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INTERORGANIZATIONAL GOVERNANCE AND GLOBAL STRATEGY

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INTRODUCTION

A wide range of interorganizational relationships falls on the global market to multinational hierarchy spectrum, ranging from supplier relationships (Dyer and Chu, 2000) to multinational business groups (Colpan, Hikino, and Lincoln, 2010; Granovetter, 1994). Concurrently, as firms increasingly deepen and widen their cross-border value chains, the structure and content of their foreign location portfolios become more critical to their global competitive positions (Dunning, 1998). In pursuing foreign direct investment (FDI) and establishing managerial control across borders, multinational enterprise (MNE) managers have become progressively more able to slice global value chain activities into finer pieces and allocate them across multiple locations. Global strategy studies these competitive cross-national dynamics and how 'a firm's competitive position in one national market is significantly affected by its competitive position in other national markets' (Ghoshal, 1987: 425). Thus, decisions on the location (where) and degree/form of control (how) (Buckley and Ghauri, 2004) are critical sources of competitive advantage in managing MNEs. When firms decide to go international for various strategic objectives, they might choose to have full managerial control and acquire a firm or develop a new wholly owned subsidiary, but alternatively they might engage in different degrees of cooperation with other firms (Kogut and Singh, 1988). Generally, firms get involved in interorganizational relationships abroad to minimize firm costs, create discriminating alignment between host country uncertainties and firm control, and learn from its partners. The two articles that I discuss here explore interesting questions within interorganizational networks.

Contractor, Woodley, and Piepenbrink's (2011) article distinguishes among three cross-national interorganizational relationships: licensing agreements, non-equity relational contracting (e.g., supply chain relationships), and equity joint ventures. Reuer *et al*. (2011) focus on equity international joint ventures (IJVs). One of the common denominators of these two articles is that they are concerned with increasing our understanding of interorganizational governance in the context of cross-national ventures. In this essay, I highlight the main ideas in these two articles on their core subject of interorganizational governance and suggest new

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questions for future research at different levels of analysis and from different theoretical lenses.

GOVERNANCE AND GLOBAL STRATEGY

It is important to remember that governance structures and governance processes are the two sides of the same coin, that is, they are highly intertwined (Chandler, 1962), such that they must be aligned to maintain some Pareto equilibrium and reach efficiencies. The articles by Contractor *et al*. (2011) and Reuer *et al*. (2011) are complementary in that they not only fall in the realm of global strategy and interorganizational networks, but they also emphasize different parts of the governance structure and governance process mirrored relationships. These two articles are concerned with unpacking the interorganizational tie in a semiglobalized world, whether it is at the alliance interaction level (relational governance) or at the interfirm governance level (principal-principal problem). The complexities examined are amplified due to the rapidly changing and challenging regionalized global environment in which these interfirm relationships take place.

Contractor *et al*. (2011) seek to uncover what factors influence the degree of interorganizational interaction among alliance partners and what the optimal level of this interaction should be. They explore this fascinating question through a survey of U.S.-based partners supplying manufacturing technology to foreign alliance partners. Some degree of interfirm interaction is always necessary, yet they argue that there exists a curvilinear correlation in this relationship. There are obviously multiple costs of interaction (i.e., coordination, information leakage, risk partner opportunism, etc.), as well as costs of lack of interaction (i.e., miscommunication, lost opportunities, transaction costs, etc.). Hence, finding the point of inflection is imperative to the success of global alliances.

In doing so, Contractor and colleagues (2011) respond to the call that Reuer and Ariño (2007) made for a better understanding of the contractual provisions in interorganizational research beyond the formal arrangements and, in particular, in alliance contracting. Alliance interaction is conceptually interesting due to its virtually intangible, yet critical dimension of the alliance tie. Contractor *et al*. (2011) draw on transaction cost theory and the knowledge-based and resource-based views of the firm to explore the optimal level of interorganizational interaction as a function of four dimensions: technology characteristics, coordination costs and risks, agreement provisions, and firm and industrial sector features. One of the most interesting aspects of their model—and one they are able to demonstrate empirically—is that it implicitly includes options theory logic. They not only argue why expected future technological exchanges in the alliance are likely to increase the degree of interorganizational interaction, but also show that 'anticipated bidirectional technology transfers lead to a higher degree of interaction than future unidirectional technology transfers' (Contractor *et al*., 2011).

