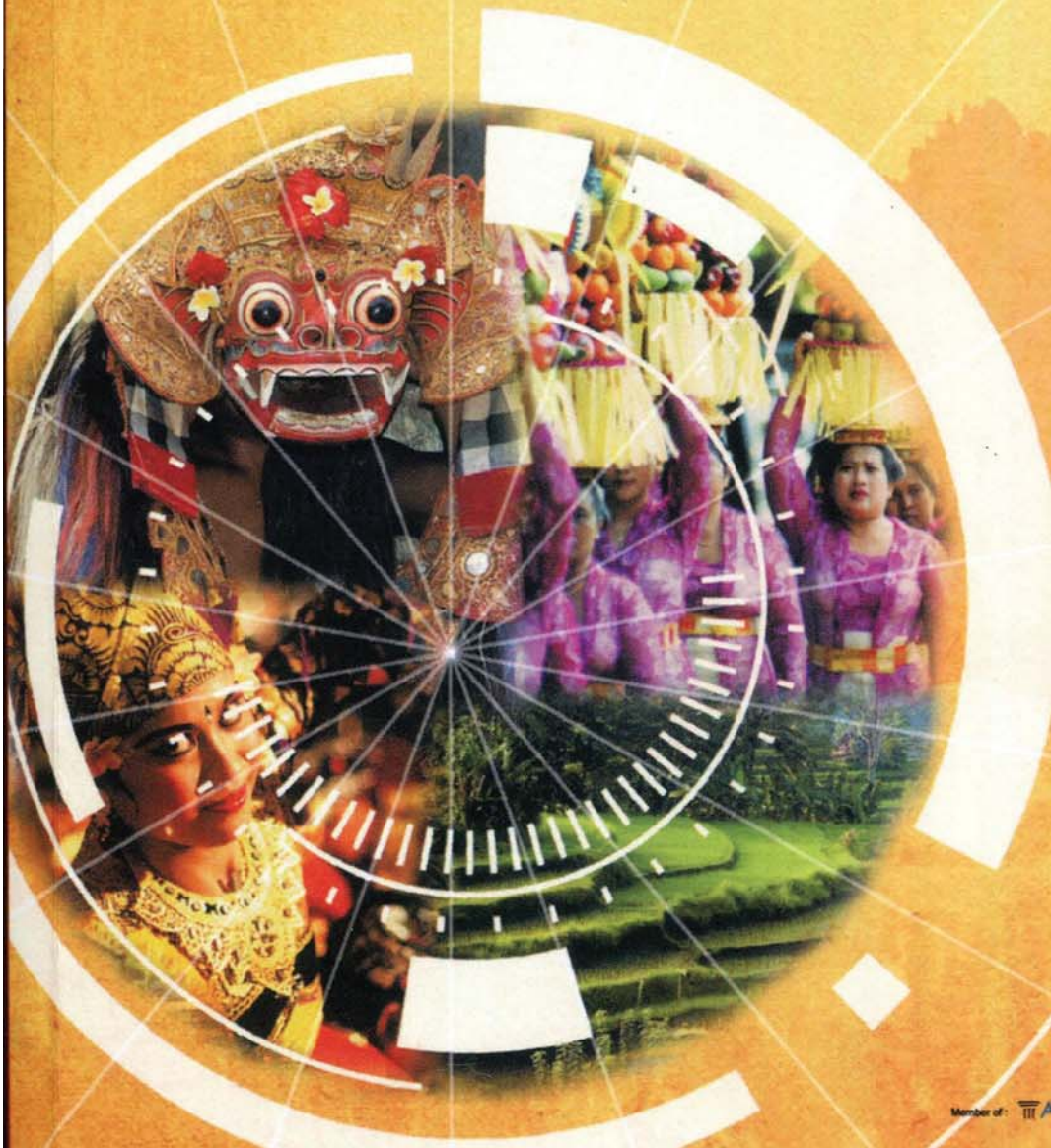


Department of Management Faculty Of Business and Economics Universitas Surabaya

CHALLENGES AND OPPORTUNITIES OF THE LEADING EDGE IN WORLD CLASS SUPPLY CHAIN MANAGEMENT



Proceeding

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CHALLENGES AND OPPORTUNITIES OF THE LEADING EDGE IN WORLD CLASS SUPPLY CHAIN MANAGEMENT

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**COLLABORATION STRATEGY ON INDUSTRIAL CLUSTER
(The New Strategy of The New Era)**

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Company by nature will compete each other to gain profit, to develop market share and to increase their influence. This competition strategy is used common world wide and still being used until today. But recently new collaboration strategy is developed to accelerate company development.

