Essays on global business networks, governance, and institutions

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Chapter 1: Introduction of Dissertation

"When the items exchanged between buyers and sellers possess qualities that are not easily measured, and the relations are so long-term and recurrent that it is difficult to speak of the parties as separate entities, can we still regard this as a market exchange? When the entangling of obligation and reputation reaches a point that the actions of the parties are interdependent, but there is no common ownership or legal framework, do we not need a new conceptual tool kit to describe and analyze this relationship? Surely this patterned exchange looks more like a marriage than a one-night stand, but there is no marriage license, no common household, no pooling of assets." (Powell, 1990: 301)

1.1. Business Networks in the Context of International Business

1.1.1. The Rise of Global Business Networks

The formation of collaborative inter-organizational arrangements has received widespread attention by academic researchers in many different fields such as business, economic geography, sociology, and policy studies (Sydow, Schuessler, & Mueller-Seitz, 2016). A plethora of organizational configurations exists that falls into the space between the market and hierarchy extremes. In the broadest sense, cooperation in inter-organizational arrangements can be understood as any relations of organizations functioning on the market, whether unaware, casual, or inconsistent to a close and tight tie (Rzepka, 2017). Inter-organizational relationships materialize in strategic alliances, subcontracting, joint ventures, franchising and licensing arrangements, co-operative and non-equity agreements, diversified business group (BG) networks, and collaborative R&D, marketing and technology financing (Cropper, Ebers, Huxman, & Smith Ring, 2008).

So far, the literature mainly focuses on three interrelated issues in inter-organizational arrangements: (1) the motivations and (collaborative) challenges of network formation (e.g., Gulati, Nohria, & Zaheer, 2000; Nooteboom, 2004), (2) the choice of governance structure (e.g., Gereffi Humphrey, & Sturgeon, 2005, 2005; Uzzi, 1997), and (3) the effectiveness and performance of inter-organizational arrangements with respect to innovation (e.g., Chang, Chung, & Mahmood, 2006; Moran, 2005), quality management (e.g., Christmann & Taylor, 2006; Ponte & Gibbon, 2005), sustainability (e.g., Jiang, 2009; Marano & Kostova, 2015), or financial outcomes (e.g., Bhaumik, Kumar, Estrin, & Mickiewicz, 2016; Keister, 2000). Most of these studies build upon a relationship- and network-based framework, while failing to explicitly consider the international dimensions—both political and social—of modern business networks, and how such local institutional dimensions affect member firms' behavior and performance (Owen-Smith & Powell, 2008). This is surprising, given that modern business networks are characterized by increased fragmentation and geographical dispersion (Gereffi et al., 2005), which aggravates the coordination challenge in inter-organizational arrangement as *''the scope of the activity of management control is enlarged and it no longer confines within the legal boundaries of the organization''* (Otley, 1994: 293). We show in this PhD thesis that network formation and governance is context-specific, and only performance-enhancing for participating firms that are located in certain institutional environments. We choose the term *'global business networks'*[1] to emphasize the global nature of modern business networks. We consider both New Institutional Economics (NIE) arguments, focusing on how *formal* (political) institutions influence the transaction-cost minimizing choice of governance mode, and rationales from New Organizational Institutionalism (NOI), or institutional theory, explaining how *informal* institutional norms and values impact governance choices that cannot be explained by efficiency-seeking motives alone.

1.1.2. Global Business Networks as a Hybrid Mode of Governance

Governance is commonly defined as *"the means to infuse order, thereby to mitigate conflict and realize mutual gain"* (Williamson, 2010: 456), or the *"play of the game"* between parties of transactions (Williamson, 2000: 597). Governance structures appear as an element that can facilitate or hinder the coordination of the firm, mainly as the result of rational choice and opportunism to minimize transaction costs (Williamson, 1985). Hybrid structures, in particular, are *"located between market and hierarchy with respect to incentives, adaptability, and bureaucratic costs. As compared with the market, the hybrid sacrifices incentives in favour of superior coordination among the parts. As*

[1] This topic has been widely investigated, thus providing a wealth of naming and interpretations. For example, Williamson (1985) refers to it as hybrid organizations, Eccles (1981) talks about quasi-firms, Piore and Sabel (1984) describe flexible specializations, Powell (1990) focus on network organizations, Uzzi (1997) argues for inter-firm networks, Jones, Hesterley and Borgatti (1997) talk of network governance, and Powell and Gordal (2005) identify a network of innovators. We follow Williamson (1985) and use the terms *'business networks'* and *'hybrids'* interchangeably when referring to inter-organizational (business) arrangements.

compared with the hierarchy, the hybrid sacrifices cooperativeness in favour of greater incentive intensity" (Williamson, 1991: 283). In other words, hybrids develop when transactions among partners are specific enough to generate substantive contractual hazards without justifying vertical integration as prevalent in hierarchies, and when *"uncertainties are consequential enough to require tighter coordination than what markets can provide"* (Menard, 1995: 31). In order to safeguard transactions, hybrid forms rely on three pillars, namely: pooling of resources, coordination through relational contracts, and the combination of competition and cooperation (Menard, 2005). Table 1.1 illustrates the distinctive characteristics of hybrids as compared to markets and hierarchies.