Reuer *et al*. (2011) identify an important gap in global strategy research, namely the limited cross-fertilization between the literatures on IJVs and comparative corporate governance, which they appropriately label alliance governance. As they state, scholars so far have focused mostly on three dimensions of alliance governance: the characteristics of the mode of foreign entry, the ownership structure of the venture, and the nature of the alliance contract. The core of their article identifies fruitful areas of future research. First, they argue that because of the (at a minimum) dual ownership structure of IJVs, it is important to examine what function IJV boards should fulfill in terms of the classic monitoring and resource provision roles (Hillman and Dalziel, 2003). Second, given the hybrid organizational nature of IJVs, they question to what degree different governance practices will either substitute or complement each other in the process toward effective IJV corporate governance. This is very much in line with strategic governance research (Rediker and Seth, 1995; Ward, Brown, and Rodriguez, 2009) that looks at the efficiency of different bundles of corporate governance practices and shows that effective firm governance might not need every practice in place to achieve effective firm governance because they are substitutive. Lastly, Reuer *et al*. (2011) take a broader perspective in claiming that it is also important to better understand how conflicts of interests among the different stakeholders in the IJV might be mitigated, and they propose the need to pay more attention to the presence of different incentives aligning potential conflict of interests, such as managerial pay and employee ownership. I commend the authors for engaging with different theoretical lenses and thoroughly covering both organizational dimensions as well as process dynamics.

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What is in the interorganizational tie? And for whom?

Extensive research in economic sociology and organizational theory has been concerned with trying to establish what is in an interorganizational tie. Interorganizational relations are structurally interesting because they form organizational networks that allow us to assess how dense networks are, who the brokers in the network are, the different subgroupings in the network, where firms are positioned in a given network, and so forth (Baum and Rowley, 2008; Kilduff and Tsai, 2003). The articles by Contractor *et al*. and Reuer *et al*. take a more process-oriented—as opposed to structural-oriented—view in exploring the governance by which interorganizational networks are ruled, that is, what are the characteristics of the interorganizational tie? In a sense, their work is complementary to what network organizational scholars have done in terms of studying the strength of the tie, the quality of the tie, and what is exchanged and obtained from the tie for each partner.

Contractor *et al*. (2011) conceptualize the network tie between the U.S.-based firm supplying the manufacturing technology and the foreign alliance partner receiving technology, as the intensity of their interaction in terms of frequency and depth. They operationalize these constructs as the degree of interpartner supply chain trade and equity distribution, respectively. Contractor *et al*.'s article is in line with other research showing that overembeddedness (or embracing your partner too tightly) has a threshold and, at a given point, it will have diminishing returns in terms of coordination costs and involuntarily leaking proprietary assets. In a completely different setting and drawing on different theoretical underpinnings, Uzzi (1997), for example, discusses the curvilinear relationship between close ties and firm performance, and Poppo and Zenger (2002) demonstrate for a sample of information service exchanges that there exist additional factors, such as trust, influencing interorganizational contracts.

Reuer *et al*. (2011) look at who is at the apex of the newly formed organization, the IJV. It is surprising that IJV boards have been understudied for so long because one would think that the board is the governing body that determines the content of the interorganizational tie in terms of what each parent firm controls, how exchanges will take place, how conflict is resolved, etc. Therefore, it is essential that scholars and practitioners have a better sense of how these international boards are put together, how they function in terms of incentives and controls, and what resources and capabilities they are granted to exercise their function.

If we frame the role of the board in classic agency terms (Adams, Hermalin, and Weisbach, 2010; Dalton *et al*., 2007) or even in the stakeholder-oriented perspective (Aguilera and Jackson, 2003), then in addition to the common tensions and collusions between managers and directors or owners and directors, we also must consider that IJV boards represent two different companies (i.e., owners), typically located in two different countries. Owners vary in how much control they have over the firm (dispersed versus concentrated ownership), as well as in their interests in the firm contingent on the identity of the (controlling) owner (i.e., family, foreign, bank, institutional investor, industrial firm, etc.) (Aguilera and Jackson, 2010). Future research exploring the nature of IJV boards and their effectiveness in monitoring and advising IJV managers should take into account the ownership characteristics of parent firms (both parent firms' control and interests) in order to fully uncover the parent companies' IJV motivations. This would address the questions of for whom the IJV is intended and what the interests of the different stakeholders involved are and to which stakeholders IJV boards should attend to, as typically stakeholders have competing interests.

