications for almost every aspect of a firm’s strategy and business model, especially its ability to leverage these networks to create value through innovation. Yet, most multinational firms are ill-equipped to take advantage of the knowledge creation derived from high-value relationships with suppliers, complementors, and customers. This chapter shows the importance of developing a corporate strategy which takes into account ways in which an innovation focus must integrate with installed business processes. The chapter considers the challenges associated with knowledge disclosure, diffusion, and utilization (Snowdon, 2002; Spinosa, Flores, & Dreyfus, 2001) across value networks and concludes that while successful examples exist in “free” and “open source” software projects (Raymond, 1999), commercialization of innovation becomes more challenging when increasing levels of personal and financial commitment are required (Mauer, Rai, & Sali, 2004). Choosing the most appropriate value networking strategy can have serious implications for success. This chapter adds to studies on knowledge creation and knowledge transfer in multinational corporations by proposing a conceptual model of commitment-based value networking strategy. It is hoped this will contribute to future research by offering a theoretical foundation upon which this research may be based, and explains why and under what conditions people in commitment-based value networks share knowledge.*

## **BACKGROUND**

Information and communications technology (ICT) is enabling new organizational models based on value networking (Ridderstrale & Nordstrom, 2004; Flores, 1998). Business drivers include increased speed to market, access to world-class technology, focus on core competence and total cost savings, and balance sheet improvement (Sveiby & Roland, 2002; Savage, 1996; Gadman, 1996). Allee (2004) describes value networks as webs of relationships that generate material or social value through complex dynamic exchanges of both tangible and intangible goods, services, and benefits. Examples include James Maxxmin's business strategy, fashioned on a single logistics platform enabling functioning with zero-working capital while making huge profits. When the inspiration dies, they disappear as suddenly as they arise (Loveman & Anthony, 1996; Turkle, 1995). Other examples include user innovation networks like Zero Attribution, Linux, and Apache, which design and build products for their own use—and also freely reveal their designs to others (Harhoff, Henkel, & von Hippel, 2002).

Value networks challenge existing theories of transaction cost economics, which regard organizations as efficient contractual instruments (Coase, 1937; Williamson, 1985) by demonstrating that efficient contracting depends upon effective cooperation, coordination, and collaboration, without which successful competition would be impossible. Indeed, existing concepts of competition as survival of the fittest are being replaced by new models of collaboration and co-opetition which are characterized by an openness and transparency that allows ideas, data, services, products, and markets to flow more seamlessly across an ever-widening and inclusive landscape of participants. The purposes and principles behind value networking are more consistent with theories of organization as effective appliers of valuable knowledge to business activity (Kogut & Zander, 1992; Conner & Prahalad, 1996; Grant 1996). In

that, they comprise individuals capable of self-organizing to a point where there is no breakdown in the cost and quality of the contract. They do this through orchestrating the “speech acts” (Austin, 1962; Searle, 1975) that make up a network of commitments (Winograd & Flores, 1987) which drive and coordinate action among the members of that network. These examples suggest a more synergistic relationship between a transaction cost (Coase, 1937) reason to organize and one that is more commitment and knowledge based (Conner & Prahalad, 1996) in that they both offer some economic advantage to members. Conner and Prahalad (1996, p. 478) go so far as to say that the primary contribution of the knowledge-based view is to round out transaction cost theory by recognizing “knowledge-based transaction costs.” Unfortunately, because the organizational models supporting this approach tend to be highly nuanced and pluralistic (Hock, 1999; von Hippel, 2002), many firms—fearing loss of control and leakage of intellectual property—tend to ignore them and consequently fail to leverage the potential existing in well-coordinated and committed networks of people. This chapter takes a deeper look into this potential by considering the relationship between market instability and the demand for knowledge disclosure, diffusion, and utilization (Snowdon, 2002; Spinosa et al., 2001). It concludes that while successful examples exist in “free” and “open source” software projects (Raymond, 1999), commercialization of innovative ideas becomes more challenging when increasing levels of personal and financial commitment are required (Mauer, Rai, & Sali, 2004). Choosing the most appropriate value networking strategy based on these factors can have serious implications for success.

Based on a review of empirical studies into commitment-based value networking, this chapter explores the notion of shared culture and commitment to a common purpose in value networks and proposes a model of business strategy based on the synergistic interactions between requirements for knowledge innovation, extent of environmental

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