

# Creating Innovation Value through Networks: Knowledge Circulation and Talent Development

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**Abstract** Business is changing from an industrial- to a knowledge-based environment, building more from professionals and their expertise. Corporations need to create internal organizations in which there is more emphasis on human capital and creating/sharing knowledge and talents. Talent management and knowledge creation should be new foci to create sustainability and long-term success. On the whole, organisations are working too much on an ad hoc basis, focusing on technology instead of creating an environment in which talents reinforce each other. In this review article we explore knowledge circulation, link knowledge, and talent to innovation, and discuss optimum circumstances for corporations to benefit from these assets.

**Keywords** Knowledge Circulation, Talent Development, Innovation, Networks

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## 1. Introduction

Although many firms claim to be engaged in innovation to create sustainable environments, not many have the internal assets and mind-sets necessary for success. Due to circumstances surrounding recent economic crises, the outside-in mentality is growing as a means of creating sustainable competitive advantages. What firms lack, however, is the ability to transform internal structures and the way employees operate within them to create firm- and technology-based innovation strategies. Business is changing from an industrial- to a knowledge-based environment, building more from professionals and their expertise. Corporations need to create internal organizations in which there is more emphasis on human capital and creating/sharing knowledge and talents [1]. Addressing these elements when creating sustainable innovation platforms and processes at the organizational level, strategic employability policies and leadership [2] must deviate from current forms, which are proving less adequate in contemporary societies. Connections, or networks, both inside and outside the company create more value for a company's innovation policy, and the influence firms have on their direct environments. Talent management and knowledge creation should be new foci to create sustainability and long-term success. Corporations must link departments and individuals to create networks in which knowledge and talents can develop. In a society in which everything is interlinked by

technology and social ties, employability and the intrinsic motivation of human capital are especially important. Companies benefit from these ties within immediate environments, but also benefit within those more distant. By positioning strategically within an organization's immediate environments, firms create networks in which knowledge is gained and potential talents are discovered.

We argue that organizations need to be structured in a way such that interactions within a region benefit employability, both internally and regarding development of assets within areas a firm can create sustainable value. We build on the notion that to create sustainable competitive advantages through innovation, firms must create strategic employability by building on talents and knowledge using a network structure. Firms are working too much on an *ad hoc* basis, focusing on technology instead of creating an environment in which talents reinforce each other. In this review article we explore knowledge circulation, link knowledge, and talent to innovation, and discuss optimum circumstances for companies to benefit from these assets [3]. We discuss the benefits of an organizational structure that derives value from ties between departments and within regions. We examine the impact on direct environments, and more specifically, regional employability, and how firms benefit from these environments. We also discuss implementation elements such as communication and leadership necessary for learning and knowledge firms.

## 2. Innovation by Knowledge and Talent

The changing social environment of business, from industrial- to knowledge-based, means a clear and distinct change of perceptions of entrepreneurship. Whereas

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innovation was previously firm-driven, the focus of innovation entrepreneurship should be on customers to adapt to the changing environment. A consequence of this change is the need to focus on learning and education to cope with continuous change [4]. Innovation means new ideas developed and implemented by people through transactions inside of an institutional context [5], clarifying the importance of the people involved, and the way in which these transactions are engaged. This definition suggests four dimensions of innovation: new ideas, people, transactions, and institutional contexts. Making people and new ideas the focus of innovation means a different perspective of strategic implications for these dimensions (i.e., employability). Whereas innovation was an exponent of technology, the customer-focused view should build strategies from human capital and continuous development of new ideas. Knowledge will become an increasingly important strategic asset, as will the talent to convert knowledge into new ideas. Another definition suggests innovation is “the transformation of knowledge into new products, processes and services” [6:12]. This definition makes clear the importance of knowledge when creating sustainable innovations. To develop new ideas based on innovation within entrepreneurship, organizational learning is crucial because by learning, a firm can use new knowledge to create value and enhance innovation by developing organizational and individual talents. Learning and creation of new knowledge helps with development of sustainability of innovation cultures, leading to competitive advantages [7, 8, 9]. This premise is even more important in knowledge-based societies, in which intangible assets such as knowledge are more likely to lead to advantages than tangible assets, which are dominant in the industrial view [10]. An important characteristic of a learning organization is that creation of new knowledge is embedded into practice to create advantages over competition. It is important for organizations to be able to share new knowledge among the people involved, developing organizational identity and culture simultaneously, which influences innovation creation positively. Knowledge gained by an individual reflects the social context in which it is learned and practiced [11]. Companies must consider this relationship since neither reduces to the other [12]. While becoming more competitive, firms must coordinate knowledge throughout all areas of practice to discover the innovation potential of the firm [13].