Table 1.1. Global Business Networks as a Hybrid Governance Form between Markets and Hierarchies

	Market	**Hierarchy**	**Hybrids (= global business networks)**
Relationship	Short-term interaction between independent actors	Long-standing relationship between integrated actors	Intermediate and long-term between partly integrated actors
Type of contract	Spot market	Incomplete/relational	Most often incomplete contracts
Coordination	Price	Authority/ - orders, administrative rules and processes	Price and fiat
Legal Paradigm	Classic contract law of markets through legislation prescribing that the court is the forum of ultimate appeal	Private ordering - the internal organization becomes its own court of appeal and is characterized by forbearance	Both contract law and private ordering
Transaction Costs	Market transaction costs	Bureaucracy costs	Both markets and bureaucracy costs

Table 1.1, adjusted from Bech and Møller Pedersen (2005), shows that hybrids are not markets because the relationships among organizations are intermediate and long-term rather than short-term and sporadic (Menard, 2005). In markets, production is carried out by a number of independent organizations each producing ubiquitous products that are traded at arm's lengths, often on the *'spot'* market, to the broker or firm carrying out subsequent steps or activities (Coase, 1937; Williamson, 1991). The exchange of products under market governance is discrete and well-specified within simple market

contracts, and mainly governed by price. At the same time, hybrids are not hierarchies because the organizations affiliated with the network are legally separate entities that can enter into contracts independently of one another. Hierarchical governance refers to the coordination of transactions within organizations which is supported by employment contracts and is fundamental to the principle of forbearance (Coase, 1937). Hierarchies are their *"own court of ultimate appeal"* (Williamson 1991: 274), and the actors involved in a dispute resolve their differences internally. Relationships in hierarchies may be long-term, but a clearly recognized and legitimate authority exists that resolves conflicts that may arise among parties (Williamson, 1991). Hence, we can infer from Table 1.1 that hybrids are mixed species, combining elements of both markets and hierarchies.

1.1.3. Global Business Network Heterogeneity: the Role of Social Capital

Since Williamson's (1985) and Powell's (1990) publications on network relationships, the discussion around networks as governance modes has, until recently, focused mainly on the difference between networks/markets and hierarchies and the conditions under which networks function and exist. The reference point was, therefore, two classic modes of governance. As a result, networks were often treated as a homogenous category somewhere between market and hierarchy. However, a number of scholars have attempted to define the distinctive elements of networks, empirically showing that networks come in different forms, and display varied governance characteristics (e.g., Grandori, 2013; Hennart, 2013; Osborn & Hagedoorn, 1997; Raab & Kenis, 2009). Such varieties are most commonly attributed to the integration of sociological variables in the transaction cost framework (Granovetter, 1985; Uzzi, 1996, 1997). Contrary to the transaction cost economics (TCE) assumption that firms cannot discern the trustworthiness of other actors, and thus must act as if individuals cannot be trusted, sociologists argue that interpersonal relations within networks may change a partner's attitude from selfishness to trust which reduces the risk of opportunistic behavior during the cooperation (Uzzi & Lancaster, 2003). Trust, cooperation, and reciprocity between member firms, so they argue, stimulate resources and knowledge acquisition as well as legitimacy which subsequently improve performance (Podolny & Page, 1998). The prevalence of both contractual and relational aspects in network governance allows for a more nuanced view of business networks. For the purpose of this PhD thesis, we will focus on two distinct business network forms, namely: diversified business group (BG) networks and vertical supply chains.

BGs are hierarchy-like forms of network organization between legally independent firms with stable relationships operating in multiple diversified activities and under common ownership and control (Cuervo-Cazurra, 2006). While BGs provide incentives to self-enforce promises of cooperation among production units, e.g., given the control exerted by a common parent, social solidarity and structure exists among member firms to organize activities within network-like environments (Granovetter, 1995). From an institutional perspective, BGs emerge as a prominent organizational form in emerging countries where markets fail to provide an institutional infrastructure for commercial activities (Khanna & Palepu, 1997; Khanna & Yafeh, 2007). As a consequence of institutional weaknesses, BGs often engage in unrelated diversification to provide its member firms with an internal market for capital, knowledge and information, intermediate products, managerial talent, and other important strategic resources (Belenzon, Berkovitz, & Rios, 2013; Chang & Hong, 2000; Estrin, Pouliakova, & Shapiro, 2009; Tan & Meyer, 2010). We refer to these BG advantages as market-based advantages which are driven by transaction cost minimization motives (Cuervo-Cazurra & Genc, 2008, 2011). However, BGs also provide member firms with non-market advantages, i.e., external linkages and connections (e.g., political, social or cultural relations) that help member firms cope better with idiosyncratic market conditions which cannot be explained by TCE rationales (e.g., Filatotchev, Strange, Piesse, & Lien, 2007; Guillén & García-Canal, 2009; Lu, Liu, Wright, & Filatotchev, 2014; Tan & Meyer, 2010). We will discuss BG networks and advantages in *Chapter 2* of this PhD thesis.

Vertical supply chain networks, reflect the flow of services and products from primary producers (i.e., suppliers) up to end consumers, with MNEs[2] often acting as *'lead firms'* that monitor and control supply chain activities and performance (Humphrey & Schmitz, 2001)[3]. We classify vertical supply chains as market-like network arrangements, since purchasing decisions no longer depend only on price mechanisms (as evident in pure, anonymous spot markets), but predominately rely on other order-qualifying criteria such as product quality or sustainability (e.g., Jamali & Karam, 2016), which require relationship building among supply chain partners. Thus, as lead firms, it

[2] We use the terms MNEs, customers, and buyers interchangeably throughout this thesis.

[3] In this thesis, we only focus on the relationship between buyer and first-tier supplier. We thus ignore lower tier suppliers further down the supply chain.

is the buyer's responsibility to disseminate knowledge and best practices within the supply chains to ensure that suppliers are compliant with external requests (Jiang, 2009; Rungsithong, Meyer, & Roath, 2017). Such relationship building and governance goes beyond the TCE logic of transaction cost-minimization. We will discuss supply chain networks and various governance modes in *Chapter 3* and *Chapter 4* of this PhD thesis. More specifically, in *Chapter 3*, we link network governance to corporate social responsibility (CSR)[4] practices, and distinguish between contractual and relational governance mechanisms. Relational governance stimulates close collaboration and trust between buyer and suppliers, while contractual governance only relies on monitoring and auditing mechanisms. In *Chapter 4*, we specifically refer to social sustainability governance which is the active support of the lead firm to build capabilities at the supplier firms (e.g., by providing resources and trainings). Social sustainability governance is functional (e.g., MNEs support suppliers to reduce the risk of non-compliance), and does not necessarily include trust or other relational norms. For a general comparison between diversified BG networks and supplier networks, please refer to Table 1.2.

