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Global supply network embeddedness and power: An analysis of international joint venture formations

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ABSTRACT

As a subset of the international business literature, cross-border equity based partnerships have drawn significant academic attention. In the context of inter-firm partnerships, the power dynamics between parties and the implications that power has on the relational dynamics between firms is an important consideration. Research that connects power with network theory has recently emerged, suggesting that the network, as a source of power, plays a significant role in inter-firm dynamics. Yet, while there has been a substantial body of work either articulating the antecedents and consequences of power, little research has paid attention to the role that power plays in international JV formations; this presents a significant gap in the international business literature. Consequently, this study investigates the role that global network structure plays in the formation of new equity based international partnerships. Secondly, it contributes to the international JV literature by developing and testing a theoretical framework that examines inter-firm power dynamics as derived from the network position of each firm in the global network. Global network prominence, brokerage and weakness are key factors utilized in the analysis. The hypotheses are tested using a global manufacturing joint venture longitudinal dataset that contains 985,689 observations from 1985 to 2003. The results of the event history analysis indicate that for the manufacturer global network prominence, brokerage and weakness play an important role in new joint venture formations. On the other hand, only global network prominence is a significant factor for the potential partner.

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1. Introduction

Firms routinely engage in cross-border partnerships as a means to build and sustain a global market advantage (Yeniyurt, Cavusgil, & Hult, 2005). In fact, “UNCTAD forecasts an upturn in FDI flows to \$1.4 trillion in 2015 and beyond (\$1.5 trillion in 2016 and \$1.7 trillion in 2017)” (UNCTAD, 2015:2) with several of these FDI flows being joint ventures. Joint ventures (JVs) are collaborative partnership formations wherein an autonomous entity is formed with the equity of two or more organizations (Kogut, 1988). JVs are common as they can decrease the cost of arms-length market transactions (Beamish & Banks, 1987; Coase, 1937) and increase control (Hennart, 1988). As a subset of the international business literature, cross-border equity-based partnerships have drawn

significant academic attention (Contractor & Kundu, 1998; Contractor, Beldona, & Kim, 2011).

Yet, JVs exist within and are an integral part of the overall inter-organizational supply network of a firm (Carnovale, Rogers, & Yeniyurt, 2016). Accordingly, research has examined inter-firm relationships from a network perspective (Borgatti & Li, 2009; Carnovale & Yeniyurt, 2014; Coviello, 2006; Gimeno, 2004; Meschi & Wassmer, 2013; Polidoro, Ahuja, & Mitchell, 2011; Shi, Sun, Pinkham, & Peng, 2014). For example, Gulati (1999) studies the role that access to network resources has in facilitating future alliance formation, finding that they act as a facilitating mechanism which reduces the hazards of future partnerships. Fundamentally, network theory holds the view that the connections between and among entities are the basis for understanding the relational dynamics between firms (Borgatti, Mehra, Brass, & Labianca, 2009).

Thus, as firms continue to form JVs their network grows, thereby engendering future JV formations (Carnovale & Yeniyurt, 2014). In so doing, their position within this network continues to

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become further embedded. In the network context, “embeddedness refers to the state of dependence of a company on its suppliers and customers in a particular supply network structure” (Choi & Kim, 2008:5). Furthermore, as the firm’s embeddedness grows, questions surrounding the power dynamics between parties, arising from their respective network positions, becomes an important consideration in the context of future partnerships (Crook & Combs, 2007; Handley & Benton, 2012a, 2012b). Stated differently, embeddedness can shift the balance of power because “the configuration of network of relations can facilitate or impede an organization’s behaviors and performance” (Choi & Kim, 2008:8). In fact, it has been noted that “... a firm with significant power might not find it necessary to establish the win–win alliance since it can achieve its own profitability and effectiveness through control of its suppliers” (Benton & Maloni, 2005:2).

Accordingly, power has been looked at from a varying array of perspectives, with its theoretical foundations solidly grounded in the literature emerging out of social psychology (e.g. French & Raven, 1959). Research has been advanced to understand the role that power plays on supply chain satisfaction (Benton & Maloni, 2005), the stability of an IJV (Inkpen & Beamish, 1997), its impact on the JV achieving its strategic objectives (Yan & Gray, 2001), and the interplay that it has with trust on mitigating the potentially negative consequences of uncertainty (Ireland & Webb, 2007). Research that connects power with network theory has recently emerged, suggesting that the network, as a source of power, plays a significant role in inter-firm dynamics (Kähkönen & Virolainen, 2011). Though, while recent work as looked at the effect that network structure has on future JV formations (Carnovale & Yenyurt, 2014), further work is warranted that studies how a firm’s embeddedness and network derived power impacts its future network development in global supply chain management; as this is an understudied area of international business. Hence, the main research question this study seeks to address is: what role does a firm’s network embeddedness and network based power play as an antecedent of its network development?