The originality of this research is a research about collaboration between companies with the same business in an integrated industry cluster, which included manufacturing, services and trading companies. Collaboration in this research means that company that usually should compete for the challenge and take advantage of opportunities, have collaboration strategy and do benchmarking to gain knowledge to develop the company.

The practical implication of this research is an attempt to produce a new strategy, the cooperation and collaboration strategy for knowledge obtaining and benchmarking that can be applied to the company in addition to a conceptual foundation for further research about the collaboration between the companies.

Limitations of this study is, this is the study with limited to an assessment and conceptual literature excavation that remains to be proved further by research in the field.

Keywords: cooperation and collaboration strategy, knowledge obtaining, benchmarking, industrial cluster.

1. Introduction

The complexities and dynamics of business environment triggers competitive pressure among companies in order to develop their internal superior capacity. These companies will use all of their resources to sustain their competitive advantages. This is supported by Grant (1991) stated in human resource base strategy and Porter (1993) in competitive strategy theory which creates competitive advantage through generic strategy that emphasizes the advantage of low cost, differentiation and focus. Further, Mahoney (1995) and Mosakowski (1998) argue that the strategy stated by Porter (1993) is short term and static. Nevertheless, the condition at the present time tremendously changes. Hence, it needs long term strategy (long-life) and dynamics. Long term strategy can be directed specific to create superior internal competency, products, expand market and manufacturing share in organization. In other words, nowadays trend is the organization or the company cannot live alone, but still need cooperation, even with competitor. Implementation of this strategy involves company core competence or benchmarking towards other superior company. Furthermore, Hariadi (2003) stated that creation of competitive advantage for the company was caused by cooperation.

Core competence or benchmarking towards other superior company, can be special managed to gain continuous advantage or profit. Success key for this cooperation strategy does not merely depend on the competition, but also cooperation itself. Many countries have promoted the creation of industrial clusters, where companies develop their competencies and competitive advantage towards the world class and the most excellent company by sharing their resources, innovative competencies, and knowledges. Researchers have acknowledged that

clusters are valuable to increase company's competitive advantage and regional competitiveness (Bresnahan et al., 2001) Further, Bresnahan et al (2001) also showed the advantages or the profit resulted from developing, sharing, and implementing knowledges needed to gain competitive advantage in hostile change business environment. As one of the goal for cooperation among companies is to acquire or to gain knowledge from others and to share knowledge to others, the existence of industry cluster, has given a unique environment for companies to participate in accessing knowledge resources those are collected from one to others company (Saxenian, 1994).

Activity that is considered strategic by the member of the organization is knowledge obtaining, through learning process and observation towards knowledge owned by other company. This effort to acquire knowledge, will trigger collaboration and use of different resources and competency owned by each company (Lawson, 1999) as it will create greater value for each company or institution. Knowledge obtaining can be gained through co-operation and it creates synergy and influences industrial cluster competitive advantage through several ways. First, by joining in the group can increase the competitive advantage by increasing company productivity. Second, the members are encouraged to have specialization in technology, information, and resources, so each organization will develop special and unique competency that generates profitability (Barney, 1991). Furthermore the differences among the members of group will increase variances those have been proved to increase profitability, learning process, and innovation (Niu *et al.*, 2008). The group will encourage and make new business activities be possible to support innovation. Piore and Sabel (1984) found that company in cluster shared knowledge through competitive interaction or through "industrial atmosphere" in many respects ignorance. Company in industry cluster will chase sustainable competitive advantage by working together such as horizontal cooperation (among competitors) and vertical cooperation (supply chain relationship). The existing competitions among the members of the group are meant to develop dynamic competency to support innovation (Teece *et al.*, 1997).