Table 1.2. Distinction between Diversified Business Group and Supplier Networks

	Diversified Business Group Networks	**Supplier Networks**
Corporate Status	Legally independent firms	Legally independent firms
Inter-Firm Relationships	Stable and long-term relationships	Stable and long-term relationships
Ownership	Common ownership (i.e., family, state, dispersed shareholders)	No common ownership
Corporate Strategy	Unrelated diversification	Related diversification (i.e., backwards vertical integration)

[4] Throughout this PhD thesis, we use CSR and social sustainability interchangeably.

1.2. Global Business Networks and Institutions

1.2.1. New Institutional Economics (NIE): Formal Institutional Constraints for Global Business Networks

TCE has been developed assuming stable, well-developed, and efficient market mechanisms which reduce the level of uncertainty and transaction costs, as well as facilitate the interaction between social actors (Meyer, 2001; Williamson, 1975). Hence, it is challenging to apply TCE in institutional settings characterized by fragmented and incomplete institutions (Meyer & Peng, 2005). In those environments, ineffective courts and increased opportunistic behavior may lead to additional costs which have to be factored in the transaction cost calculus (Williamson, 2008). To address those limitations, TCE has been extended by an institutional perspective, the NIE, which focuses on the underlying political and social norms of economic activities (North, 1990; Williamson, 1991, 2000). Conceived as *"humanly devised constraints that structure political, economic and social interactions"*, NIE views institutions as consistent of both formal rules like constitutions, laws and property rights and also informal elements such as *"sanctions, taboos, customs, traditions and codes of conduct*" (North, 1991: 97). Although NIE acknowledges the existence of both formal and informal institutions, most scholars focus mainly on formal rules and regulations, i.e., property rights and contract enforcement (Joskow, 2008; Williamson 2000)

In 1991, Williamson (1991) introduced the so-called shift parameter framework, an extension of the TCE model investigating how the optimal choice of governance mode changes in response to dynamics in the institutional setting. As such, changes in exogenous parameters (i.e., formal institutions) will shift the effectiveness of alternative governance structures[5]. Shift parameters shall be used to indicate institutional differences between alternative market settings (such as developed vs. emerging countries) and will influence the predictions about transaction costs and governance choice in each environment. For example, the emergence of inter-organizational network such as BGs in many emerging markets has often been explained with weak institutions for market exchange (e.g., Khanna & Palepu, 1997; Khanna, 2000; Peng & Luo, 2000). Hence, the influences of both transaction cost characteristics and the formal

[5] Despite the recognition that informal institutions play a crucial role in defining societal rules, Williamson (2000: 596) claims that informal institutions are commonly *"taken as given by most institutional economists".*

institutional environment on governance choice should be analyzed jointly (Williamson, 1991).

Although Williamson (1991, 2000) acknowledges that formal institutions can generate uncertainties which may influence the choice of governance, empirical testing is rather scarce (for exceptions see Henisz, 2000; Henisz & Williamson, 1999: Oxley, 1999). Since there is very little research on how formal institutions interact with the internal characteristics of alternative organizational arrangements, our understanding of the underlying mechanisms through which institutions shape and alter organizational arrangements is still quite poor. Empirical testing of Williamson's (1991) shift parameter framework has focused predominately on the shift from discrete governance forms (e.g., legal contractual or equity arrangements) toward more hierarchical arrangements, given an increase of political hazards in the market (e.g., Oxley, 1999). This thesis contributes to these studies by empirically testing how effective various forms of network governance are for participating firms that are located in certain institutional settings. More specifically, in *Chapter 2* and *Chapter 3*, we distinguish between low (or less favorable) versus high (or more favorable) quality of local institutions.

1.2.2. New Organizational Institutionalism (NOI): the Importance of Informal Institutional Structures

A second stream of research embracing institutions and economic action is NOI, more commonly referred to as institutional theory (DiMaggio & Powell, 1983, Kostova, 1997, 1999; Meyer & Rowan, 1977; Oliver, 1991; Powell & DiMaggio, 1991; Zukin & DiMaggio, 1990). Institutional theory focuses on embeddedness within settings that convey unique institutional norms that enable and constrain organizational decision-making and behavior (e.g., Dacin, 1997; Powell & DiMaggio, 1991). We define institutional embeddedness as "*the nesting of economic and strategic activity within an institutional environment. The institutional environment of firms and markets refers to the social and normative context surrounding them, in particular, those external influences that define socially acceptable economic behavior*" (Oliver, 1996: 164).

NOI, as opposed to NIE, posits that social behavior is not only restricted through formal institutions, but also guided and spurred by cultural-cognitive systems and normative pressures (i.e., informal institutions[6]) (DiMaggio & Powell, 1983; Scott, 1995; 2008). Institutional norms and cognitions commonly originate from public opinion, professionals, industrial certification and accreditation, etc. (Scott, 1995). How well a firm conforms to formal and informal institutions, also called legitimation, determines its performance (Handelman & Arnold, 1999). Suchman (1995: 574) defines legitimation as *"a generalized perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs and definitions"*. To become institutionalized and legitimate, the organizations have to conform to three forces in the institutional environment: coercive, normative, and mimetic (Scott, 2008). Coercive pressures stem from political influence, often conveyed through state regulations, laws, and accreditation processes; normative pressures are related to professional values; and mimetic pressures associate with mimicking or copying behaviors as a result of firm responses to uncertainty. These isomorphic pressures explain convergence in organizational practices and structures. Following Peng, Wang, and Jiang (2008), in *Chapter 3*, we will broadly distinguish between formal and informal institutional pressures, subsuming mimetic and cognitive institutional pressures to informal institutional pressures. We respond to calls for studying more domain-specific institutional environments rather than general country level factors (Busenitz, Gomez, & Spencer, 2000; Kostova, 1999; Meyer, 2012), thus assessing the *'favorability'* of formal and informal institutions. By *'favorable'* institutions we mean institutions which both constrain CSR misconduct and enable CSR activities (Marano & Kostova, 2015; Saka-Helmhout & Geppert, 2011).

