Management and Governance of Networks: An Introduction

George W.J. Hendrikse, Gérard Cliquet, Thomas Ehrmann, and Josef Windsperger

Abstract There are many types of interfirm networks, like cooperatives, franchise and retail chains, joint ventures, strategic alliances, and financial networks. This raises the issue of the relative efficiency of management and governance of a network. The current book addresses theoretical and empirical perspectives on the management and governance of franchising networks, cooperatives, and strategic alliances.

There are many types of interfirm networks, like cooperatives, franchise and retail chains, joint ventures, strategic alliances, and financial networks (Gulati 2007; Baker et al. 2008; Provan and Kenis 2008; Zaheer et al. 2010; Goyal 2015; Windsperger et al. 2015). This raises the issue of the relative efficiency of management and governance of a network. The current book addresses theoretical and empirical perspectives on the management and governance of franchising networks, cooperatives, and strategic alliances by focusing on the following issues:

1. Strategic groups in the franchising sector, control and performance of franchise chains, franchising strategies for Indigenous entrepreneurship, social entrepreneurship and franchising, and franchising in the education sector
2. Strategic and governance issues on food cooperatives, analysis of ownership and investment complementarities in farmer cooperatives, development of a novel

G.W.J. Hendrikse
Rotterdam School of Management, Erasmus University Rotterdam, Office T08-56, PO Box 1738, 3000 Rotterdam, The Netherlands

G. Cliquet
Institute of Management of Rennes (IAE), Université de Rennes 1, 11, rue Jean Macé, CS 70803, 35708 Rennes, France

T. Ehrmann
Institute for Strategic Management, University of Muenster, Leonardo-Campus 18, 48149 Muenster, Germany

J. Windsperger (✉)
Department of Business Administration, University of Vienna, Oskar-Morgenstern-Platz 1, 1090 Vienna, Austria
e-mail: josef.windsperger@univie.ac.at

G.W.J. Hendrikse et al. (eds.), *Management and Governance of Networks*,
Contributions to Management Science, DOI 10.1007/978-3-319-57276-5_1

typology of US farmer cooperatives, innovations in cooperatively organized breeding, uniformity in collective entrepreneurship in food retail cooperatives, and characteristics and empirical findings of cooperatives in China and Kyrgyzstan
3. Development of dynamic capability model of alliance portfolio management, analysis of the antecedents of relationship phase affect in alliances, and the role of hybrids in the safety management in the fresh produce sector

The first version of these papers was initially presented at the seventh international conference on Economics and Management of Networks (*EMNet*) that took place at the Faculty of Economic and Management Sciences (EMS) at the University of the Western Cape from December 3–5, 2015, Cape Town, South Africa.

The book is structured in three parts:

Franchising
Cooperatives
Strategic Alliances

1 Franchising

Bouzid, *Chaudey*, *Fadairo*, and *Perdreau* analyze the French franchising sector, based on the strategic group approach (Combs et al. 2004). The authors use a 4-year panel dataset from the French Federation of Franchising, for the period 2010–2013, and apply sophisticated statistical and supervised learning models. The authors conduct a multidimensional statistical analysis (Principal Components Analysis and Ascending Hierarchical Clustering), highlighting three factorial axes and five clusters. Five main strategic groups of franchisors are distinguished in the French system, characterized by specific strategies and performance outcomes.

Hajdini, *Klapper*, *Rommer*, and *Windsperger* examine the determinants of franchisor performance by focusing on the moderating role of control as transaction cost savings and value-creating mechanism. In line with the resource-based view (Barney 1991), they argue that intangible resources of the franchisor (brand name) and the intangible resources of the franchisees (local market knowledge, human resource management, quality control, and administrative capabilities) will positively impact franchisor performance. Based on the transaction cost view (Williamson 1991), they show that environmental uncertainty is negatively related to franchisor performance. Although the resource-based view and transaction cost economics have been extensively used in previous literature, no study examined the moderating role of control on the impact of resource-based and transaction cost variables on franchisor performance. The authors use cross-sectional data from the franchise sector in Germany to empirically test the hypotheses.