The purpose of this research is to explore the social capital and social exchange theories in association with inter organizational collaboration for knowledge obtaining. This topic is very interesting to discuss, because there are limited studies that discusses the application of both grand theory in interorganization cooperation and collaboration of the industrial cluster.

2. Literature Review

Social Exchange Theory

Social Exchange Theory (SET) emphasizes rooting individual transactions in a larger system, which deals with economic and social interactions (Carson et al., 2006.). Granovetter (1992) discussed the expected outcome of economic fact is the result of reciprocal interactions in the structure of the overall network. Fundamental assumption of SET is that positive results of the exchange increases trust and commitment, which finally establishes norms governing the relationship (Hawkins et al., 2007; Lambe et al., 2001). Trust is a central concept in this theory because it contributes rooting among the members of the network by maintaining a commitment (Kingshott, 2006). Trust has been suggested to reduce the possibility of members taking advantage of their counterparts and deliberately ignoring their rights. Hence, this would result in the loss of long-term benefits, and the benefits in the form of cooperation and commitment embedded in relationships between members of the group.

Age relationship or experience is another dimension in SET. A relationship is developed through stages of awareness, exploration, expansion, commitment, and / or dissolution (Dwyer et al., 1987). According to Dwyer et al (1987), the group members' experience in dealing with the situation dictates closeness of the relationship, (for instance, the more difficult times in a relationship that has been passed by each party, the greater shared understanding of each party

to a problem). Therefore, the longer the two sides share their experiences with each other, a higher reliance there is between each parties involved (Ganesan, 1994).

Social Capital Theory

Social Capital Theory (SCT) provides a way to understand relationship between social capital indicators and team learning behavior. Social capital is created in the network group or team that refers to the trust that caused by the structure of social relations that can be mobilized to facilitate action (Adler and Kwon, 2002, p 17). Social capital can provide a range of benefits for members of the group, such as information, influence, and control. The development of social capital occurs in social networks related to the work of each member of the group, namely the relationship between the members of one another through the sharing of resources such as information, assistance, and guidance related to the completion of their work (Sparrowe et al., 2001). Moreover, the content of the relationship between the members of the group contains elements of friendship, relationship development, and information exchange. According to Adler and Kwon (2002) network that arise due to the existence of a similarity refers to the socio-relational dimension of social capital, and higher levels of social capital are likely to be related to the learning behavior of the team. In addition, a stronger network (for instance, in the case of some similarities in the network) can be expected to increase team's collective ability to organize and execute courses of action (team success) and also contribute to the general trust about the ability of the team (the team's potential). Thus, social capital is formed of a network of team members are expected to be directly related to the benefits and potential of the team, as well as indirectly through its influence on team learning behavior.

Concept of Cooperation and Collaboration Strategy

Cooperation, interdependency, and exchange of information are human nature. Over the past decade, the study of organizational learning has increasingly encompassed researches into learning through participation in inter-organizational networks (Winkelen, 2010). There is a growing strategic emphasis on alliances, partnerships and collaboration between organizations (Engestrom and Kerosuo, 2007). Collaboration in this sense could be seen as "a cooperative, inter-organizational relationship that relies on neither market nor hierarchical mechanisms of control but is instead negotiated in an ongoing communicative process" (Lawrence et al., 1999, p. 481); whereas, an alliance is the creation of a governance mechanism to pursue collaborative interests between two or more independent firms (Park and Ungson, 2001). These governance mechanisms range from loose cooperative arrangements to formal contractual relationships.

The benefits of cooperation and collaboration strategy are more opportunities for greater creativity in service delivery, better balance between efficiency and effectiveness, more flexibility in vehicle management, more attentiveness to all aspects of federal requirements because the share knowledge reciprocally, and more time for organizations to develop expertise in specialty areas.