Conforming to institutional forces does, however, not necessarily imply that the most efficient option is chosen, because legitimacy rationales and economic efficiency motives may potentially be contradictory (Kennedy & Fiss, 2009; Tolbert & Zucker, 1983). For example, while conforming to stakeholders' CSR requests may increase a supplier's legitimacy (and possibly also its CSR performance), it does not necessarily mean that implementing a CSR agenda will (immediately) increase a supplier's financial performance, too. Hence, as compared to NIE, which posits that organizations are only and entirely motivated by economic efficiency-enhancing reasons, institutional theory emphasize the importance of other non-economic goals, too (i.e., legitimacy).

[6] As the boundaries between norms and cognitions are not always clear (Gaur & Lu, 2007; Scott, 2001), we will use North's (1990) classification of informal institutions, subsuming Scott's (1995) normative and cognitive pillars.

Organizations can be exposed to multiple institutional pressures, especially when affiliated with business networks that span multiple countries with heterogeneous institutional environments (Marano & Kostova, 2015; Muller, 2006). Institutional theorists argue that isomorphic pressures can be channeled and filtered indirectly through networks and affect member firms' strategy and performance (e.g., Kostova & Roth, 2002; Owen-Smith & Powell, 2008). As such, networks serve as conduits of institutional effects because they diffuse appropriate practices and ideas (e.g., Davis & Greve, 1997; DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Owen-Smith & Powell, 2008). Consequently, organizations affiliated to networks are not only influenced by institutional forces stemming from their local country environment but are also subject to isomorphic pressures internal to their networks (Kostova & Roth, 2002). Although networks and institutions are intertwined and operate in interaction (Carruthers & Uzzi, 2000), empirical testing to explain the underlying mechanisms of possible interaction effects remains largely absent (Dacin, Beal, & Ventresca, 1999; Owen-Smith & Powell, 2008). In *Chapter 3*, we aim to extend this stream of literature to understand how relational quality of network governance—contractual vs. relational—affects the diffusion of CSR norms in global supply chains. Since we focus on CSR practices in particular, we highlight the importance of informal institutions, because suppliers may be more receptive to follow a logic of appropriateness and moral obligation rather than instrumentality and legal sanctions.

1.3. Organizational Response Strategies: Organizations as Active Agents

Over the past three decades, NOI has repeatedly been criticized for giving primacy to structure, while rejecting the role of active agency (e.g., Dacin, Goodstein, & Scott 2002; DiMaggio, 1988; Granovetter, 1985; Oliver, 1991; Salancik, 1995). Oliver (1991) was the first to discuss the role of agency within institutional theory, arguing that organizations have room for strategic maneuvers that go beyond existing institutions. She argues that *"institutional theory can accommodate interest-seeking, active organizational behavior when organizations' responses to institutional pressures and expectations are not assumed to be invariably passive and conforming across all institutional conditions"* (Oliver, 1991: 146). As such, Oliver (1991) suggests five types of strategic responses to institutions, ranging from conformity or acquiescence, compromise, avoidance, deviance to manipulation. At the most passive end of the continuum, firms consciously comply with institutional pressures by implementing new practices and adapting structure to match institutional expectations (DiMaggio & Powell, 1983). At the other end of the continuum, firms reject practice implementation and attempt to take control over external pressures (Kraatz & Block, 2008). Between these two sets of responses, increasing attention has been paid to firms that decouple, or symbolically implement, policies from actual practices both to maintain legitimacy and to preserve their efficiency (Boxenbaum & Jonsson, 2017; Jamali, 2010; Meyer & Rowan, 1977; Scott, 2008). Overall, Oliver (1991) argues that the choice of strategic response to institutional pressures depends on both resource availability and motivation of the firm.

Decoupling, or symbolic implementation, is defined as being carried out by organizations that *"abide only superficially by institutional pressure and adopt new structures without necessarily implementing the related practices"* (Boxenbaum & Jonsson, 2017: 64). In order to be considered legitimate, organizations can decouple their formal policies from actual practices when institutional pressures or expectations conflict with their internal efficiency rationales (Meyer & Rowan, 1977). Decoupling has commonly been explained by examining either the organization's external environment or the internal organization. Many studies have addressed factors that are exogenous to the firm, such as divergent stakeholder expectations (Meyer & Rowan, 1977), or the difficulty for stakeholders to monitor internal practices (Christmann & Taylor, 2006; Egels-Zanden, 2007; Jamali, 2010; Short & Toffel, 2010). Other investigations have stressed the interests and motivation of managers inside the firm that can diverge from external stakeholder requests (e.g., Kennedy & Fiss, 2009; Westphal & Zajac, 1994, 2001). However, since decoupling is a mismatch between external pressures and a firm's internal forces, any explanation that focuses on external or internal factors alone will be incomplete (Crilly, Zollo, & Hansen, 2012). In this PhD thesis, we aim to expand this stream of research by investigating how the interplay between a supplier's external stakeholder pressures and its internal factors influence its strategic response to CSR pressures. As such, in *Chapter 4*, we aim to understand how the interplay between a buyer's CSR request and the supplier's CSR motivation affect a supplier's CSR implementation strategy. Moreover, we propose alternative response strategies to decoupling behaviors, which are contingent on the suppliers' resource availability and capabilities. As such, we argue that suppliers may selectively implement CSR practices if they are inherently motivated to implement CSR practices, but do not receive resources and support from buying firms.

