

well below average. Similarly, growth in sales could not be explained by innovativeness.

The study did find a link between a firm's perceived innovativeness and its profitability. Six of the eight most profitable firms also scored well above average or higher in innovativeness. The most profitable firm was ranked second in perceived innovativeness. Interestingly, three firms that scored below average were highly profitable.

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Israel's high-tech companies have achieved worldwide recognition. Some have successfully listed shares on foreign, especially U.S., stock exchanges. The study found that U.S.-listed firms were more frequently perceived as innovative. However, statistical testing demonstrated that this effect was unrelated to company stock prices. Rather, the authors explain that firms that enjoy the high global visibility offered by a U.S. listing and disseminate frequent and easily accessible information about their business are assumed to be more aggressive and innovative.

Perceived innovativeness for companies within the service sector varied according to the type of service provided. Of the six banks studied, all but one scored above average in the respondents' perceptions of innovativeness, and one bank was the only non-high-tech firm in the 10 firms viewed as most innovative. Companies in other parts of the service sector were typically perceived to be below average in innovativeness.

Grupp and Maital note that their study does have certain limitations. Their measure of perceived innovativeness may not be significantly related to actual innovation performance. There are also limitations imposed by data availability and choice. The authors note that, in most industrialized countries, research and development input statistics and innovation output statistics are available, but not in Israel. Further, company financial performance data is for just one year, 1997, a year the authors describe as somewhat atypical, since Israel experienced a recession during that time.

Even with these limitations, the study has important implications for executives of companies contemplating investment or already operating in Israel. Grupp and Maital note that Israel, despite its strong high-tech sector, ranks only 25<sup>th</sup> out of 47 countries in the World Competitiveness Index pub-

lished by the Swiss business school, IMD. They predict that the Israeli business sector will likely remain strategically conservative as long as senior Israeli managers do not associate improved financial performance with innovation, and as long as large parts of Israeli industry continue to enjoy what they call a monopoly or near-monopoly position. But Grupp and Maital also note that, as Israeli markets become more integrated with competitive world markets, the connection between innovation and improved financial performance will become more broadly established, as it already has in the Israeli electronics industry. Foreign or domestic companies that are successful innovators will enjoy increasing competitive advantage in Israel, especially in those business sectors currently perceived as possessing little or no innovative capacity.

Source: Grupp, H., & Maital, S., 2000. Perceived innovation in Israel's largest firms: An empirical study. *Technovation*, 20: 129-137.

## ***Creating wealth through working with others: Interorganizational relationships***

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Success stories like Nike's global supply network or Intel's computer industry alliances are shaping our faith in interorganizational relationships (IRs). Many types of IRs, such as joint ventures, networks, consortia, trade associations, and interlocking directorates, are enjoying unprecedented popularity. The number of new alliances alone grows by an estimated 25 percent each year.

However, IRs also have a darker side. Despite anecdotal evidence highlighting the many ways in which IRs can help firms create value, most IRs are doomed to failure. In fact, several analyses have indicated that at least 50 percent of all joint ventures fail and the number of failed alliances may be even higher. What determines the success or failure of these interorganizational relationships?

In an effort to address this question, researchers Bruce Barringer and Jeffrey Harrison, from the University of Central Florida, thoroughly examined the past 10 to 15 years of research on IRs. In their thoughtful analysis, Barringer and Harrison focus on why firms engage in IRs and what it takes to be successful.

The researchers distinguish between several theoretical perspectives on IRs, each of which offers a different rationale for why a firm might

choose to enter into an IR. Those perspectives that are rooted mostly in economic thinking suggest that IRs allow firms to minimize the aggregate of production costs and costs connected to conducting transactions. Other economic rationales for IRs include their enhanced ability to obtain resources or to provide greater strategic advantage through influencing competitiveness or market power.

Other perspectives draw mainly from an understanding of firms' behavior. For instance, a firm may be analyzed as the central player in a network of stakeholders that may have very different interests from the firm. In order to meet the differing interests of various stakeholders, organizations may form IRs. As an example, in a previously unlikely scenario, Shell Oil Company teamed with environmental organizations to draw up a code of conduct. Instead of following its own instincts, Shell tried to form temporary alliances with these stakeholders. Moreover, from a learning perspective, Shell may obtain new skills from its IR that allow it to deal with environmental concerns more effectively. Finally, some research suggests that firms imitate each other and are pressured to adopt IRs through examples of other firms in their environment. If Shell adopts a new code of conduct, other oil companies may follow suit because the institutional environment puts pressure on these companies to do so.

Barringer and Harrison note that each of these economic and behavioral perspectives can only partially explain an organization's motive for entering into an interorganizational relationship. As a practical matter, it is important to consider multiple aspects of a situation. Unfortunately, researchers have often operated on the basis of a single perspective, which has led to a fragmented view of IRs. Barringer and Harrison suggest that the needs of practitioners to understand IRs may be better answered if more research was based upon multiple perspectives.

Barringer and Harrison also examined the advantages and disadvantages of six prevalent forms of IRs. Essentially, these forms differ from each other in the degree to which participating organizations are linked. While three of the forms—joint ventures, networks and consortia—are based on formal arrangements, the remaining three forms—alliances, trade associations, and interlocking directorates—are more loosely coupled, informal relationships.