Knowledge Obtaining

Knowledge Management is a concept that has many aspects and had experienced controversy in the debate over this (Greiner, 2007, in Sukmawati, 2009). The experts from the fields of philosophy and other disciplines have debated the meaning, definition and dimensions of knowledge and knowledge management (Nonaka and Takeuchi, 1995, in Sukmawati, 2009). Knowledge management is the aspect that cannot be avoided anymore due to changes in the environment such as the increasingly rapid globalization of competition, the speed of

information and knowledge aging,¹ the dynamics of product and process innovation and competition through buyer's market (Picot, 1998, in Sukmawati, 2009).

Basically, the concept of Knowledge Management itself is not new because of the need and important meaning of knowledge has been the basis for the development of diverse cultures, philosophies and religions. What makes it new and useful knowledge for people and organization nowadays, is the contemplation of the results of knowledge power for better management and evolution in the field of technology (Natarajan and Shekar, 2001). The form of knowledge management is knowledge sharing and it has been there since the beginning.

Justin (cited in Platt, 1998) reported that knowledge management is to provide appropriate knowledge to right people at the right time. Furthermore, Allee (cited in Platt 1998) suggests that knowledge management is nothing more than the flow of information management activities. This means putting the knowledge in the appropriate position on track and spur creativity in organizations. But Grey (cited in Akib, 2002) argues that knowledge management determines new focus and urgency to maintain the organization's competitive position. Also, Thomas Bertels in *What is Knowledge Management* (1988), stated that knowledge management is the organizational management for continuously knowledge base updates. It also includes efforts to support the creation of an organizational structure, provision of facilities for the organization members, the placement of information technology instruments that emphasize teamwork and diffusion of knowledge in the real place.

Knowledge is the intellectual capital of the organization and it can be differentiated by the type of knowledge that a person has. Views of its kind, there are two types of knowledge, namely explicit knowledge and tacit knowledge, Polany (1967) in Funny.R. M.E, (2005).

Explicit knowledge is knowledge that can be expressed in words and numbers, distributed in the form of data, formulas, specifications, and manuals. Tacit knowledge is very personal in nature, it is difficult formulated, so it makes it hard to be communicated and disseminated to others. Thus, it can be said that explicit knowledge is a form of knowledge that has been documented / formulated, easily stored, reproduced, disseminated and studied such as: manuals, books, reports, documents, letters and electronic files. On the contrary, tacit knowledge is a form of knowledge that is stored in the human mind, such as: ideas, perceptions, ways of thinking, insight and expertise / skills. According to Polany (1967), there is always the knowledge that will keep tacit, so the knowing process is as important as the knowledge itself.

In addition, there is a view that assumes that all learning occurs in the human head, and an organization learns in only two ways: (1) the learning activities of its members, (2) By recruiting the new members who have knowledge that is not owned by the organization, [(Simon, 1991 cited in Funny.R. M.E, 2005)]. Meanwhile, according to Moran & Goshal [(1996) cited in Funny.R. ME, (2005)], knowledge is created in two ways, namely: combination and exchange. In situation where the knowledge held by different parties, exchange is a prerequisite for knowledge combination. Intellectual capital is generally created through the knowledge combination from different parties, therefore, this capital depends on the exchange between the parties involved. Sometimes this exchange involves the transfer of explicit knowledge, both individually and collectively owned.

The process of knowledge creation is a spiral process which is the interaction between tacit and explicit knowledge. The interaction of this knowledge generates a new knowledge. There are four steps of knowledge creation Nonaka (1998), namely (1) Socialization; (2) Externalization; (3) Combination; and, (4) Internalization. Furthermore, the dimensions of activities that is very important for the process of knowledge creation and innovation such as: (1)

¹ knowledge aging is defined as a process in which knowledge becomes obsolete / useless

Knowledge Exchange; (2) Knowledge Capture; (3) Knowledge Reuse; and, (4) Knowledge Internalization. Overall, this process creates a learning organization, that has expertise in the creation, acquisition, and dissemination of knowledge and adapt their activities to reflect the understanding and new innovation gained. Whereas, the second dimension consists of elements that enables or influences the activity of knowledge creation, such as: (1) Strategy, (2) Policy (3) Content, (4) Process, (5) Technology; and (6) Culture

Many efforts have been made to define the knowledge management processes. Nonaka and Takeuchi (1995) describe the four processes of knowledge conversion: socialization, externalization, combination and internalization as described previously. Each of the processes involves changing one form of knowledge to other forms of knowledge (tacit or explicit). This model focuses on the important issue of how knowledge can be created through the division of organization and be useful to identify and assess certain important activities in knowledge management.