Di Lernia and *Terry* analyze the franchising strategies for Indigenous entrepreneurship in Australia. Australia's Indigenous population faces disparities which tarnish Australia's image as "the lucky country," a life expectancy markedly less than non-Indigenous Australians, lower education standards, poorer health, and greater unemployment, and the list goes on. Having developed a culture which enabled first Australians to survive and, indeed thrive, for over 60,000 years in all areas of Australia's massive landmass and challenging climate and conditions, Australia's original inhabitants have faced their greatest challenge in the form of European invasion and settlement just over 200 years ago. Successive Australian governments have made relatively little progress in dealing effectively with the challenges faced by Indigenous Australians living within, and alongside, modern Europeanized and increasing Asianized Australia. This study considers the potential role of franchising in supporting Indigenous entrepreneurship.

Aliouche and *Bonet Fernandez* focus on Algeria as the case study to demonstrate the practical application of social entrepreneurship and franchising in an emerging country. Though Algeria has invested heavily in large-scale government-sponsored employment programs, unemployment—especially among the youth—remains stubbornly high, leading to a number of serious social and security problems (criminality, drug usage, suicides, illegal emigration, terrorism, etc.). The authors argue that social entrepreneurship combined with franchising has the potential to foster quickly a large number of social entrepreneurs, leading to the creation of a large number of sustainable jobs, especially among the educated youth in Algeria and, by extension, in many emerging countries.

The aim of the study of *Warraich* and *Perrigot* is to assess how customers perceive franchising in the education sector in Pakistan. More specifically, the research questions are the following: (1) according to the customers, what are the differences between franchised schools and public schools?; (2) what are the customer perceptions regarding the main characteristics of franchising in the education sector?; (3) what are the customer perceptions regarding social achievements of these franchised schools and chains?; and (4) according to the customers, what are the opportunities and challenges associated with franchising in the education sector? The authors adopt a qualitative approach with 17 face-to-face interviews conducted with customers of franchised schools in Pakistan, including parents and students.

2 Cooperatives

Streed, *Cliquet*, and *Kagan* analyze the specificities and key points of differentiation of natural and organic food cooperative members versus customers of private natural food retailers. This is accomplished by identifying and comparing behavioral, attitudinal, and lifestyle characteristics of members and nonmembers in regard to organic food and sustainable practices such as buying local. The results reveal that food cooperative members are for the most part more "idealistic" than nonmembers but also identify a duality between idealism and pragmatism among members that could trigger serious governance issues (Ashforth and Reingen 2014).

Consequently, recommendations in terms of target market, positioning, communication, customer experience, and governance are provided.

According to *Grashuis* and *Cook*, the long-term economic viability of the farmer cooperative mode of organization is often assumed to be jeopardized by an equity constraint. To inform possible solutions, the farmer cooperative is conceptualized as an independent firm comprising a system of attributes, thus facilitating a better understanding of the dual function of organized farm producers as both patrons and capitalists. The authors place emphasis on the hybrid assignment and configuration of claim rights to find possible complementarities between ownership and investment so as to loosen the equity constraint. Based on survey data on US farmer cooperatives, *Grashuis* and *Cook* analyze multiple configurations of membership access, ownership transferability, equity redeemability, preferred stock provision and ownership, and up-front capital contribution in relation to the desire to patronize and the obligation to capitalize the cooperative. Consequently, they inform constitutional responses to rapid developments in the agri-food industry, which force farmer cooperatives to find additional equity for necessary growth in scale and scope.