1.4. Contributions and Theoretical Implications

This PhD thesis offers several contributions to the wider debate on governance and institutions in international business. First, we add to NIE and institutional theory by empirically highlighting boundary conditions of network governance for firm-level outcomes. Our findings concur with NIE predictions that the effectiveness of governance modes depends on the formal institutional quality that characterize the environment in which the member firms are located (Williamson, 1991). Adding to the scarce empirical testing on the impact of formal institutions on the choice of governance modes (Henisz, 2000; Henisz & Williamson, 2002; Oxley, 1999), we empirically show that forms of network governance can offset market failure and the lack of institutional infrastructure by providing firms with (financial) resources, knowledge, and capacities which are not readily available in institutional settings characterized by weak formal institutions. More specifically, in *Chapter 2*, our findings show that market advantages from BG membership can be translated to foreign subsidiaries located in formally weak institutional countries to reduce transaction costs in the market. Moreover, in *Chapter 3*, we illustrate that relational governance can enhance the level of social compliance[7] of suppliers located in countries characterized by weak CSR laws and regulations. Thus, in both chapters it becomes clear that networks can substitute formally weak institutions by providing member firms with means to reduce transaction costs.

However, what is also evident from *Chapter 3* is that relational governance has no effect on social compliance in informally unfavorable countries, while it positively influences social compliance in informally favorable countries. Thus, when considering both formal and informal institutions, our results suggest that relational governance can provide resources and capacity for social compliance when these are lacking in the institutional environments, but relational governance fails to transmit a logic of appropriateness on suppliers firms. In other words, relational governance cannot *'push'* institutional norms if suppliers are neither motivated to comply with CSR requests nor willingly accept the buyer's support. At the same time, suppliers located in environments characterized by favorable informal institutions are willing and capable of

[7] Throughout this thesis, we use social compliance and social compliance performance interchangeably.

learning from the buyers which essentially increases their social compliance performance. These findings also add to the debate on networks in institutional theory by demonstrating how network governance affects the transfer of institutional norms within supplier networks. Although institutional theorists posit that networks act as conduits for the diffusion of appropriate practices such as those related to CSR (e.g., Owen-Smith & Powell, 2008), the underlying mechanisms of such practice transfer are still unclear. Thus, we show that networks can channel and instill institutional norms when suppliers are located in informally favorable environments. This is particularly so in the realm of CSR practices since organizations often follow a logic of appropriateness and moral obligations rather than instrumentality and legal sanctions.

Second, we also advance institutional theory, and more specifically the decoupling and organizational response strategy literature. As active agents, organizations can decouple policies from actual practices if firm-internal routines and organizational goals do not match external stakeholder requests (Oliver, 1991). While we concur with institutional theory predictions that the misalignment between external environment and internal forces results in decoupling behavior, our results suggests that the alignment between the two does not necessarily lead to substantive implementation. If firms do not have the necessary resources and capabilities to implement the requested practices, they can at best comply selectively with global standards. Although these findings seem to be in contrast with institutional theory, they can be explained by the complex and heterogeneous nature of modern standards. Previous literature has typically considered a firm's strategic responses to relatively straight forward standards, e.g., stock repurchase plans (Westphal & Zajac, 1994), or TQM standards (Christmann & Taylor, 2006; King, Lenox, & Terlaak, 2005), which commonly consider a low quality of practice implementation as indicative of symbolic implementation. We, however, introduce organizational responses to more complex standards, e.g., CSR standards, which encompass a variety of heterogonous practices (ranging, for example, from more technical—commonly easier to implement—practices like CSR documentation or reporting to freedom of association). This allows firms to *'cherry pick'* the implementation of some practices, while decoupling or rejecting others (Heese, Krishnan, & Moers, 2016; Jamali, Lund-Thomsen, & Khara, 2015; Pache & Santos, 2013; Wickert, Vaccaro, & Cornelissen, 2015).

1.5. Managerial Implications

The research findings of this PhD thesis provide a series of managerial implications. First, the findings could help managers to understand when to tap into existing network resources and when to look elsewhere in the market to develop firm resources and capabilities. With respect to *Chapter 2*, managers of emerging market multinationals should develop new strategies for their foreign subsidiaries as the institutional context evolves, since the benefits of being affiliated with the group may diminish. For example, foreign subsidiaries affiliated to BGs could partner up with multinationals from more advanced countries to develop and expand their competitive position in these markets (Lu & Ma, 2008). In contrast, there is a growing need for managers of advanced country multinationals, too, to assess emerging market multinationals as potential competitors in the international market (Luo & Tung, 2007). Since our results imply that emerging market multinationals affiliated to BGs are likely to pose a competitive threat for them, especially if their foreign subsidiaries are located in institutionally weak countries, it could also be beneficial for multinationals in more advanced countries to partner up with BG affiliates.

Second, with respect to *Chapter 3*, our results suggest that managers of Western MNEs should consider global suppliers' underlying institutions in their purchasing decisions and governance modes. When institutions are relatively underdeveloped and *'unfavorable'* to CSR, then buyer-supplier collaboration can increase a supplier's capacities and resources for social compliance, but it cannot enhance a supplier's internal commitment for social sustainability. This may raise questions as to whether or not a supplier's social compliance performance is substantive (Meyer & Rowan, 1977). One way to alter norms, values, and beliefs towards CSR, which could ultimately enhance the commitment and substantive implementation of social sustainability practices, is for MNEs to exert *'institutional entrepreneurship'* (Battilana, Leca, & Boxenbaum, 2009) and engage with local non-governmental stakeholders such as NGOs (Jamali, Yianni, & Abdallah, 2011).

Third, as per *Chapter 4*'s findings, managers of Western MNEs should be aware that global suppliers could potentially engage in strategic CSR implementation which may risk damaging MNE reputation (Van Tulder, Van Wijk, & Kolk, 2009). Thus, it is important for managers to understand the underlying conditions and consequences of such deviations to the originally requested CSR practices. To avoid symbolic CSR implementation, buyers could highlight both ethical and economic advantages of implementing CSR, explaining why suppliers should accept and invest in CSR activities. If suppliers are not inherently motivated to comply with CSR requests, then CSR implementation is most likely not substantive. At the same time, MNEs should also recognize that a supplier's strategic CSR implementation is not always a deliberate choice and may occur as a result of a lack of resources and capabilities for compliance. Thus, it is indispensable for Western MNEs to provide practical support in a supplier's compliance process.