The role of knowledge management in fostering value creation through transfer process or knowledge conversion between intellectual capital components can take place in various activities (Sangkala, 2006, cited in Sukmawati, 2009). Several opinions regarding various activities, as stated by Probst, Gilbert, Raub and Romhardt (cited in Sangkala 2006) , the knowledge management process can occur through several activities such as: knowledge identification; knowledge acquisition; knowledge development; knowledge sharing and distribution ; knowledge utilization, and knowledge retention. Another opinion was also expressed by Marquardt (cited in Sangkala 2006) states that there are four steps in doing knowledge management, namely: knowledge acquisition; knowledge creation; knowledge storage and renewal, and knowledge transfer and utilization. While Crossan and Hulland (cited in Sangkala 2006) suggested that knowledge management takes place through activities, knowledge creation; knowledge transfer; and knowledge utilization.

Sharing knowledge and acquisition of knowledge are often a major concern in knowledge management and rarely discussed in the literature (Funny, 2005, cited in Sukmawati, 2009). Not only because most organizations overlook the idea that all knowledge should be documented, but they must also be prepared to implement different methods to share different kinds of knowledge. This comes as a consequence of the debates that focus on knowledge management. Sharing knowledge is not solely on the distribution, nor the dissemination of knowledge, but in the sharing itself.

The concept of knowledge obtaining, includes two things, namely (1) knowledge sharing, which is to transfer and pass a piece of knowledge, and (2) knowledge capturing, which is to receive a portion of the knowledge. Knowledge obtaining always involves the proactive information delivery, whereas delivery of proactive information as disclosed by Lochbaum (2011) lies only in dialogues to find information about the prerequisite knowledge, which approach uses general SharedPlans Theory that can be expanded and included the proactive approach.

Based on the study by Allen (2009), the following issues are important to build a theory for proactive information exchange: (1) relevance: proactive behavior must be directed to a specific purpose, (2) shared knowledge: the members need to have specific knowledge together to recognize each plan, and (3) intentional semantics: mental attitude speaker, as expressed through verbal speech. Psychological studies (Allen,2009) have shown that group members often offer relevant information with colleagues in the group, before they are asked., it was based on the result of empirical studies to obtain a general formalism for the existence of a group. Moreover, Allen (2009) also observed how the lack of information in the human discourse can explain proactive information delivery behavior studies in multi-agent teamwork settings. Knowledge obtaining involves two activities, namely: the process of gaining knowledge and

knowledge creation itself. Two fundamental decisions and actions are needed to begin the process of acquiring knowledge: (1) to transfer and pass a piece of knowledge, and (2) to receive a portion of the knowledge. The process of transferring and pass knowledge between organizations devoted to those aspects related to benchmarking, communication with partners, co-operative relationship with suppliers, customer feedback, in-house experimentation, systematic process of knowledge transformation, internal knowledge generation, and R & D (Niu, 2009).

Relationship between Companies Collaboration Strategy in the Industrial Clusters and Knowledge Obtaining

It is in nature that companies are dependent on the external environment where they operate. In general, company controls its dependency on resources required from the environment in order to minimize the dependency to other entities. However, there is a certain situation when strong dependence creates a partnership strategies as it became a major consideration for companies. For example, if a company requires a certain knowledge which is essential to achieve a competitive advantage with reference to the resource dependency theory, then the company will take action to gain the knowledge needed. Such situation is possible formation of partnership to share knowledge mutually beneficial to both parties (Reid, et al., 2001).