Joint ventures, the most tightly linked form of an IR, are formed for various reasons, but perhaps most frequently as a means for gaining entry into new, often foreign, markets. Barringer and Harrison suggest that joint venture governance and

trust may be key issues in the success of these arrangements. Negative outcomes associated with joint ventures frequently coincide with an imbalance of power, lack of trust, poor planning, and ineffective governance.

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Networks, the second form of tightly coupled IRs, are structures in which there is usually one central, or hub, firm linked to a network of smaller firms with distinctive competencies. An example of the network form of IR is Toyota, with its strong reliance on many supplier and support organizations. Toyota's network allows it to focus on the design and manufacturing of automobiles. Networks often occur in knowledge-intensive industries, in which there is high demand uncertainty and stable supply chains. The network form enables firms to maintain a great deal of flexibility and speed, and can be a major competitive force within an industry, since competitors face not just the hub, but the entire network of firms. However, networks tend to be difficult to manage and often suffer from the power imbalance between the hub and network firms.

The consortium is an IR in which a group of organizations enter into a specialized joint venture in order to address a shared need, such as pre-competitive R&D. Consortia are most prevalent in new technology areas, and may also involve governments and nonprofit organizations. Governance may be formal or informal. Advantages of the formal forms include scale economies, speed, flexibility, cost and risk sharing, innovation, and learning. The disadvantages include loss of proprietary information, management complexity, and antitrust measures. Research has shown that important predictors of success in these formal forms are the level of trust between partners and their ability to complement each other's strengths.

Alliances, trade associations, and interlocking directorates are informal exchange arrangements without explicit long-term commitments. Technological alliances occur when firms pool their complementary skills, and may result in increased speed of products to market, shared costs and risks, or improved product development. Marketing alliances are often used to increase scale or scope economies. Similarly, trade associations are groups of organizations that join together to bene-

fit from collective activities. They are typically formed by industry-specific nonprofit organizations, often when government intervention is high. Interlocking directorates, formed when a manager of one firm sits on the board of another firm, or when managers from two related firms jointly sit on the board of a third firm, allow participating firms to obtain resources, or diffuse innovation or information, or more generally manage the environment.

The advantages of these loosely coupled IRs include economies of scale, access to resources, and information sharing. Important determinants of success appear to be partner reputation, cultural compatibility, monitoring, and trust.

Barringer and Harrison make some important contributions to our understanding of these different forms of interorganizational relationships. They also introduce the management of IRs as an important, and often overlooked, success factor. Although most research has focused on the formation and governance of IRs, the ongoing management of IRs may be what ultimately determines their success. The researchers indicate that it is only by being committed to an IR and putting in a day-to-day management effort that firms can benefit from their advantages.

Barringer and Harrison also stress the importance of finding out why one particular IR experiences great success while so many others do not. For instance, why does one computer producer successfully manage its alliances while its competitor fails? Given the rate of failure of many IRs, this question is a critical one. Clearly, research that provides answers to why some IRs succeed and others fail should help managers to more fully understand the consequences of their choices.

Finally, Barringer and Harrison provide two important messages for managers who wish to create value through interorganizational relationships. First, there are always multiple angles to consider when deciding on an IR. Second, it is important to properly distinguish between different modes of IRs, since each has its own properties.

Source: Barringer, B. R., & Harrison, J. S. 2000. Walking a tightrope: Creating value through interorganizational relationships. *Journal of Management*, 26: 367-403.

## **Management strategies for successful post-acquisition integration**

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Corporate acquisitions are frequently in the news as companies seek to establish a competitive ad-

vantage over their rivals. But what happens after an acquisition? Does it always work out for both companies? How can the process be effectively managed so value is created? These questions are critical for managers charged with ensuring that effective integration occurs after an acquisition. However, as anyone who has been through an acquisition knows, sharing resources and technical capabilities to achieve synergy can become very complex. Ensuring that employees of both companies develop a common identity and culture may be even more difficult.

In an in-depth study of three acquisitions made by Swedish multinational companies, researchers Julian Birkinshaw, of the London Business School, Henrik Bresman, of the Massachusetts Institute of Technology, and Lars Hakanson, of the University of Linz, examined the challenges of post-acquisition integration. The researchers were able to trace the actions taken to integrate both organizations over time, and their findings provide interesting insights into how these three companies handled the integration process.

Previous research has suggested that post-acquisition integration success is highly dependent on the actions taken by managers to integrate the actual work of the two companies (task integration) and the extent to which managers pay attention to the human side of the process (human integration). If organizations emphasize either the task or the human aspects of integration, but do not give adequate attention to both, negative results may occur. An overemphasis on the task side of the integration is likely to lead to dissatisfied employees and a lack of a common identity. On the other hand, too much emphasis on the human side of the integration is likely to diminish the level of operational synergies achieved. Thus, Birkinshaw and his colleagues were particularly interested in the dual processes of task integration and human integration in the acquisitions they studied.

The researchers gathered a rich variety of data for their analysis of the integration processes, including interviews with executives, surveys of employees, and such secondary sources as archival reports. Their data also spanned several years. Initial data were gathered from the sample of companies early in the acquisition process (1991-1992), and a second data collection period occurred about four years later (1996). In order to narrow the scope and also allow for a more comparable analysis, the study focused only on each company's R&D function or department, and not the whole organization.

The integration processes of these organizations were particularly complex, since the acquired