As new knowledge is embedded into practice, it stresses the importance of having the right talent and developing new talent. Talent management is increasingly important due to increasing importance of intangible assets, influenced especially by changing demographics of contemporary societies. Having the right talents and addressing them strategically creates organizational effectiveness as a key asset for firms engaging in innovation. Such a talent-management approach is one of the most difficult activities to implement, sustain, and enhance [14]. Examining individual elements of innovation-communication, flexibility, empowerment,

entrepreneurship, authenticity, creativity, and consideration—means firms must consider many characteristics when making strategic decisions about strategic employability [15]. It suggests the importance of balanced talent management integrated in corporations to develop and identify the right talents at the right time. Companies need to find a modus, or create a system, in which they can find and analyse strategic talent-related decisions by adapting the unique information needed based on a context’s characteristics. This helps companies improve decision-making, which depends on talent resources to increase the success of the organization. One tool is the Human Resources Performance Potential Portfolio (HR3P) model [16]. The tool assesses potential in an organization, and determines what skills or talents should be developed. Although the tool was developed to evaluate personal skills, it can be used strategically to create a picture of the current and preferred statuses. A feature of decision-making concerning strategic human resources is that an organization must have a unique, talent-focused perspective for improving decisions, instead of a process of simply implementing decisions [17]. This means not only developing skills and talents, but also involving human capital during decision-making, including organizational leaders. Decision-making is not merely hierarchical and bureaucratic; it should also be bottom-up. When creating such a decision-making model, a company reinforces the talents, or elements, required to innovate. Combining knowledge creation and talents, organizations develop sustainability to create value through innovation. By institutionalizing a learning environment, talents such as entrepreneurship and creativity are enhanced. By establishing a culture in which knowledge and talent are the foci, authenticity and consideration are embedded within a firm. It involves creating an organizational structure in which communication, flexibility, and empowerment drive perpetual searches and development of new ideas, and generation of added value for the company, leading to sustainable competitive advantages.

### 3. The Innovation Organization

An accompanying aspect of the definitions of innovation is that innovation requires not only technical and social components, but also an administrative element [18]. Organizations must structure themselves in a manner that benefits innovation, and therefore knowledge and talent must be part of the organizational structure. Only by designing the structure in a way that knowledge and talent are part of the culture, or DNA, of the firm, are companies able to create value and competitive advantages sustainably. Two elements are paramount in this regard [19]. The first is absorptive capacity, or the ability of a firm to acquire, assimilate, and use information (i.e., the ability of a learning organization) [20]. The importance of this factor lies in the fact that organizational learning is a crucial condition to allowing firms to acquire and process knowledge as intangible assets

become increasingly important [10]. The better a corporation uses absorptive capacity within its organizational structure, the more effective it will be at disseminating information and knowledge throughout the company. Providing human capital the option to use information, and create and develop the ability of people to use this information for innovative transactions, provides a sustainable resource for creating value and advantages in markets. The second element is social capital, which is the sum of all resources, potential or realized, embedded in an organization's network of relationships. Social capital provides firms the resources and capabilities to maximize learning [21]. For innovation firms, the importance of social capital is stressed for two reasons. First, social networks have a positive effect on the ability to engage in innovative practices. Second, the position of such networks reveals the ability to access external information and knowledge, which are important to creation of sustainable value and advantages [22]. Corporations must exploit the social capital embedded in the firm as a source of new information and knowledge. Developing a structure that entails or promotes networks has a positive effect on the firm's learning curve for processing knowledge acquired from organizational learning. For companies to increase performance, however, they must balance absorptive knowledge and social capital when creating competitive advantages. Companies must therefore design an organizational structure in which innovative behaviour and strategic renewal optimize organizational learning. Then, the new knowledge aids the firm with development of innovation output such as new products or re-establishing innovation cultures [9]. We see the most opportunities for companies not only in establishing networks within the firm, but also in ties with networks stretching into the direct environment. Researchers recently argued that access to new sources of knowledge is one of the most important direct benefits of social capital [23]. Developing an organizational structure that encourages and supports the initiation of social capital throughout a firm is crucial to sustainability of value and competitive advantages.