Dyer and Singh (1998) argue that the exchange of knowledge resources provide value to its partners in the relationship between the companies. Sharing knowledge produces integrated learning, while the complementary resources create integrated creation of products, technologies, new services. These opinions illustrates the benefits or advantages of the cooperative relationship that provides benefits for both parties, but not all partners have the same capacity or identical, in learning and assimilate owned and acquired knowledge. The difference in output or results is due to differences in the ability of the company to acquire, assimilate, transform and exploit (Andrawira, 2009). This statement is in line with the opinion expressed by Zahra and George (2002) that the sources of knowledge and understanding can give effect to the development of knowledge absorption capacity, modernized with the trigger activation. Activation trigger is an event to encourage or force the company to respond to internal or specific external condition changes. Triggers can be formed as internal organizational crisis, such as performance failure, so company must redefine corporate strategy. One of the internal trigger suggested by Zahra and George (2002) is a form of merger (in Andrawira, Luciana, 2009).

Through knowledge sharing, the cooperation company will get the resources, either in the form of information or ideas from others. Of the various types of information obtained will inevitably impact the company's ability to identify and gain knowledge from the external environment. In addition, the company can make interpretation and understanding gained from internal sources, develop and refine the routines that facilitate these processes, do improvement, expansion, and improvement of existing knowledge to incorporate into the daily routine activities (in Andrawira, Luciana, 2009).

According to Marquardt (1996), the acquisition of knowledge is a process in which knowledge was collected or added. The acquisition of knowledge can be done through a variety of sources, both from within the company and outside the company. Research on the knowledge absorption occurs in the context of inter-firm strategic alliances and joint ventures was done by Lane and Lubatkin (1998). Cooperation has a role in the learning process and knowledge transfer, as communication produced in collaboration companies encourage knowledge creation and learning raised among companies, which will ultimately gaining knowledge. In the context of inter-firm relationships, Osland and Yaprak (1995) hold the view that companies can learn from

partners, through four processes, namely: experience, imitation, grafting, and synergism (in Andrawira, Luciana, 2009).

It is a natural tendency for companies to individually protect the know-how which is seen as its own and prevent leaking of knowledge. (Dyer and Nobeoka, 2000). As a result, many companies are reluctant to participate in knowledge sharing activities between the companies. However it turns out, the results Dyer and Nobeoka (2000) showed that the suppliers learn quickly after participating to share knowledge in networking. Knowledge creation and recombination will occur because there is a diversity of knowledge network. The success of reintegration can be created by an exchange of identity and coordinating rules (in Andrawira, Luciana, 2009).

Sharing knowledge in an industry cluster is a knowledge sharing activity occurring that could be viewed as a learning process. This process starts from one company to express its knowledge to the company, then another company will study the relevant parts of the knowledge. Knowledge that can be acquired by the company, it can also come from experience, complaints, ideas, or advice given by other companies (Andrawira, 2009).

Research on industrial cluster is usually associated with involvement because of their proximity in a geographic location, which may lead to the location-based comparative advantage (Dunning, 1988). In a further development, the existence of firms in an industry cluster can be defined as companies that joined in a relatively consistent set, cause by having a similar business activities or processes that are similar to each other, where the company is working together for activities to foster the acquisition of knowledge (Niu, 2009).

3. Discussion

Social Capital Theory provide discourse that participants in each group believe that they are working together and intentions which requires for members to be depend to one another, as a capital for mutual benefit sharing. In this study, proactive behavior was implicitly determined via the transmission of information through communicative action. The members can share knowledge, proactively provided by members of one against the other, embodied in words, ideas, agreements and concerted action for mutual benefit. This knowledge sharing is done to address the lack of knowledge, and to have a dialogue to search for information The listener needs to know the information, if they have a will to help by providing relevant information. The involvement of the members in the group means that they have the motivation to get involved in the group, which is associated with the acquisition of knowledge, if the group members have a willingness to share. According to Social Exchange Theory (SET), the interaction of the exchange of information that occurs in the individual transaction involves rooting in a larger system which deals with economic and social interaction (Carson et al., 2006.). Granovetter (1992) discusses that it is an economic fact that the expected outcome is the result of reciprocal interactions in the structure of the overall network. Fundamental statement of SET is that the positive results of the exchange increases trust and commitment, which finally established norms governing the relationship (Hawkins et al., 2007; Lambe et al., 2001).

