
Finding Your Network Advantage



By Andrew Shipilov, INSEAD Associate Professor of Strategy and Tim Rowley, Professor of Strategy at the Rotman School of Management with Sarah Wachter, Knowledge Contributor

Companies have access to untapped value in their partnership networks, but many miss out on the available opportunities.

The decline in the fortunes of BlackBerry, the once touted leader in smartphones, could be blamed on many factors; its slow speed to market with new products, its innovation strategy or its niche markets. But one failure that particularly stands out is its lack of a strong alliance network.

Samsung, today's top dog in smartphones, has a much wider and deeper network of alliances than BlackBerry that has enabled it to spread its products wider. "The competitive advantage is that Samsung's ability to manage its relationships and learn across them enables it to transfer knowledge across partners in other industries and create products that we didn't expect this company to create," said Andrew Shipilov, INSEAD Associate Professor of Strategy.

Speaking to INSEAD Knowledge about a new book, **Network Advantage**, co-authored with Henrich Greve, INSEAD Professor of Entrepreneurship and Tim Rowley, Professor of Strategy at the Rotman School of Management of the University of Toronto, Shipilov says that firms often only think about

individual partnerships, and miss the holistic view of how these partnerships fit within the firms' alliance portfolio, their strategy and industry environment.

"The structure of these alliances and how firms manage them matter for their costs, matter for their efficiencies, matter for their ability to differentiate, matter for their ability to innovate, and essentially matter for their ability to become profitable," said Shipilov.

Shift in mindset

To mine the full potential of this network of alliances, the authors point out that a company needs to ask not just the question "what business are we in?" but also the question "what business should we be in?" "Networks help give the answer to the second question." Rowley added.

Shipilov mentions Apple as an illustration of how a company no longer fits into neatly-defined industry categories by using a variety of alliance partners: "It's difficult – it's entertainment, it's music, it's software," he said.

As it turns out, M&A is an analogy that also applies to networks. "Often we look at M&A transactions, and it's all about getting the single deal... but you need to think about how this deal fits with your company's overall strategy," Rowley said.

"It's the same thing here. It's good to think about the individual partnerships and how to make them effective. But collectively how do you make the entire portfolio work for you, to give you advantage, given your company's strategy and the industry it is in?" he went on to say.

From micro to macro view

Companies usually manage their alliances and partnerships by appointing a manager to oversee one of these relationships. What many companies have yet to do is to manage the entire gamut of these collaborations as a whole. If they don't manage their network of alliances and partnerships as a portfolio of relationships, they miss out on the enormous gains from broader cooperation.

The authors say that a company first needs to understand what type of network it is in in order to identify the advantages available. The book

examines two configurations of an alliance portfolio offering different advantages. A hub-and-spoke system is where the company occupies a central position in a network of alliances radiating outward. Partners in such a portfolio don't cooperate with each other. This network is designed to get information quicker and to innovate faster. And the other possible configuration is called "integrated" portfolio. It reminds one of a spider's web, where the company is part of a community of relationships involving partners who do collaborate with one another. This design fosters more knowledge exchange, more cooperation, and more trust.

Three degrees of advantage

In addition to network position, Greve, Rowley and Shipilov advise companies to think more systematically about the mesh of alliances around them. Based on 40 years of collective research on networks, the authors offer executives a model dubbed 'three degrees of network advantage'.

In the first degree, regarding individual alliances, executives need to think about how to identify compatible and complementary partners to further the company's strategy; in the second degree, evaluate how the nexus of relationships among the partners matters for the company's alliance portfolio, and how this portfolio can be tweaked to better suit the company's culture, strategy, and industry; and in the third degree, deploy the network to raise the company's industry profile, lower its costs, boost its efficiency, and differentiate itself.

Best in class

Shipilov cites Samsung and Philips as companies that have unleashed the power of networks to maximum advantage. Samsung built a wide-ranging network of partnerships with expected candidates, such as IBM and Korea Telecom, and with the more unexpected, such as KIA Motors. In its tie-up with KIA, Samsung actually managed to make the tablet the heart of the driving experience. In turn, Samsung has taken what it has learned in its partnerships and cross-pollinated this knowledge across its whole network of alliances, going on to create new products that fall well outside Samsung's core offerings.

From collaborating with other firms, Philips learned how lighting influences mood and behaviour. The Dutch multinational then took this knowledge into hospitals, where tests are underway to see how the use of light can help

people take fewer medications and recover faster from surgery, and into the workplace, where it is experimenting with how lighting can improve productivity.

In short, effective management of the network is an engine of growth and innovation. The authors sum it up this way: “The essence of network advantage is learning something from different partners, recombining that, creating new products, and offering them to customers.”

Not just for global giants

Gaining network advantage doesn’t just apply to large multinationals with deep pockets and a vast global footprint. Harnessing the network is crucial for entrepreneurs, too.

“So many entrepreneurs don’t have the assets that are required to pursue their strategies. They need a network around them to fill in – finance, labour, and so on,” Rowley said.

“The path of success and failure for entrepreneurs is really a function of how well they understand and utilise their networks. Once they’re in the right network, there’s a spotlight on them. They gain status, they gain credibility, and through that they can grow, and actually pursue the strategy they have.”

Read more about Network Advantage at networkadvantage.org.



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