1.6. Limitations and Suggestions for Future Research

This PhD thesis is subject to several limitations that point to opportunities for future research. First, our findings in *Chapter 2* suggest that BG affiliation can be beneficial for foreign subsidiaries, because BGs can reduce transaction costs by acting as substitutes for market failure and weak supporting institutions in emerging countries (Khanna & Palepu, 1997). What is still unclear, however, are the actual mechanisms that allow local emerging market multinationals to transfer practices to other (similarly) institutionally weak countries. Although we conceptually distinguish between market and non-market advantages of BG firms, due to data unavailability we could not directly measure both constructs. For example, how do non-market practices such as inter-firm relations or political ties transfer to other countries? If foreign subsidiaries affiliated to BGs are more profitable because they can delve into *'deeper pockets'* of BGs, then how do they compete against multinationals from more advanced companies? What are the actual mechanisms of non-market advantages that distinguish BGs from multinationals? Future research can specifically develop these measures to capture more nuanced differences between BGs by employing other techniques such as content analysis and survey questionnaire (e.g., Chen & Jaw, 2014; Chittoor & Aulakh, 2015).

Second, for *Chapter 3* and *Chapter 4*, we collected primary survey data from global suppliers located in both developed and emerging countries. We pilot-tested the survey among suppliers located in multiple countries to determine whether the respondents correctly understood and interpreted the survey questions, and subsequently translated all surveys in the local language by native speakers (Hult, Ketchen, Griffith, & Tamer Cavusgil, 2008). Although we carried out ex ante (e.g., complex measurement models, use factor-based items and formative scales, disorder of the questions) and ex post procedures (e.g., various statistical tests) to control for common method variance, we could not obtain sufficient information on dependent and independent variables from different sources, or collect data at different points in time (Podsakoff, Mackenzie, Lee & Podsakoff, 2003). Moreover, since there is no consensus concerning the operationalization of the CSR concept (Dahlsrud, 2008), we relied on practitioner insights to develop a measure for the dependent variables. Based on suggestions from Western MNEs and global suppliers, we constructed the dependent variable—the level of social compliance (*Chapter 3*) and the breath of CSR implementation (*Chapter 4*) —as a summative index of key performance indicators. Although we validated the social performance indicators with academic literature, we could not find a concrete definition which supports our underlying assumption that the items make such a sum relevant. Since the operationalization of the dependent variable is new and explorative in nature, future research may validate our results with subjective measures to assess social performance. For example, future studies could collect data from management and employees to understand the actual work routines and practices on the factory floor.

Third, in contrast to most empirical studies which collect data from large MNEs only (e.g., Hajmohammad & Vachon, 2017; Marano & Kostova, 2015), we used survey methodology to collect data at the supplier level. Although supplier level data helped us to understand whether and why global supplier firms comply with social sustainability practices, future research should collect dyadic data from both MNEs and suppliers. MNEs may have different rationales for outsourcing their production, and transferring social sustainability practices to their global supply chain partners (e.g., Tong, Lai, Zhu, Zhau, Chen, & Cheng, 2018). Although we tried to reduce such variation among MNEs by only selecting factories which supply to MNEs located in Western Europe or North America, we acknowledge that the social sustainability agenda of some MNEs may be different from others, which potentially influences supplier compliance performance.

Fourth, we limit *Chapter 3* and *Chapter 4* to the implementation of CSR practices in global supply chains, although we believe that our findings can be extended to other semi-institutionalized practices (Tolbert & Zucker, 1996). When organizational practices have gained some normative acceptance, whilst not being fully institutionalized yet, we could expect a variety in the implementation response (Abrahamson & Fairchild, 1999). Examples of semi-institutional practices in less developed countries are human resources management, lean manufacturing, or TQM (e.g., Kostova & Roth, 2002).

Fifth, the focus on footwear and apparel suppliers is purposefully chosen (due to recent scandals and sustainability misconduct), and allows us to control for inter-industry differences. However, it also prevents us from testing whether the predictions would hold in other industries. Future research may replicate this study to examine the robustness of the findings across other industries with similar peculiarities; that is, with strong global pressures for CSR, vertical integration in global supply chains and narrow profit margins and low skill manufacturing. Examples might be found in electronics or toys (e.g., Egels-Zanden, 2007; Jiang, 2009). Although we believe that the results could well extend to other similar industries, caution should be exercised when generalizing our findings to all industries.

Sixth, with respect to *Chapter 4* in particular, we recommend future research to further unpack the underlying mechanisms of a supplier's CSR implementation responses. The antecedents for selective and substantive implementers are rather straight forward. However, future research should particularly investigate the difference between deficient and symbolic implementation. While our results suggest that symbolic implementers are slightly more motivated than deficient implementers, we are paused with the nature of such motivation. Are suppliers motivated to signal good faith by implementing a wide breadth of CSR practices to ensure MNE loyalty, while at the same time trying to avoid the actual costs of CSR implementation? Or is it merely a capability problem, which emerging suppliers face, since they do not understand the merits of a high depth of CSR implementation?

1.7. Outline of the PhD Thesis

The structure of this PhD dissertation is as follows: *Chapter 2* introduces the role of BGs as prominent governance form in emerging markets. BGs consist of legally independent firms interlinked by multiple market and relational ties that exhibit widely diversified and unrelated product portfolios (Leff, 1978). According to NIE, BGs emerge as an organizational solution for problems arising from market inefficiencies and an inadequate institutional setting (e.g., Khanna & Palepu, 1997; Kim et al., 2004). BGs are created in emerging economies to reduce the high transaction costs in markets for capital (Belenzon & Berkovitz, 2010; Buchuk, Larrain, Muñoz, & Urzúa, 2014; Jia, Shi, & Wang, 2013), intermediate products (Estrin, Pouliakova, & Shapiro, 2009; Kester, 1992), and labor (Khanna & Palepu, 1997). In addition to such market advantages, member firms also benefit from BGs' non-market advantages, which include political lobbies (Khanna & Rivkin, 2001), social ties (Khanna & Yafeh, 2007; Tan & Meyer, 2010), and ethnic and cultural ties (Filatotchev, Strange, Piesse, & Lien, 2007). Although we know that BG membership is highly effective in an institutionally underdeveloped home market where member firms originate (Chang & Hong, 2000; Guillén, 2002; Hoskisson, Cannella Jr., Tihanyi, & Faraci, 2004; Luo & Chung, 2005; Manikandan & Ramachandran, 2015), it is unclear whether the home-grown advantages of BG affiliation can be transferred abroad to the foreign subsidiary and influence its performance. Also, if BG advantages are transferable across national boundaries, what are the limiting factors?

