



Cultural embeddedness in supply networks



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ARTICLE INFO

Article history:

Received 27 May 2014

Received in revised form 20 June 2015

Accepted 25 June 2015

Available online 18 July 2015

Accepted by D.R. Guide

Keywords:

Cultural embeddedness

Supply networks

Agricultural cooperatives

Decision making

Sustainability

Grounded research

Country Natural Beef

ABSTRACT

Recent studies on structural and relational embeddedness suggest that favorable position and connections in supply networks benefit a firm. While fruitful, this focus misses the motivations that prompt firms to take economic action in the first place. Understanding cultural embeddedness provides insight into why individuals and firms behave as they do and how their behavior can influence network structure. Contrary to the belief that firms act solely for profit and growth, we note that cultural contents such as values, social issues and political ideologies explain firms' motives and guide their economic activities. We explore the role of cultural embeddedness through a grounded study of Country Natural Beef, a sustainability-oriented agricultural cooperative in the western United States. This supply network demonstrates strongly competing cultural claims among its members as well as a unique institutionalized culture. Cultural interactions at the node and network levels explain the functioning of and changes to the network. Through interviews, analysis of archival information and direct observation of pivotal events over a period of 5 years, we unpack cultural embeddedness and take an incremental step toward a theory of cultural embeddedness in cooperative supply networks.

Published by Elsevier B.V.

1. Introduction

Institutional theory scholars have documented the emergence of social enterprises and the renaissance of agricultural cooperatives that pursue sustainability and community development (Mair et al., 2012; Schneiberg et al., 2008; Simons and Ingram, 1997). Although these entities must compete to exist in a capitalist economy, they operate with objectives beyond efficiency and profit. Given the growing interest in and importance of sustainability and economic development, we argue that existing supply network research that emphasizes relational and structural embeddedness may overlook how non-market strategies or *logics* can motivate economic behavior and shape the structure of the network.

DiMaggio (1990) proposes that individuals' orientation toward economic exchange is embedded not only in social structure but also in culture, which is manifested as beliefs, norms, and at a deeper level of cognition as logics and preconscious habitus. Applying DiMaggio's proposition to supply networks, we argue that the study of relational and structural embeddedness looks at established networks to interpret how economic benefits accrue to firms based on their connections and positions in the network. They do

not explain why firms do certain things in the first place, how firms get where they are, or how they initiate relational and structural changes in the network.

To address these questions, we need to look beyond network structures and relationships. We need to understand how firms are shaped by non-economic institutions (e.g., family, religion, government) and culture. This study takes an incremental step toward such an understanding. We set out to explore cultural embeddedness and its effect on firms and associated supply networks. We seek to answer the following research questions: How does the cultural embeddedness of supply network members influence their economic behavior and that of the network itself? More specifically, how does cultural embeddedness affect the functioning and structure of a supply network?

To do so, we carried out grounded theory research in an agricultural cooperative. Agricultural cooperatives provide a fitting context for two reasons. First, following recent developments in supply chain and agricultural economics research, we consider an agricultural cooperative (co-op) as a unique form of supply network, comprising independent producers coordinated through network governance (Karantininis, 2007; Ménard, 2007; Pathak et al., 2014). Second, culture, manifested as values, ideology and logic, plays a critical role in the formation and functioning of agricultural co-ops (Hogeland, 2004; Mazzarol et al., 2014).

In this paper, we will first review the literature of culture, cultural embeddedness and cooperative as a form of supply network.

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Second, we discuss our research setting, data collection and data analysis. Third, we present the key facts in our data, followed by analysis and emerged constructs. Following the analysis, we present a set of propositions, a conceptual model and conclude with a discussion.

2. Literature

2.1. Culture as value and belief systems

At the basic level, culture consists of cognitive phenomena—beliefs, attitudes, ceremonies and norms. At a deeper level of social cognition, culture is what sociologists call strategies or *logics* (DiMaggio, 1990, 113–115; Swidler, 1986, 276). Logic consists of preconscious, behavioral or problem-solving routines. The notion of logic echoes the concept of institutional logic in neo-institutional theory (Thornton and Ocasio, 1999, 804). Studies of institutional logics often take a top-down perspective; they examine how macro-institutional logics (e.g., profession, religion and market) prescribe different rationales of behavior and strategy (Friedland and Alford, 1991). For instance, institutional entrepreneurs rearrange and transpose elements of logics to invoke broad change in a profession or industry (Moreton, 2010; Thornton et al., 2012). Such top-down approaches often do not assess cultural elements such as values and beliefs that are unique to actors in a social group or how such elements influence their economic activities (i.e., the bottom-up effect). As a result, institutional logics interpret institutional changes but say little about how the actions of individual agents enable such changes and determine the direction of those changes. In order to investigate how culture influences the behavior and strategy of social actors, we need to understand the concept of cultural embeddedness.