With collaborative strategy, all parties in the business relationship contribute to the betterment of the whole, due to the collaboration, each organization within industrial clusters are able to gain knowledge.

Knowledge obtaining involves two activities, namely the process of knowledge acquisition and knowledge creation. Two fundamental decisions and actions necessary to begin the process of knowledge acquisition: (1) to transfer and pass a piece of knowledge, and (2) to receive a portion of the knowledge. In many cases, either to send or receive knowledge requires a

certain level of trust to make the right decision. Nooteboom (1996) and Schein (1985) found that trust will help people to cope with the uncertainty that occurs when faced with foreign data. Typically, the relationship between trust and gain knowledge is circular (Gassenheimer and Manolis, 2001). For knowledge acquisition, people need to have trust in some of the other attributes, such as the capabilities and congruence value.

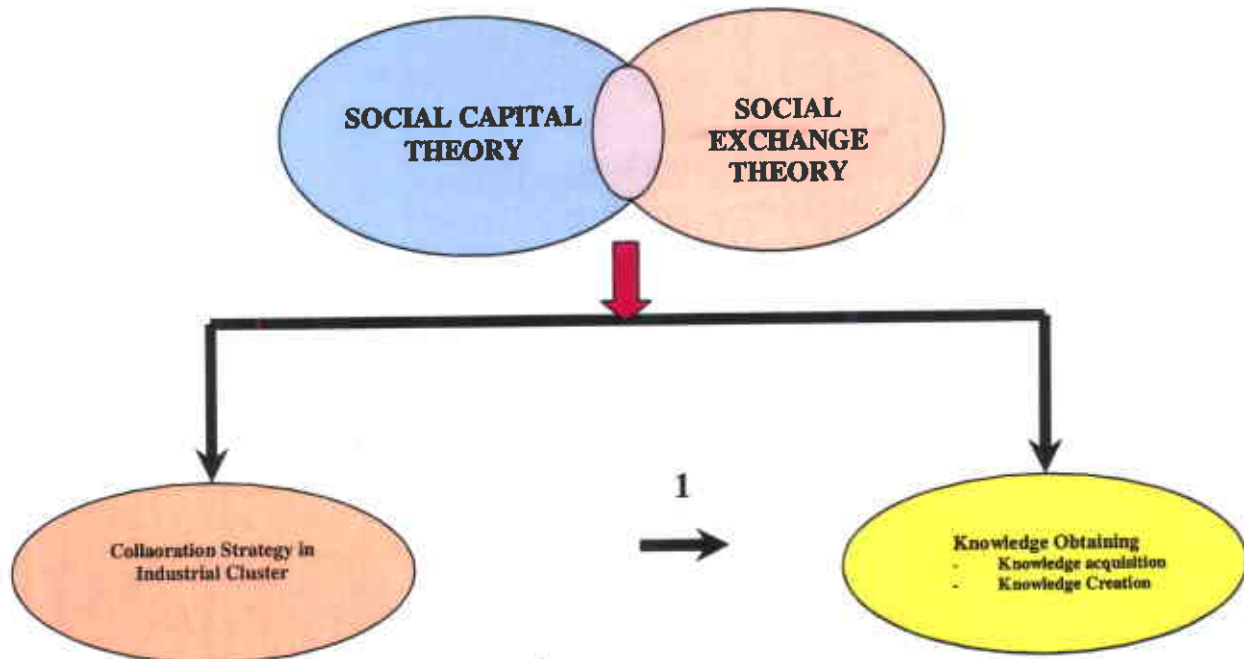


Figure 1. Relationship between Companies Collaboration Strategy in the Industrial Clusters and Knowledge Obtaining

4. Conclusion

This paper is a conceptual study that underlies the research with regards to knowledge obtaining between organizations, both in the absorption of knowledge and knowledge creation in industrial clusters associated with the strategy of cooperation between organizations. In the discussion, it has been known that the intersection between SCT and SET turned out that knowledge obtaining for groups in the industrial cluster is affected by collaboration strategy in industrial cluster.

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