Networks provide firms access to knowledge, resources, markets, and technologies. As the economic environment becomes sharply more competitive, a firm's network of relationships becomes increasingly and strategically important [24]. Firms that combine resources found within the company and beyond the company's boundaries realize an advantage over companies lacking the ability or willingness to do so. The person who recognizes an opportunity might be different from the person who champions it in the company. Lack of contacts, or the ability to develop them, harms the value creation needed for innovation [25]. This stresses the importance of the strategic position a firm's human capital requires to create operational networks. The benefit of partnerships or networks is that they offer competitive advantages regarding four dimensions: investment in relation-specific assets, substantial knowledge exchange that results in joint learning, combining resources and capabilities that result in joint creation of unique

products or technologies, and lower transaction costs due to more effective decision-making [25]. By participating in a network and the resulting repeated and enduring exchanges of relationships, firms benefit from knowledge acquisition by network members [27]. New knowledge is an important stimulus for change and organizational improvement. "The most useful information is rarely that which flows down the formal chain of command in an organization, or that which can be inferred from price signals. Rather, it is that which is obtained from someone you have dealt with in the past and found to be reliable" [28:304]. Firms need to be aware of this dimension and generate an internal structure and culture in which people can acquire and use new information and knowledge by using such networks. We argue that too often, top managers determine what information will be used to base decisions or communicate externally. Therefore, effective governance plays a role in the creation of value and competitive advantages since it influences transaction costs and the willingness of individuals to engage in value creation. Companies should always enhance efficiency by structuring governance in such a manner that parties interacting in networks have the lowest transaction costs possible, and can engage in the most effective way [29]. Enhanced flexibility, entrepreneurship, and creativity deriving from network engagement should be drivers of internalizing this process, instead of controlling processes by institutionalizing bureaucracy. Headquarters must decentralize authority to members of the network so they can determine how to best use the knowledge they possess. Decentralization enables members to establish lateral ties on their own, which is beneficial to the effectiveness and flexibility of the encouragement of innovation [7]. Organizational designs structure patterns of circulation, co-presence, and co-awareness in an organization. Therefore accessibility and visibility becomes fundamental to development of social networks, especially for those critical to innovation [30]. This clarifies the importance of empowerment and consideration, which must be considered when developing an organizational structure, including development of organizational culture and leadership. Human collaboration in networks increases as partners develop experience working together and accumulate specialized information, language, talent, and expertise. This allows them to communicate efficiently and effectively, thereby enhancing quality and increasing speed to market [31]. Networks are beneficial not only at creating a learning organization when developing new knowledge, but also as a talent factory, enhancing the premise that knowledge needs to be incorporated into practice.

Research suggests talents are more effective when they operate in vibrant, internal networks, with a range of employees [32, 33]. When such networks are absent or are being withdrawn, performance suffers. The people in a network transform opportunities and new knowledge into practices and new ideas. Cooperation develops all features into entrepreneurial behaviours, and as mentioned above, the person who creates knowledge might be different from the

person who develops it into value [34]. Entrepreneurial behaviour therefore is not the talent of one person in a network; it is enhanced by the combination of all talents. The combination is enhanced by circulation of knowledge since it catalyses development of talents throughout the network. However, organizations need to focus on this strategic implication of employability to have the right talents available. By initiating networks as the organizational structure, firms develop skills to create a sustainable process in which participants benefit from interrelations between members. Talent flows both throughout and between networks, strengthening the firm. As individual talents develop, new or alternative network configurations can occur, enhancing development of new knowledge and creation/improvement of talents.