2.2. Cultural embeddedness and economic action

Embeddedness is “the degree to which economic activity is constrained by non-economic institutions” (Polanyi, 1944). It refutes the basic assumption of neo-classical economics: a rational, calculating *Homo economicus* freely making decisions with the single goal of optimizing economic gain (Granovetter, 1985). Socio-cultural obligations, norms and values play a significant role in people’s livelihood strategies. Existing studies focus on the relational aspect of this concept to explain firms’ position and corresponding social capital in a network (Kim, 2014; Moran, 2005). However, they do not explain why individuals and firms behave the ways they do or how their behavior can, in fact, induce structural and relational change in a given network.

Attention to culture and cultural embeddedness allows us to understand economic action of alternative forms of economic exchanges such as the “redistributive” and “reciprocal” systems articulated by Polanyi (1944). They play an important role in certain economic sectors or geographical regions of the modern society (Barber, 1995; Dequech, 2003; Lie, 1997). In a “reciprocal” exchange, for instance, individuals have mutual obligations to one another by virtue of their particular status in any one of a variety of collectivities including family, tribe or community. Here, economic decision-making is not so much based on market logic, but rather on social relationships, cultural values, moral concerns and religion. We have limited understanding of the agents and networks of such exchange systems.

2.3. Supply networks

Supply networks are particularly influenced by the dynamics of cultural embeddedness. Members of the supply network—individuals and firms—are carriers of culture. Cultural

imprints are manifested in their behavior and strategies within and impact on the network. Supply network studies conceive of supply networks as production systems with a single or multiple buyers or with no particular end buyer involved in the operations of the network at all (Choi and Hong, 2002; Harland et al., 2001; Pathak et al., 2014). In such a network setting, culture can be linked to place; geographic proximity is conducive to spreading culture among residents (Galaskiewicz, 2011). Existing studies largely consider cultural forces as exogenous and top-down effects of institutional logic at the field level on an entire network (Owen-Smith and Powell, 2006; Thornton et al., 2012, 151). What is missing is a systematic explication of critical cultural elements (e.g., values and ideologies) at the node level. Therefore, we know little of the underlying motives as individuals and firms formulate their strategies and go about their business. We submit that an investigation of the culture and the culturally embedded entities in the network holds the promise to explain individual firms’ motivations as well as supply network structure and function.

2.4. Cooperatives as value-driven supply networks

A cooperative is characterized by a hybrid form of governance blending market and hierarchy in terms of asset ownership and administration. Agricultural economists consider this hybrid to be a form of network governance (Karantininis, 2007; Ménard, 2007; Williamson, 1980). On one hand, members of a co-op maintain property rights and associated decision-making control over assets, which differentiates the co-op from an integrated firm. On the other hand, co-op members share strategic resources, which requires tight supply chain and production coordination that goes far beyond a price system of market arrangements. Because a co-op is the aggregation point of a network of independent producers, researchers have considered co-ops as coalitions of interests (Sexton, 1986; Zusman, 1992) or a nexus of contracts (Shaffer, 1987).

The effectiveness of agricultural cooperatives as supply networks is especially impacted by cultural embeddedness. The last three decades have seen a revival of agricultural co-ops in the U.S. at the confluence of the food movement and the growing issue of sustainability. These agricultural production co-ops, with sustainability-oriented value propositions and roots in social justice and mutualism, are at both the front of the food movement and the center of cultural clashes (Allen, 2004; Ashforth and Reingen, 2014; Weber et al., 2008). Unlike traditional co-ops that produce and market commodity products such as grain and milk, co-ops such as Organic Valley and Country Natural Beef produce value-added goods. They advocate sustainable agricultural practices and compete against Big Agriculture by producing and marketing value-added farm products (agofthemiddle.org). Because culture plays a salient role in the functioning and economic actions of such value-added cooperatives, an in-depth investigation of a sustainability-oriented cooperative hold promise to answer our research questions concerning cultural embeddedness and supply network. We will further discuss the role of culture in cooperatives in the sampling section (see Section 3.1).

3. Method

We find inductive research appropriate to answer our research questions. It is consistent with both our research goals and the predominant methodology and assumptions used in similar studies (e.g., Ashforth and Reingen, 2014; Sutton, 1987).

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