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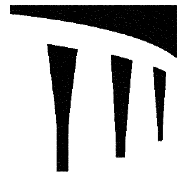

Original

Reasons that lead companies to withdraw from interorganizational networks

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ABSTRACT

The cooperation of companies in networks is a strategy used by managers to act in their business sector, aiming to add more value to their companies and create competitive advantage. The literature on this topic exposes many benefits of acting collaboratively in networks, but little is known about the factors that lead companies to withdraw from horizontal networks. This paper aims to investigate which factors drive companies to leave interorganizational networks. In order to do this, we conducted a qualitative research with seven interorganizational networks from which companies were withdrawing. Data was collected by interviewing the presidents of these seven networks and the owners of 11 companies that withdrew from them. The results outline a set of factors that lead companies to leave networks. Among the most cited are: lack of criteria for member selection, lack of trust, lack of commitment, and opportunism and individualism of some of the members. We concluded that most of these factors are intrinsically related and result in limiting the potential of the network to add value and obtain higher possibilities of competitive advantage for its members.

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Introduction

It is increasingly possible to verify the development of networks as alternatives for the maintenance and growth of companies. The importance of this development is visible in small- and medium-sized businesses that cannot act alone and find difficulties acting in the market due to significant competition. Small businesses are more vulnerable to the effects of globalization and struggle with absorbing both technological and managerial innovations, as well as with developing innovative products. Interorganizational networks may mitigate such difficulties and other resource limitations of small organizations.

Popp, Milward, Mackean, Casebeer, and Lindstrom (2014) suggested that the creation of interorganizational networks can be a useful strategy for organizations perceiving a need to develop a structure that is more nimble and able to create change and/or be more responsive to change compared to bureaucratic organizations. Numerous benefits of such a structure are described in the literature (such as shared risk, advocacy, positive deviance, innovation, flexibility, and responsiveness). According to Håkansson and Snehota (1989), no organization is an island: every organization needs relationships with other organizations to survive and grow.

Interorganizational networks – the focus of this study – are generally formed when two or more organizations collaborate to share resources with a common goal, seeking to improve their performance in response to a threat to their development from the environment, without a predetermined period of existence. They are formed at a specific time to perform network activities and set clear limits for organizations that are recognized as members of the network (Wincent, Thorgren, & Anokhin, 2014). These organizations work together under certain rules, but remain independent in the market, which allows them to maintain a certain degree of flexibility. The formalization of this partnership constitutes a strategic decision by organizations seeking to exchange resources and gain a competitive advantage that they could not obtain alone (Child & Faulkner, 1998; Senge, Lichtenstein, Kaeufer, Bradbury, & Carroll, 2007).

However, currently, the structure and management of networks raises new questions. Chao (2011) explained that collaboration in business networks can be considered a series of decision-making processes involving interactions between companies. In this context, insufficient understanding of the parties or lack of commitment can lead to a variety of biases and errors, affect the stability of the cooperative process, and in some cases, the continuity of the network. Apparently, the formation and development

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of business networks is related to members' interests in achieving a positive relationship of benefits versus costs from the collaborative strategy. However, when that relationship becomes unfavorable, companies participating in the network question the creation of the group (network) and whether they should remain in it. Furthermore, a significant number of companies leave cooperative arrangements such as interorganizational networks (Klein, 2012) and even end these collaborative arrangements (Baker, Faulkner, & Fisher, 1998; Inkpen & Beamish, 1997). Therefore, if networks actually provide benefits and competitiveness as discussed earlier, why do some companies withdraw from them? What are the reasons that lead to this decision? Finding the answers to these questions is precisely the objective that motivates this study and challenges the research on this topic.

In some cases, networks are unable to consolidate their structures and management models. However, some aspects (such as opportunism or a lack of goal congruence, trust, or commitment) can influence the performance of activities undertaken by networks. These aspects emerge in networks to the point at which they no longer justify the investments made by member companies. These are issues that are rarely discussed in the literature on the topic; thus, in an attempt to fill this gap, this study aims to investigate which factors lead companies to withdraw from interorganizational networks in which they were embedded.

Klein and Pereira (2012) argued that academic research has proposed prominent analyses of the success of cooperative arrangements, but few studies are concerned with understanding why many companies withdraw from cooperation arrangements and why many of these networks fail. Verifying problems and aspects that lead partner companies to abandon the collaborative process and leave networks may help in the management of interorganizational networks and mitigate difficulties that arise during their development. Moreover, according to Chen (2010), studying these aspects and problems in interorganizational networks may be significant for improving their performance and facilitating their continuity.