Consequently, this research has a dual faceted purpose. First, it contributes to the existing body of work that conceptualizes inter-firm relations as networks and studies their embeddedness within them (Choi, Dooley, & Rungtusanatham, 2001; Choi & Kim, 2008; Kim, Choi, Yan, & Dooley, 2011) and investigates the role that global network structure, and a firm’s embeddedness within them, plays in the formation of new equity-based international partnerships. Secondly, it contributes to the IJV literature by developing and testing a theoretical framework that examines inter-firm power dynamics as derived from the network position of each firm in the global network.

The rest of this research is organized as follows. First a review of the relevant literature regarding IJVs, power, and network theory is presented. Then, theoretically driven hypotheses are articulated. Next, the empirical context of this study is detailed, including a description of the dataset and methodology employed to test the hypotheses. Finally, the results are presented and the theoretical and managerial implications are discussed; followed by the limitations and future research directions.

2. Literature review

2.1. International joint venture networks

The literature on international joint ventures (IJV) is well established (Christelow, 1987). An early antecedent to research in this domain was Stephen Hymer’s doctoral dissertation (Hymer, 1960/1976) wherein he began to explain why firms engage in international production (Dunning, 2008; Forsgren, 2008). He suggested an alternative explanation to the traditional portfolio

theory of foreign direct investment (FDI), that firms invest in foreign markets in order to diversify their portfolios. As his research evolved he came to the contention that firms go abroad to exploit their market power in an attempt to create a monopolistic advantage (Forsgren, 2008). Since then, IJV’s have been examined from a variety of perspectives. For example, research has demonstrated that as the number of partners in a JV increases, there is a negative effect on both contract completeness and partner cooperation; but that these two variables have a positive effect on JV performance (Gong, Shenkar, Luo, & Nyaw, 2007). Previous research has also examined the impact that the relatedness of the JV (i.e. similar industry or operating characteristics to the parents) has on performance and suggest that, “parents forming joint ventures in the identical and related-complimentary categories reported higher gains... then those forming other types of ventures”(Koh & Venkatraman, 1991:888). Others have expanded the definition of distance to include contingency factors at national, industry and firm level and have shown that manufacturing partnerships are affected differently by these factors than research and development partnerships (Choi & Yenyurt, 2015).

Accordingly, JVs are integral part of the overall inter-firm network and as such, the management of JVs is directly related to the characteristics of these inter-firm networks, and the embeddedness a firm exhibits in such networks. Accordingly, recent academic inquiry has directed attention to examining inter-firm relationships from a network level perspective (Galaskiewicz, 2011). The fundamental premise behind network theory is the idea that structure, as defined by the connections between and among actors, is key to understanding relational dynamics (Coviello, 2006; Coviello & Munro, 1997; Sun, Mellahi, & Thun, 2010). Fundamentally, network structure can be thought of as the combination of two things: nodes (i.e. firms) and edges that connect nodes (i.e. inter-firm ties). The academic development of network theory can be seen in applications ranging from psychology (Moreno, 1934), cultural anthropology (Nadel, 1957), social anthropology (Bott, 1957; Kapferer, 1972; Mitchell, 1974) and graph theory (Freeman, 1982). Modern applications of network theory can be seen in applications examining IJV formations (Coviello & Munro, 1997; Coviello, 2006; Carnovale et al., 2016; Sun et al., 2010), alliances in the bio-tech industry (Powell, Koput, Smith-Doerr, & Owen-Smith, 1999) alliance behavior and management (Gulati, 1995; Gulati, 1999; Gulati & Sytch, 2007) and supply chain management (Carnovale & Yenyurt, 2014; Carnovale & Yenyurt, 2015; Choi & Kim, 2008).

Connecting the IJV literature with network theory has revealed some interesting results. Early research has suggested that firms looking to expand internationally via equity-based JVs can gain access to better financing, existing distribution channels and increased market access by leveraging existing networks (Oviatt & McDougall, 1994). Leveraging these network connections has been shown to directly influence the profitability of international activities (Holm, Eriksson, & Johanson, 1996) as well as the outcomes of international negotiations (Money, 1998). Additionally, it has been suggested that “network relationships are intangible resources salient to organizational growth” (Coviello, 2006:723) in that networks have a positive effect on internationalization (Manolova, Manev, & Gyoshev, 2010). These network relationships have also been shown to accelerate the process of internationalization (Coviello & Munro, 1997) as well as international marketing activities (Coviello & Munro, 1995; Evangelista & Hau, 2009) and access to venture capital funds and referrals (Batjargal, 2007).

Additionally, scholars have studied the effects of embeddedness in the unplanned dissolution of JVs, finding that a firm’s embeddedness renders them in a fortuitous position for sustaining

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