Grashuis and *Cook* use survey data on 371 US farmer cooperatives to study the diffusion of traditional and novel ownership structures. The authors argue that the existing typology of claim right configurations is an imperfect representation of the current population of US farmer cooperatives, which is interpreted as strong evidence of much ownership structure adaptation in the last decade. Using 12 ownership structure characteristics, an updated typology is proposed with classic structure variations in which equity redeemability is allowed, as well as new hybrid discoveries which combine different characteristics. Introduced are the Classical Investor Cooperative, a structure common to small local multipurpose cooperatives; the Proportional Trader Cooperative, which is adopted by several large dairy and supply cooperatives; and the Proportional Investor Cooperative. *Grashuis* and *Cook* use multiple pairwise comparison method to reveal significant differences in the competitive scope, the organizational size and type, as well as the capital structure of classic and hybrid ownership structures. Future research is recommended to further investigate claim right characteristics to inform complementarity between ownership and investment, which is necessary to ensure the long-term economic viability of each farmer cooperative.

Höhler and *Kühl* examine the innovation activity of cooperatives in dairy cattle breeding and especially the links between profitability, organization, and innovation in the case of Germany. The cluster analysis suggests a positive effect of network activity and innovation activity on the profitability of breeding companies. The results imply that network organizations should be supported by the members. The insights on small cooperatives with a high number of shares per member reveal a second way that could combine the benefits of networks and small cooperatives: the establishment of networks and their splitting in strategic groups with a size-related distribution of shares per member.

Cassou, *Cliquet*, and *Perrigot* argue that entrepreneurship can be either individual, collective, or both. Cooperatives and independent associated networks and groups of retail and service stores pool their means. Curiously, there has been a lack of research on retail cooperatives. The objective of this research is to show how these organizations, whose cooperators have a dual status (they are both customers and co-owners of the cooperative), can face the uniformity challenge (Bradach 1997) as efficiently as franchise networks do. The findings highlight the existence of various centralized, decentralized, and mixed processes. This research suggests a model for managing uniformity in food retail cooperatives.

Xu, *Hendrikse*, *Guo*, and *Liang* address the question whether Chinese cooperatives are different from Western cooperatives. Five cooperatives in Zhejiang Province are described, and they are evaluated from various perspectives. The authors show various differences between cooperatives in China and the Western world. Specifically, they highlight aspects of the political and the economic environment, such as the farmland system, the cooperative law, the financial support and intervention from the government, the limited education of most farmers, and the substantial capital requirements in order to have a successful cooperative.

According to *Lehrman* and *Sedik*, most cooperatives in Kyrgyzstan are production cooperatives—successors of former collective farms. There are hardly any "pure" service cooperatives, although a survey conducted as part of this study reveals that production cooperatives partially fulfill the function of service cooperatives by providing farm services also to nonmembers. Most respondents highlight difficulties due to shortage of inputs and inadequate access to farm machinery, including the lack of machinery leasing options. Difficulties with product sales, access to financial sources and veterinary services were highlighted with lower frequency, but still by more than 20% of respondents. These are precisely the problem areas that service cooperatives are designed to overcome. Respondents indicate that cooperatives play a positive role in rural life: they improve service delivery to farmers and the perceived well-being is higher for cooperative members than for outsiders. In addition, formal cooperation as manifested in membership in cooperatives is very limited among the farmers surveyed. Informal cooperation is much more widespread, and the substantial gap between the frequency of formal and informal cooperation (8 and 22% of farmers surveyed, respectively) clearly suggests that there is a large potential for development and adoption of service cooperatives in Kyrgyzstan.

3 Strategic Alliances

Guillouzo presents a dynamic capability model of alliance portfolio management (Helfat et al. 2007). Researches have demonstrated that alliances contribute to the improvement of the firm's performance via savings in coordination costs, access to new resources and competencies, the development of new activities and new markets, or the reinforcement of the competitive position. The increasing contribution of the alliances to the turnover and the organization of the activities of the firm make the portfolio as a key strategic asset. The author presents an integrating model which takes the multidimensional nature of alliance portfolio management into consideration. Specifically, *Guillouzo* develops an emerging approach based on the concept of dynamic capabilities (Teece et al. 1997) using business intelligence, networking, alliance management, and absorptive capabilities.