Networks must differ in configuration to create an optimum mix of talents that enhance each other in finding new value-added processes; the more effective such configurations are, the more effective the outcomes will be. It is therefore paramount for firms to create a strategic organizational structure in which all beneficial elements of networks are incorporated and mutually strengthened. Organizational structures must be able to affect, at least potentially, an organization's overall processes and strategies from below since networks and their communities of practice become ubiquitous sources of knowledge, driving organizational change [13]. Network configurations must drive this element by empowering the people involved in making decisions independent of top managers since they are sources of learning and acquiring knowledge. Dhanaraj and Parkhe [35] present one framework, which identifies variables to be addressed within this configuration to create networks. In the framework, the authors identify elements such as the members/size and diversity of a network, position/centrality and status, and structure/density and autonomy. By managing processes concerning resources such as knowledge/talent, innovation, and stability, the efficiency, flexibility, and learning output of a network can be tweaked to become optimal for an organization. Each situation requires a different mix of variables since every network configuration leads to different roles and positions of the network in the environment it operates. Mur-Weeman and Govers [36] build on this framework by arguing that all three features of the specific network configuration are built on the role the network plays (i.e., the degree of opportunism wanted, and the willingness and ability to cooperate). Within this guarding and optimizing of structures and processes, we suggest human resources management quantitatively, and marketing qualitatively, plays a role. By implementing a hub model in which human resources management and marketing act as a central spill, flaws in social networks such as limited reach or bureaucratic decision-making can be overcome [37]. Human resources management possesses knowledge regarding facilitating the right talents and individual capabilities within a network, and marketing is needed to create value by finding and transferring needs from the market into ideas and value-adding mixes. By

integrating both functions into a hub model, the processes identified above can be converted to create a network that adds value to a company [35]. This means however that the strategic position of the human resources function must change to create sustainability from which value and competitive advantages are created by the network structure. Discovering appropriate capabilities and talents needed for roles in the organization does not inimitably create value, but by integrating this knowledge and facilitating the right people, value is created to develop the right configuration for a network [38]. Successful companies find and develop the talents and capabilities needed to survive in an environment in which corporate strategies and markets have changed, and that reinforce other elements within the firm to develop new ideas or practices [38]. Pfeffer [39] argues that there are seven elements in which human resources management can excel to create superior economic output and optimize the effects of a network structure. These practices are securing employment, hiring selectively, decentralizing decision-making and teams, higher payment, extensive training, reducing status distinctions, and extensive information sharing. Although each element implies choices, all are part of the position the firm chooses to obtain success internally and competitively.

#### 4. Regional Networking

These choices also affect the regional position of a firm. Much like the influences that internal processes and choices have on the success of a firm's innovation and networks, markets are important in that they create incentives to expedite exploration of knowledge/talent and their transformation into commercial innovations. Although contemporary business is global, the process largely has not regionalized since systemic innovation is engaged locally but is privatized [40]. However, to create value through innovation sustainably, we discussed that interactions are needed to create new knowledge and develop talents, marking the importance of collaboration of companies, especially in regional environments, and the strategic positioning that networks must have. Especially by creating network structures, the geographic component plays a role in the knowledge-based dynamics of innovation since the system is grounded in communications networks [41]. Learning, knowledge acquisition, and other transformative impulses flow in more than one direction. Firms benefit from their direct milieu, and organizations can create distinctive regions in which capabilities are created through network collaborations as they engage in knowledge creation and learning [42]. By using elements available in a regional environment and collaboration opportunities, including organizational setup, corporations create competitive advantages based on regional elements, but also develop regional employability. One feature of successful innovation firms is that they are receptive to multiple channels of information, including customers and suppliers, and external competitors and internal employees [3]. These processes are

precipitated by network structures, as they interact with other social capital available to individuals. Links between entities or individuals can be created independent of physical barriers, from which firms benefit while initiating knowledge and talents. Collaboration can be instigated with different parties involved in the same region, creating mutually enhancing value and developing sustainable employability. By engaging in (regional) inter-firm networks, all stakeholders can be reached and collaboration can develop, creating sustainability and competitive value since transaction costs decrease and uncertainty reduces during innovation. However, one limiting factor is that to create internal employability and advantages by retrieving knowledge and talent from a region, the region must be structured such that knowledge and talents are created within it [43]. Individual firms need to address elements in their structural organization through which regional development can be enhanced. Participating entities, governmental and commercial, must collaborate and reinforce each other when creating value through this process. Knowledge sharing is a common denominator to creating successful regions in which firms develop themselves internally. By creating regional innovation systems, knowledge can affect interactions between institutions in disparate spheres, in which proximity enhances the coupling effect and therefore formation of innovation trajectories. By engaging in networks, the effects of knowledge interaction facilitate connections between innovation systems engaged regionally and in various markets [41]. By organizing a firm into networks, interactions between parties within a region are facilitated, which in turn leads to more opportunities for a firm to become internally successful.

