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Essays on global business networks, governance, and institutions

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Chapter 6: Summary

6.1. General Overview

In today's globalized marketplace, multinational enterprises (MNEs) are challenged to coordinate activities and diffuse (best) practices in their increasingly fragmented and geographically dispersed business networks. This holds particularly true for global business networks which span both advanced and emerging countries. In emerging markets, MNEs often find themselves navigating formal institutional voids which impede resource availability and capability building of their business partners. In addition, MNEs are exposed to different—often conflicting logics—(informal institutions) of their business partners, which aggravate the coordination challenge in such inter-organizational arrangements. Thus, in order to determine the optimal choice of governance structure in global business networks, it is important for MNEs to factor in local institutional conditions of affiliated network members.

In this PhD thesis, we aim to understand how local institutions influence the efficacy of network governance in global business networks. While previous studies have investigated how governance choice influences the effectiveness and performance of business networks (e.g., Chang, Chung, & Mahmood, 2006; Jiang, 2009), the institutional embeddedness of modern business networks have largely been ignored (Owen-Smith & Powell, 2008). We contribute to these studies by showing that both formal and informal institutions in network members' home countries influence the effectiveness of network governance. That is, only under specific local institutional conditions can advantages of network governance be extracted for member firms, or (best) practices successfully diffused between partners. Advantages of network governance can be multi-faceted, ranging from resource and capacity support to solidarity and trust between network partners, and are commonly performance-enhancing for member firms.

While network governance plays an essential role for successful practice diffusion between partner firms, we demonstrate that it does not suffice to assure full (i.e., substantive) practice implementation. Without considering firm-internal variables such as motivation and willingness to comply with externally requested practices, member firms may respond strategically by decoupling formal structure from actual routines to buffer internal from external uncertainties (i.e., symbolic implementation). This holds especially true for highly opaque practices like CSR standards, which are difficult to externally observe and monitor (Wijen, 2014). Thus, while external factors such as

institutional pressures and network governance are necessary, they are not sufficient to ensure substantive practice implementation. We develop a typology of practice implementation strategies, which goes beyond the ones identified in previous literature on network organizations (e.g., Christmann & Taylor, 2006; Jamali, Lund-Thomsen, & Khara, 2015), and empirically show that substantive practice implementation requires both network governance and internal motivation of member firms.

This PhD thesis uses both primary and secondary data from a variety of sources, and includes three empirical studies using different research settings. In the first study (*Chapter 2*) we focus on diversified business group (BG) networks, which are known to provide market (e.g., Estrin, Pouliakova, & Shapiro, 2009; Khanna & Palepu, 1997) and non-market advantages (Filatotchev, Strange, Piesse, & Lien, 2007; Khanna & Rivkin, 2001) for member in the home market. It remains unclear, however, whether such BG advantages translate across borders to affiliated foreign subsidiaries. We collected secondary data from multiple sources on subsidiary-, MNE-, and BG-level. We focus on Indian multinationals, because of India's recent spur in outward foreign direct investments (FDI) and its prominence for BGs. The focus of the second (*Chapter 3*) and third study (*Chapter 4*) lies on CSR practice diffusion and implementation in apparel/footwear supply chains. Due to recent scandals and CSR misconduct in local factories, apparel/footwear supply chains provide an ideal research setting to study CSR implementation. CSR practices are semi-institutionalized (Tolbert & Zucker, 1996), and although having gained some sort of normative acceptance in some countries, overall we can still observe sufficient heterogeneity among CSR implementation rates of apparel/footwear firms. To conduct both studies, we collected primary survey data at apparel/footwear factories located in both developed and emerging countries, and supply at least parts of their production to Western Europe or North America. This is because the origins of CSR practices are associated with mounting pressures from Western Europe or North America (Jayasinghe, 2016).

