Chapter VII

Inter-Firm Collaboration and Electronic Business: Effects on Profitability in Finland

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Abstract

This chapter studies the joint effects of inter-firm collaboration and electronic business on firm profitability primarily in Finnish manufacturing. It is found that deeper forms of inter-firm collaboration boost financial performance but that high e-business intensity might even strain profitability. Firms that simultaneously have high inter-firm collaboration and e-business intensities as well as use electronic networks for conducting their collaboration are also more profitable. Based on this, two conclusions are drawn. First, suitable e-business practices facilitate inter-firm
collaboration. Once in place, inter-firm collaboration tends to be immensely more productive with supporting electronic means. Second, e-business investment has to be accompanied by complementary organizational innovations, in this case a new form of external (and also internal, although not observed directly in the data used) organization of the firm, that is, inter-firm collaboration.

Introduction

Due to increasing technological speed of change and complexity as well as intensifying global competition, firms are keenly concentrating on their core competences. As a direct consequence, inter-firm collaboration is becoming an increasingly important part of firms’ business activities. Many previously strategic in-house functions, such as electronics manufacturing, have now been commoditized to the extent that maintaining own capacity hardly seems worthwhile even for relatively large firms.

Nowadays literally any business function can be outsourced. Some firms have done so to the extent that discussion on the hollowness of modern corporations is indeed warranted. The level of commitment in inter-firm collaborative arrangements varies greatly. Most of them are perhaps best likened to market transactions, but deeper forms are also quite prevalent. In an extreme case interests of parties involved are inseparable; effectively they form a new business entity, but technically organizational boundaries still exist.

A well-managed portfolio of collaborative arrangements can be a real and lasting source of competitive advantage, as it makes the firm more flexible and lean as well as puts a more diverse set of resources at its disposal. It is not far-fetched to argue that in the future it might be networks of firms rather than monolith corporations that compete in the global marketplace. On the flip side, inter-firm collaboration makes the parties involved inter-dependent and exposes them to new risks. Also in this case the chain is only as strong as its weakest link, but contrary to the case of internally management functions, no single party has a direct mechanism to oblige desired behavior.

In this chapter we implicitly focus on vertical inter-firm collaboration, that is, on connections to up- and downstream industries. This focus is primarily driven by the definitions of the collaboration-related explanatory variables. Horizontal inter-firm collaboration (for example, strategic alliances) does not typically
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