The aim of the study of *Yaqub* is to extend the interfirm exchange relationships literature by examining antecedents of the transitions that take place in the life cycles of business relationships. While making an appeal to the relational exchange theory, transaction cost economics, (network) bargaining power theory, and the organizational control model, Yaqub proposes a (theoretical) model that takes an account of the antecedents of changes that take place in the firms' states of affect during different phases of the development/evolution of their exchange relationships with other firms. It has been theorized that the varying extents of relational governance, relationship quality, interorganizational commitment, relational investments, behavioral uncertainty, bargaining influence, and perceived control affect changes in the affective states of exchange partners across different phases/stages of development/evolution of their exchange relationships. The study sets an agenda for the future research to regard (phases of) business relationship life cycle as a (behavioral) outcome construct and explain its antecedents instead of merely considering it as a moderating condition as has been done in the interfirm relationships' literature in the last few decades.

According to *Codron*, *Engler*, *Adasme*, *Bonnaud*, *Bouhsina*, and *Cofre-Bravo*, managing the pesticide safety risk to provide markets with safe fruits and vegetables leads to the development of diversified and more integrated relationships between growers and their buyers. The work is a case study of the hybrid forms underlying such relationships. It presents an analytical framework, drawing on transaction cost theory, positive agency theory, and property rights theory with a special focus on the model proposed by Ménard (2013), positioning the hybrid forms along the two dimensions of decision rights and strategic resources. The case studies confirm that the level of centralization increases with the buyer's commercial reputation, the level of customer safety requirements, and the level of asset specificity, which is embedded in the technical assistance and training provided by the buyer to the growers.

References

Ashforth BE, Reingen PH (2014) Functions of dysfunction: managing the dynamics of an organizational duality in a natural food cooperative. Adm Sci Q 59(3):474–516

Baker GR, Gibbons R, Murphy KJ (2008) Strategic alliances: bridges between islands of conscious power. J Jpn Int Econ 22:146–163

Barney JB (1991) Firm resources and sustained competitive advantage. J Manag 11:791–800

Bradach JL (1997) Using the plural form in the management of retail chains. Adm Sci Q 42:276–303

Combs JG, Ketchen DJ, Hoover V (2004) A strategic groups approach to the franchising-performance relationship. J Bus Ventur 19:877–897

Goyal S (2015) Networks in economics: a perspective on the literature. Cambridge-INET working paper series no: 2015/05
Gulati R (2007) Managing network resources: alliances, affiliations and other relational assets. Oxford University Press, Oxford
Helfat CE, Finkelstein S, Mitchell W, Peteraf MA, Singh H, Teece DJ, Winter SG (2007) Dynamic capabilities: understanding strategic change in organizations. Blackwell, Oxford
Ménard C (2013) Hybrid modes of organization: alliances, joint ventures, networks, and other 'strange' animals. In: Gibbons R, Roberts J (eds) The handbook of organizational economics. Princeton University Press, Princeton, pp 1066–1108
Provan K, Kenis P (2008) Modes of network governance: structure, management, and effectiveness. J Public Adm Res Theory 18(2):229–252
Teece DJ, Pisano G, Shuen A (1997) Dynamic capabilities and strategic management. Strateg Manag J 18:509–533
Williamson OE (1991) Comparative economic organization: the analysis of discrete structural alternatives. Adm Sci Q 36(2):269–296
Windsperger J, Cliquet G, Ehrmann T, Hendrikse G (2015) Interfirm networks: franchising, cooperatives and strategic alliances. Springer, Heidelberg
Zaheer A, Gözübüyük R, Milanov H (2010) It's the connections: the network perspective in interorganizational research. Acad Manag Exec 24(1):62–77