Types of interorganizational relationships

In the study of relationships, researchers must consider that as individuals can benefit from social capital due to their relationships (Coleman, 1988), organizations can also benefit from their relationships with other organizations (Galaskiewicz, 1985). Given the possible benefits that can be obtained, companies collaborate with one another, and interorganizational relationships arise.

Parmigiani and Rivera-Santos (2011) explained that interorganizational relationships exist under a variety of forms, including alliances, joint ventures, supply agreements, licensing, co-branding, franchising, intersectoral partnerships, networks, associations, and consortia. Similarly, Barringer and Harrison (2000) addressed and explained different types of interorganizational relationships. Table 1 shows some of the most common types of interorganizational relationships.

Table 1 provides examples of types of interorganizational relationships formed by companies aiming to obtain benefits and competitive advantage from the relationship. Considering networks in particular, it is necessary to clarify that the formation of a network arrangement may be created in vertical or horizontal configurations (Gulati & Gargiulo, 1999); therefore, networks can generally be classified as fitting one of two typologies: vertical networks and horizontal networks. The first is formed by vertical links between organizations, considering their supply chain. These relationships involve organizations from different sectors of the chain that are connected to one another sequentially (for example, producers, wholesalers, retailers, and consumers) (Lazzarini, 2008). The second typology, horizontal networks, is formed by relationships among organizations at the same level of the supply chain (for example, only retailers) that remain legally independent in the market (Wegner & Padula, 2010), but cooperate to conduct a business activity. Example activities include the production of a product, product promotion, or organizing the distribution of a product (Perry, Sengupta, & Krapfel, 2004). The member organizations of this type of network try to reduce their shortcomings in terms of resources by obtaining joint benefits to become more competitive.

This study focuses on horizontal networks. In summary, they present the following main characteristics: (1) They are formally constituted organizational arrangements; (2) They do not have a fixed period of existence; (3) They seek to achieve the objectives of members as well as of the network; (4) Decision-making is usually undertaken jointly within the membership; and (5) They have an organizational structure that is independent from the structure of their member companies.

Challenges in horizontal networks

As previously noted, organizations can obtain benefits and competitive advantages by establishing relationships with other organizations such as those relationships in horizontal networks. However, cooperation with other companies at the same level of a specific business sector through a network requires investment, time, and resources for its implementation, as well as negotiation of norms and procedures for its continuity (Wegner & Padula, 2010). Furthermore, commitment and trust from partner companies are required to maintain the network's management system and coordinate the relationship (Parast & Digman, 2008). According to Pesämaa (2007), many companies are not geared toward collectivism and do not appreciate the disadvantages/costs of being grouped into networks. Therefore, they are not able to assess whether they are able to join the network or whether such a strategy is positive for them.

In horizontal networks, a set of processes and procedures is needed to define the direction of the network and allow the allocation of efforts and resources to achieve the predefined objectives. Concerning these aspects of management, Sydow (2006) noted that compared to an individual organization, the management of interorganizational networks implies significant changes in the functions and roles of traditional management. Managers cannot be concerned solely with developing and implementing strategies and innovations for their individual company; they also have to formulate and implement collective strategies that meet the interests of all members of the network.

Other issues are also involved in the development and management of horizontal networks, such as costs of cooperation (Adler & Kwon, 2002), information asymmetry and opportunistic behavior (Willianson, 1985), transfer of knowledge (Larson, Bengtsson, Henriksson, & Sparks, 1998; Yayavaram & Ahuja, 2008), different learning capabilities and values (Hamel, 1991; Hibbert, Huxham, Sydow, & Lerch, 2010), and lack of value creation (Ahola, 2009).

Other problems and challenges that arise in horizontal networks are related to the inflexibility of network members in relation to their geographic area. The distance from one member to another can hinder access to new markets and the manufacturing of similar products. Additionally, each geographic region has its own characteristics, which makes it difficult to apply common actions and procedures to all network members. Moreover, an important factor that must be managed by the network is the existence of asymmetric incentives among members, which inevitably arise as the alliance evolves (Olson, 1971). Goals that were common may lose some of the sense of urgency to some members over time, thereby reducing their desire to cooperate (Khanna, Gulati, & Nohria, 1998);

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