Given the prominence of BGs in India and the recent surge in outward FDI by Indian firms, India provides a suitable setting for answering our research questions. We used multiple sources to collect data on subsidiary-, firm- and BG-level, covering the sample period 2003 to 2012: first, we used the ORBIS database (Bureau van Dijk) to identify all foreign subsidiaries wholly owned by Indian multinationals. Next, we coupled the subsidiary-level data of ORBIS with the Prowess database, as published by the Centre for Monitoring Indian Economy. Through the Prowess database we collected both the parent firm-specific data as well as the BG-level data. Finally, we used the World Bank to collect country-level data (e.g., formal institutions). The final sample includes 541 foreign subsidiaries of 170 Indian multinationals (of which 106 are BG affiliated) active in 44 host countries. The sample comprises 2696 subsidiary-year observations.

Using fixed-effect regression models, we find a positive relationship between BG affiliation and foreign subsidiary financial performance, which is contingent upon the host market formal institutional qualities and the nature of economic activities of foreign subsidiaries. Our results highlight the boundary conditions for a specific governance form, namely BG membership, to generate benefits for multinational activity. These findings conform to NIE predictions that the effectiveness of governance arrangements depends on the quality of the underlying formal institutions, and contribute to the scarce empirical testing on the interplay between governance modes and formal institutions (e.g., Henisz, 2000; Oxley, 1999). Since NIE has only explored the shift from market/network to more hierarchical arrangements with decreasing institutional quality (e.g., Henisz, 2000; Oxley, 1999), our findings extend previous studies by showing that network arrangements can reduce transaction costs in countries characterized by formal institutional voids, if network relations are based on trust and other relational norms. This relates back to the importance of non-market capabilities in networks, or as Granovetter's (1985) would call it, the relational embeddedness within networks.

Both *Chapter 3* and *Chapter 4* concern CSR practice transfer in vertical global supply chain networks. In response to recent scandals and sustainability misconduct in global supply chains, MNEs, as buying firms, are increasingly called on to be more accountable for the sustainability practices of their global supplier operations (Kim & Davis, 2017). Most commonly, MNEs coerce compliance of global suppliers with third-party sustainability standards and supplier codes of conducts (King, Lenox, & Terlaak, 2005) that are monitored and assessed through audits (Christmann & Taylor, 2006). The sole reliance on audits has been questioned, however, and the Rana Plaza disaster revealed that a lot of the involved suppliers were previously audited positively by their Western customers (Clean Clothes Campaign, 2013). Hence, we aim to investigate the efficacy of alternative governance mechanisms beyond auditing (i.e., relational governance and sustainability governance) to ensure that social compliance is ensured throughout the global supply chain.

In *Chapter 3*, we investigate how buyers can govern social compliance in their global supply chains, given that global suppliers are embedded in multiple institutional environments with diverging expectations of sustainable conduct (Busse, Kach, & Bode, 2016). We argue that relational governance, i.e., buyer-supplier collaboration, stimulates social compliance performance of global suppliers, but its efficacy is dependent on the supplier country's institutional context. We broadly distinguish between formal institutions as governmental laws and state regulations which exert coercive pressures on supplier firms to adopt institutionally prescribed structures and practices, and informal institutions as societal values and cultural expectations which exert normative and mimetic pressures on the organization to comply with sustainability practices (North, 1991; Scott, 2008). Especially when suppliers are embedded in *'favorable'* informal institutions with respect to social sustainability practices which expose them to a logic of appropriateness and moral obligation, relational governance will be most effective for social compliance.

We test our hypotheses in the context of a single industry, namely the apparel and footwear sector. Apparel and footwear represents an ideal research context for this study, because MNEs began to consider suppliers' environmental and social conduct in their purchasing decisions as a response to recent scandals (e.g., Rana Plaza). We collected data from multiple sources for this research: first, we gathered qualitative data from 15 Western European retailers affiliated with the Business Social Compliance Initiative (BSCI), and three NGOs. Based on the experience and feedback gained from these interviews, we designed a survey which was administered among respondents at various plants located in Asia Pacific, Latin America, and Europe to acquire cross-country data on social sustainability compliance. For the purpose of this research, we only included apparel and footwear manufacturing plants that export at least parts of their production to North America or Western Europe in our sample. This is because the origins of labor rights and improved working conditions are associated with mounting pressures from North American and Western European MNEs (Jayasinghe, 2016). The final sample consists of 381 usable supplier-level survey responses, which were pooled across 11 countries from Asia Pacific, Latin America, and Europe. The sample includes suppliers located in important apparel and footwear sourcing countries such as Bangladesh, Brazil, China, India, Indonesia, Malaysia, Pakistan, Portugal, Romania, Turkey, and Vietnam. Second, following Kostova and Roth (2002), we administered a survey amongst 88 officers and researchers of local institutions to assess the favorability of informal institutions related to social sustainability in the home country of the suppliers. Third, we used the policy drivers of the Responsible Competitiveness Index (RCI) to assess the favorability of the formal institutions related to social sustainability in the supplier country (Zadek & McGillivray, 2007). We provide a detailed description on the practitioner interviews, survey design, and data collection in *Chapter 5* of this PhD thesis.