The processes discussed above clarify the importance of sustainability of regional innovation systems, which all participants must support equally. Only when such systems are grounded in the minds of all participants are firms open to engaging in inter-firm networks. This is similar to establishment of intra-firm networks, through which the notion that the amount of opportunism in inter-firm networks is far greater [36]. If a firm's strategy and structure develop into bringing multiple partners together, competitive value is created alongside sustainability since internal costs drop dramatically. To establish an effective regional innovation system, a few structural issues must be addressed to create a basis of trust and cooperation. To create a regional competitive advantage, local, untraded interdependencies create the necessary trust, and collaboration and accumulation of social capital [44]. Amin and Thrift [45] found four elements for creating regional development: a) a strong, broad, local institutional presence, b) interactions among local institutions, embodied in shared rules, conventions, and knowledge, c) ensuing emergence of progressive local power structures, and d) awareness among all network participants that they are involved in a common enterprise. Although one firm cannot capture all of these elements, the culture and structure of a firm can initiate such developmental. To create regional development, companies

benefit from knowledge circulations when they are structured openly, in culture as well as in internal processes. To create value by engaging in regional development, several interconnected innovation networks with customers, suppliers, internal staff members, and external innovation agents need to be present within a single company. Knowledge management tools also need to be embedded deeply in the structure, supported by innovation technologies based on information and communication technologies [46]. As multiple companies in a specific region are open to regional collaboration, clustering forces, as [43] introduces, are being initiated, and the companies, therefore, themselves also benefit from the caused development of this region. Knowledge circulation is an accompanying process since the region attracts more knowledge from multiple parts of the world.

## 5. Networked Individuals

It is up to leadership, both individual and organizational, to fill in the important aspects, which depend on principles and beliefs of the firm, together with perceptions the firm holds and the position it wants to take. This statement suggests the importance of efficient communication, acting from the firm's authenticity, empowering network participants, and strategic positioning to be effective and create sustainable value and competitive advantages. This last premise also suggests several critical features organizations need to consider at the micro level (i.e., communication between and within networks and individuals) of leadership to create value and maximize outputs from networks, including the roles and strategic positions individuals will take in a network to develop innovation. By addressing individual features, firms can ensure structural elements are captured in the organizational culture, in which the employee is central to innovation [4]. It also connects with all changes occurring in contemporary business and social environments. The most important element to address is communication since it not only determines the image of the company in terms of internal and external stakeholders' perceptions, but also affects the effectiveness of leadership throughout the firm, especially in flat structures such as networks. One effective manner in which to communicate is to use social media as a central communication platform [47]. Social media are diffuse, open platforms on which communications run freely and quickly, and they contribute to an organizational structure since knowledge can be shared among all participants, though each user decides when and which information to use [48]. They affect the way leadership is perceived, and the degree to which leadership affects all stakeholders engaged in a network, both internally and externally. The primary value of social media is that they accelerate organizational performance since they not only support inward collaboration, but also combine internally to respond to customer support, innovation, and market opportunities [49]. They lay a foundation on which organizations can build

network structures for employee-to-employee collaboration and inter-firm interactions, becoming extensions of each other and therefore providing mutual value for a firm, region, and employees. By using open communication between external stakeholders, market opportunities and customer/supplier contingencies are discovered and addressed sooner than when innovations are initiated only internally. Blogs are especially a successful way of interacting openly using social media since they facilitate access to tacit knowledge and resources vetted by experts, and act as a source for knowledge and idea sharing required in learning organizations [50]. By communicating knowledge using blogs, each member of a network can gain new information, and redirect knowledge to parties outside of the network, creating knowledge circulation. Especially due to the direct nature of blogs and other social media, individuals in and between networks develop similar attitudes toward issues and opportunities from the environment; the more direct the interaction, the more cohesive the network or cluster of networks [51]. Direct interaction caused by use of social media—blogs particularly—motivates individuals to engage in networks, reinforcing organizational structures and creating learning firms [49]. This effect can be especially beneficial to organizations engaging in inter-firm networks since the organization becomes more visible in the environment, and external parties are more willingly to engage in such collaboration when the benefits of such agreements are clear. Openness of communication removes hurdles when choosing business partners by shortcutting the process, creating identity in the market. Thus, by communicating effectively through social media, internal sustainability is created, including competitive value, by reducing transaction costs and optimizing business processes.