6.2. Empirical Studies

Three studies empirically investigate how external factors, i.e., local institutions and governance relationships, and internal aspects, i.e., firm-internal motivation, affect firm-level outcomes such as performance and strategic behavior. In the first study (*Chapter 2*) we aim to understand whether BG advantages—both market and non-market—can be

translated across national borders. BG networks serve as an organizational response to weak formal institutions (Khanna & Palepu, 2000), and thus feature in many emerging countries. Previous studies have shown that member firms benefit from both market and non-market advantages of BGs, which generally enhance member firms' financial performance at home (e.g., Luo & Chung, 2005; Manikandan & Ramachandran, 2015). What is unclear, however, is whether and how such advantages can be translated abroad to the foreign subsidiary and affect its performance. This is interesting since emerging market BGs contribute to a significant amount of outward FDI (Yiu, 2010). To test our hypotheses, we focused only on Indian MNEs—some of which are affiliated to BGs, and others not—and collected data on subsidiary-, firm-, and BG-level. We empirically show that affiliation to BG networks is only beneficial for foreign subsidiaries, if these are located in countries with weak formal institutions or active in the manufacturing sectors vs. the service sector. Our results highlight the boundary conditions of BG membership for member firms' multinational activity.

The second study of this PhD thesis (*Chapter 3*) investigates CSR practice diffusion in vertical supply chains. More specifically, we aim to understand whether and how relational governance, or buyer-supplier collaboration, influences a global supplier's social compliance performance. Close buyer-supplier collaboration generally enhances supplier compliance with CSR standards (e.g., Gimenez & Tachizawa, 2012; Jiang, 2009); however, it is unclear, whether it is equally beneficial for all suppliers in the supply chain. Suppliers are exposed to different—formal and informal—institutional pressures and CSR logics in their home countries, which may aggravate the coordination challenges for buyers. Given that collaboration is time-consuming and costly for buyers, especially when provided to a large number of global suppliers, it is important to filter out those suppliers that can benefit most from buyers' collaborative support in the compliance process. To test the hypothesized relationships, we collected primary survey data from global apparel/footwear suppliers in multiple countries. We empirically demonstrate that buyer-supplier collaboration can enhance a supplier's social compliance performance in countries where state capacity for CSR is lacking (formal institutions), but it cannot instill CSR norms in supplier firms that are embedded in an informally unfavorable institutional environment for CSR. Our results show that relational governance is context-specific, and does not suffice as a one-size-fits-it-all strategy for all suppliers.

In the third study (*Chapter 4*) we explore how external factors, i.e., buyer support, and internal factors, i.e., supplier motivation, determine a supplier's strategic response to CSR pressures. When confronted with externally requested CSR standards, suppliers may decouple (i.e., symbolically implement) formal CSR policies from actual CSR practices in daily routines to signal conformity with stakeholder requests, and, at the same time, buffer internal organizational routines (Jamali, 2010; Meyer & Rowan, 1977). Such strategic CSR implementation puts the buying firm at risk, because it is commonly held accountable for any CSR misconduct happening in its supply chain (Humphrey & Schmitz, 2001). Since full (i.e., substantive) CSR implementation of global suppliers is difficult to externally monitor or observe, it is important to consider supplier-internal variables such as the supplier's willingness and motivation for compliance, to assess the quality of CSR implementation. Moreover, even if suppliers are inherently motivated to fully implement CSR standards, it does not necessarily mean that they are also capable of doing so (e.g., Jiang, 2009; Simpson, Power, & Klassen). We develop a new typology of CSR implementation strategies, arguing that both buyer support and supplier motivation are necessary to ensure a supplier's substantive CSR implementation. We find general support for our hypotheses in a sample of 437 global apparel/footwear suppliers. These findings suggest that both external and firm-internal factors are necessary to assess a firm's CSR implementation strategy.

6.3. Conclusion

This PhD thesis provides new insights on governance choices and relationships in global business networks. Our findings demonstrate that local institutions have to be factored in the governance choice for two reasons: one, network governance can substitute formally weak institutions by providing member firms with means to decrease transaction costs (e.g., resource allocation, capacity building). Second, network governance can stimulate the diffusion of organizational practices when member firms are exposed to favorable institutional norms and values. We also show that practice implementation strategies of network partners may vary, depending on the governance relationship and the internal motivation for practice implementation. Thus, while governance is important to provide partners with the ability and capacity to implement the requested practices, it does not suffice for the integration of practices in daily routines: without considering member firm-internal factors, i.e., the willingness and

motivation to implement the practice, implementation may merely be symbolic. Hence, both governance and supplier motivation are necessary to ensure substantive implementation in global business networks. Although these results have implications for both academics and practitioners, we hope that the insights yielded in this PhD dissertation provide interesting avenues for future research on global business networks, and especially on how institutions, governance and active agency in such inter-organizational arrangement shape organizational strategic responses and firm performance.