As predicted, our findings show that the effect of relational governance on a supplier's social compliance performance is context-specific and does not suffice as a one-size-fits-it-all solution to all suppliers in an MNE's global production network. In particular, buyers should focus their collaborative activities to support the supplier's compliance process in institutional settings, which provide a favorable (normative and cultural-cognitive) climate, in which suppliers are willing and capable to absorb a buyer's knowledge for increased social compliance, but exert weak legal coercion in this regard. These findings contribute to institutional theory, and more specifically to the embeddedness literature, which highlights the role of networks as conduits for practice diffusion (Owen-Smith & Powell, 2008).

Building on *Chapter 3*, *Chapter 4* posits that the nature of modern CSR standards—vague guidelines combined with complex and heterogeneous sustainability requests—invites opportunities for suppliers to deviate from originally requested CSR practices by strategically responding to CSR pressures (Jamali, 2010; Oliver, 1991; Yin & Jamali, 2016). This may constitute a challenge for MNEs, since suppliers may not fully commit to CSR implementation, and thus risk damaging MNE reputation (Van Tulder, Van Wijk, & Kolk, 2009). By combining insights from institutional theory and the resource-based view, we develop an integrative framework which includes the breadth—the aggregated count of CSR practices implemented in the supplier firm—and the depth—the integration of CSR practices in daily routines and activities—of CSR implementation. Breadth and depth of CSR implementation together describe the highest quality of CSR implementation in a firm. These two dimensions result in a new typology with four CSR implementation strategies: (1) deficient, (2) symbolic, (3) selective, and (4) substantive. We theorize that each of these CSR implementation strategies is determined by a unique combination of governance arrangements within the supply chain (i.e., sustainability governance, which is the active support of MNEs in the supplier's compliance process) (Jiang, 2009; Locke, Qin, & Brause, 2007; Simpson, Power, & Klassen, 2012) and supplier-internal factors (i.e., motivation) (Muller & Kolk, 2010; Weaver, Trevino, & Cochran, 1999). Thus, we acknowledge the importance of both network embeddedness and active agency in institutional theory.

The research context, sampling procedure, and data collection in this chapter is similar to *Chapter 3* (see *Chapter 5* for a more detailed description on the practitioner interviews, survey design, and data collection procedure). The final sample consists of 437 usable supplier-level survey responses, which were pooled across 21 countries from South Asia (22 %), East Asia (49 %), Latin America (5 %), Eastern Europe (13 %) and Western Europe (11 %).

As predicted by institutional theory, our results show that misalignment between external CSR requests and a supplier's motivation leads to symbolic implementation (i.e., decoupling of policies from practices). However, contrary to institutional theory predictions, we find that alignment between external stakeholder requests and internal organizational goals does not necessary lead to the highest quality of CSR implementation (i.e., substantive implementation). In fact, non-compliance is not always purposeful and due to a lack of motivation but could also occur due to missing resources or capabilities (i.e., selective implementation). Thus, while the alignment between external and internal factors is necessary to avoid symbolic CSR implementation, it is insufficient to guarantee substantive CSR implementation. At the same time, MNE support does not lead to substantive implementation, if suppliers are not inherently motivated to integrate CSR in their daily routines. Thus, both MNE support and supplier motivation are important antecedents for substantive implementation.

Figure 1.1 provides a visual illustration of the research framework applied in this PhD thesis.

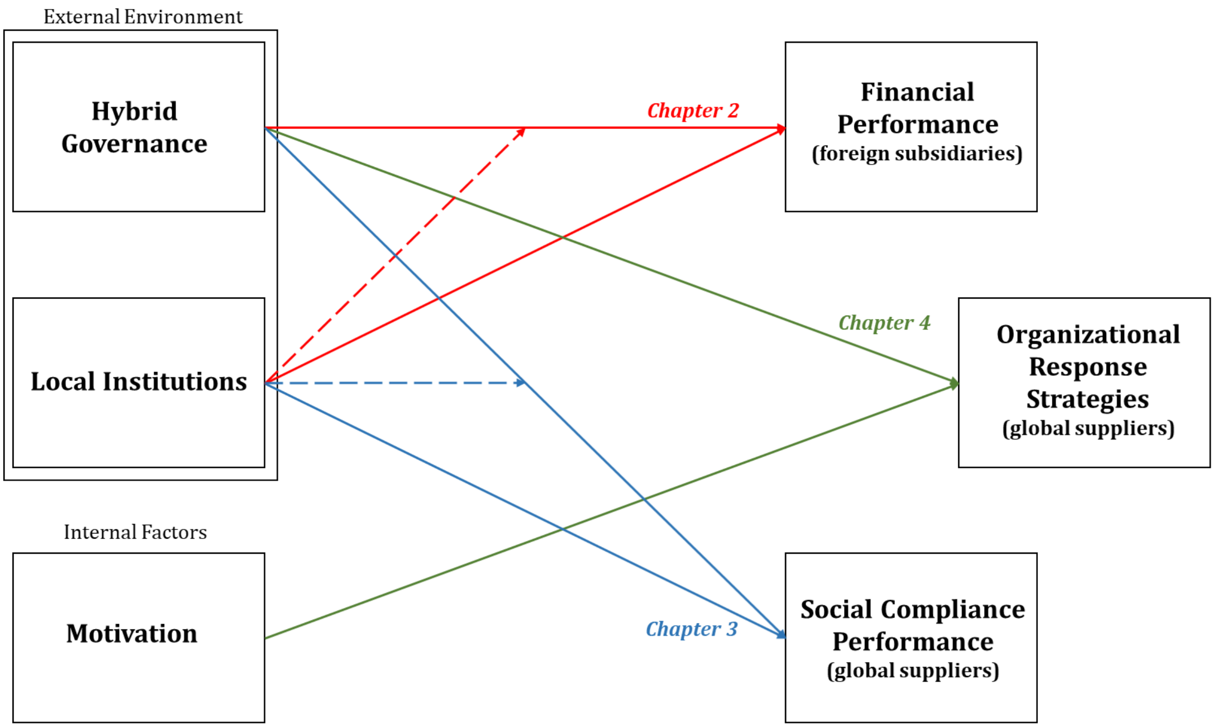

Figure 1.1. Research Framework of this PhD thesis