An important aspect of social media communication is that blogs not only affect what is communicated, they influence leadership skills since individuals must deal with the effects of the visibility that accompanies blogging. Blogging comes with challenges regarding increased expectations from individuals through all layers of the organization, and making errors that are publically available and potentially costly. It creates transparency, both internally and externally, which is beneficial to the image and brand when acted on responsibly [49]. These implications suggest the need for a new leadership style in which elements such as empowerment, dialogue, and authenticity are more important than, for example, control. By its nature, communication over social media—blogs particularly—influences greatly the role leadership must play in such corporations to create an innovation balance in which flexibility and entrepreneurship prevail [47]. Leadership determines engagement and interactions of individuals in social media by managing expectations, support, and trust. This new type of leadership must appear throughout a firm's hierarchy to optimize this communication style [52]. By not engaging in social communication structures alone, leadership is pressured to

change into a different model to encourage innovation output; technology and the strategic position of human capital also influence leadership style [53]. Technology plays an especially important role in the success of networks; it is the glue between an organization and its employees, especially as contemporary business unfolds, enabling employees to engage without physical boundaries. Technology offers an employee more to create flexibility at the individual level and in organizational relationships. Enhanced flexibility also suggests leaders need to facilitate more. In the current industrial model, the focus is on control, empowering individuals during decision-making. Since individuals are more connected, flexibility characteristics of leaders need to be developed. As the workforce increasingly consists of professionals and specialists, leaders must manage them with goals that motivate them to organize their work, both individually and collectively, to meet those aspirations [37].

In this, we see the importance of effective leadership in human resources management and marketing, acting as a hub, as we discussed above. Leaders diverge into managerial coaches, focusing on individual employees and their capabilities/talents by playing various roles. The focus of the new leadership style is on discovery and development of talent, roles, influences, and positions of the individual [54]. Barner [55] identifies five roles leaders act on to optimize human capital: a) organizational translator to position an individual based on capacities and talent, and develop him/her to achieve personal wishes, b) consult performance by constructing a development plan, c) assess development of the individual, d) act as a cognitive mentor to support accelerated learning, and e) brand advising to link the attributes of a personal brand to behaviours. By addressing development, individuals can develop roles and acquire positions that lead to employability. As talents and capabilities are enhanced, the influence individuals can exert changes the perceptions leaders must have on the employee to assess current and future functions and roles in the network [54]. All leaders engaged as a hub must specify all of these attributes to create internal employability, but we argue, especially for human resources leaders, that they must position them strategically to create internal value and sustainability. Their target is to develop, facilitate, and enhance a talent organization by assessing individuals in networks, especially in regional contexts. Marketing leaders must encourage, lead, and guide a network to create value by engaging in innovation.

## 6. Blue Ocean Creators

A new model of innovation will not emerge spontaneously from an obsolete legacy of the industrial age. Companies must therefore design a new model holistically, using new principles that consider the way professionals create value [37]. We argue that for innovation to create sustainable, competitive advantages, a firm must structure itself in a way that optimizes knowledge circulation and talent development. All organizations want to create competitive advantages, and

even initiate innovation, but we observe the same structures, ideas, and actions used for the last two centuries. A second aspect is that firms initiate top-down, without realizing lack of adaptation to employees. As [56] suggests, a successful strategy is not created at the top as a formal strategy, but depends on emerging strategies to lead to realization. This implies a need for interaction in companies, and even with environments, and creation of networks in which knowledge and talents can be developed for emerging strategies to be capitalized on, realizing the firm's strategy. Firms that combine these elements to create success sustainably create value and successful employability. These firms are blue oceans instead of fighting in red oceans [57]. This process is difficult since it challenges fundamental processes, but by addressing these processes and acting on them, firms create flourishing innovation models, or blue oceans, which offer them survival in contemporary business. Development is essential to accomplishing this status—development of internal structures, talents, communications, and leadership.

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