Interorganizational governance and institutional context

Strategy scholars have studied relational exchanges in the context of trust (Zaheer and Venkatraman, 1995), while others have extended trust arguments to show under what conditions formal contracts and relational governance (trust) might work as complements (Poppo, Zhou, and Zenger, 2008). In addition, governance structures and processes in interfirm relations across industries and countries are embedded in different institutional settings that will determine the degree of uncertainty and, in turn, governance choices (Ariño and Reuer, 2004; Folta, 1998; Santoro and McGill, 2005). Put differently, international alliances, on the premise of interpartner trust and efficient *ex ante* contracts, can circumvent the problem of liability of foreignness or 'psychic distance' at a lower long-term average cost than

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other entry modes (e.g., foreign wholly owned subsidiaries) (Beamish and Banks, 1987).

Global strategy research must continue to incorporate in its analyses the institutional context in which interorganizational relations are embedded (Aguilera, 2007; Lyles and Salk, 1996). In this regard, Contractor *et al*. (2011) state that when U.S. firms partner with firms from countries with perceived high environmental risk, they are more likely to develop deeper interactions in order to prevent opportunistic behavior. Taking into account the legal, social, economic, and political constraints, as well as enablers, will shed significant light on how the bargaining power is distributed and who has control over resources. Similarly, when IJVs design their governance structures in terms of the composition of the board (i.e., independent board members, board committees, reliance in external auditors, etc.), they will have to consider the institutional environments in which this decision is embedded. For instance, if the IJV is located in Germany, a dual-tier board will be expected as well as some representation from employees if the IJV qualifies for codetermination requirements (Jackson and Moerke, 2005).

CONCLUSION

Future research should draw on the processes discussed in Contractor *et al*. (2011) and Reuer *et al*. (2011) to go back to the quintessential concerns that we have in international joint ventures and corporate governance, which is why IJVs fail and what the most effective governance structures and processes are. It is clear that in an increasingly globalized world where codified knowledge travels fast, intangible assets such as efficient and fruitful intercorporate relationships are key to strengthen competitiveness.

There are two areas of future research that I find particularly fruitful. First, social science research is always challenged by the need to account for transformations over time which, in the case of interorganizational relationships, would entail changes in the environment, changes in the relationships among the partnering firms, and changes in the individual firms. These are multilevel interactions that are also interdependent. We have some excellent examples of how interorganizational relationships evolve. Chung and Beamish (2010), drawing on a sample of Japanese equity IJVs, examine how multiple ownership changes unfold through alliance evolution and to what extent these repeated changes influence short-term alliance performance and survival. Their emphasis on transition and timing could be applied to research on interorganizational relationships (interaction) as well as governance. Cuypers and Martin (2010) focus on uncertainty to explain the over time changes in the distribution of IJV ownership which, again, should have strong implications for both the interfirm relationship changes as well as the shifts in the IJV board and governance structure. We should continue pushing the frontiers further on these important questions, particularly as institutional environments in emerging markets are quickly transforming with high levels of human capital, stronger property right systems, more reliable and deeper financial markets, and so on.

Second, another main challenge in interorganizational research and, particularly if expanded to the cross-national level, is the difficulty of incorporating the dyadic (and, at times, triadic) dimension of the tie. For relationships to be sustainable and reach some overall efficiency, in most of the cases, both partners should be able to get something from the relationship. Most interorganizational research tends to focus on one of the partners, usually the most powerful one, and often neglects not only what the other partner wants to extract from the relationship, but also why that partner is even involved. Research considering the dyadic nature of mergers and acquisitions has explored some of these tensions and the so often underestimated power of the target firm in consummating an acquisition announcement (Aguilera and Dencker, 2010) or conducting a successful integration (Graebner and Eisenhardt, 2004). As we continue to explore intercorporate networks at the global level, we must take into consideration the interests in terms of costs, contingencies, and complementarities of these relationships, of all partners involved, and the institutional environments in which these different relationships are embedded.

In sum, as global strategy data availability and quality improves and our analytical methods become more sophisticated, we can begin to address more complex realities with simple yet powerful questions such as (1)what the strength of the interorganizational tie is, (2) how global networks are governed, (3) what the triggers of change are and (4) what can be expected as we move into an increasingly global, yet still highly divided,

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world in terms of regions of economic activity, technological and R&D development, and availability of natural resources.

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