# THEORIES OF MACRO ORGANIZATIONAL BEHAVIOR

## A HANDBOOK OF IDEAS AND EXPLANATIONS

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# Network Perspective

It was a beautiful beach day on the south coast of Nova Scotia as Jill Hiscock sat watching the waves and pondering the events of the past decade. Now a successful exporter of apple products, Hiscock realized that she could never have done it without the help of friends, family, and a few timely introductions. In the early 1990s, she was looking for a career and wondered if she could take advantage of the agricultural opportunities surrounding her home in one of Canada's three fruit growing regions, the Annapolis Valley. Having lived previously in the western Canadian city of Calgary, she was amazed that many of the tasty food products sold at local farm markets and taken for granted by many Nova Scotians were not available throughout North America. With no dependents at the time, she set out on an entrepreneurial odyssey hoping to make a living as an exporter.

Her first challenge was to find exportable products. This she accomplished by visiting the local farm markets and talking to the farmers who in turn put her into contact with local small producers. With a portfolio of interested producers, she then set out to learn about running a business. Her initial steps were suggested by a neighbor who knew that the local university offered a small business counseling center. A visit to the center opened the door to a number of other critical connections. Registering as a company was suggested. A second neighbor, an accountant by training, suggested the sole proprietor route. Writing a business plan was also suggested. A visit to the four local banks provided her with the forms and instructions to write the plan. Despite a rejection from all four banks for a loan, a cousin was impressed enough by the plan to provide start-up funding.

Having no experience in the export market, Hiscock faced two other major challenges. How to identify an initial target market was dealt with in the business plan. The university counseling center suggested the services of the MBA student consulting center of another regional university. With the help of the students at the center, she had the market targeted within a month. With a business plan, suppliers, and initial funding in place, a business professor acquaintance suggested a next step of addressing the specific mechanics of exporting products to the United States. He pointed her to an export trade commissioner employed in the regional office of the Canadian government. Six months later, the first of her products were for sale on shelves throughout the southern United States.

Aside from telling the story of a successful but fictitious small exporter, this vignette emphasizes the role of networks in helping many organizations and businesses to succeed. The study of organizational networks has attracted the attention of analysts, practitioners, and observers of corporate behavior for a number of reasons (Nohria 1992). First, technological advances in manufacturing and communications, most notably the Internet, have increased the complexity of corporate relationships. This has drawn the attention of researchers to the ideas of network analysis as a means of making sense of these complexities. Second, the tools and processes of the network approach have become both fashionable and accepted in academic circles. Third, the nature of competition has changed in the last decade or so. Competitors in many industries can now be found throughout the world and are often located in geographic clusters such as the North Carolina Research Triangle. They can take many different forms including alliances and joint ventures, and can be of different sizes ranging from subsidiaries of multinationals to entrepreneurial start-ups. Indeed, one need simply ponder the players found in a typical industry and consider the firms and organizations that participate as suppliers, customers, distributors, competitors, regulators, auditors, marketers, and advertisers. Then consider the decision makers in each of the major players. Individually, they have their own set of personal relationships that include coworkers, friends, professional contacts, alumni colleagues, and so on. Together, these individuals and organizations comprise a social context, one that is increasingly difficult to ignore when considering how and why corporations, small businesses, and institutional players act and behave as they do.

This leads to a general statement that underlies much of recent work on the network perspective, at least as it relates to an organization's position among others. "Network perspectives build on the general notion that economic actions are influenced by the social context in which they are embedded and that actions can be influenced by the position of actors in social networks" (Gulati 1998, 295). In other words, work-related transactions tend to overlap with patterns of social relations (Granovetter 1985). For example, an owner of a horse ranch that boards thoroughbred race horses may choose to hire stable hands through references of friends and business associates rather than through the open market.

That corporations and other organizations are embedded in a social context is among the most important building block of insight related to the network perspective. Underlying research on this topic is the notion that networks arise when individuals, whether organizations or humans, interact (Tolbert et al. 1995, 343). Why might they arise? One reason is that they "have stronger incentives and adaptive capabilities than hierarchies while offering more administrative control than markets" (Williamson 1991, 281). Furthermore, "they are particularly apt for circumstances in which there is a need for efficient, reliable information. Indeed, the most useful information is rarely that which flows down the formal chain of command in an organization or that which can be inferred from shifting price signals. Rather it is obtained from someone whom you have dealt with in the past and found to be reliable" (Powell 1990, 304).

Researchers seeking to study the relationship of networks with organizations have at their disposal an increasingly well-developed set of social network analytical tools and concepts. Tolbert et al. (1995) summarize some of the common theoretical concepts used by network analysts. Readers should consider individuals to be interchangeable with organizations. "Centrality" is the word that analysts use when seeking to measure who reaches the most other individuals. The extent to which every individual can be reached by every other individual is referred to as "connectivity." The number of individuals who are reached by any individual on average is termed "network size." "Clique" refers to whether some individuals interact with only one another. "Structural equivalence" is a term that refers to whether some individuals interact with the same set of other individuals. A "block" is the descriptor of whether some sets of individuals interact only with some other sets of individuals.

As noted earlier, "embeddedness" refers to "the process by which social relations shape economic actions in ways that some mainstream economic schemes overlook or misspecify when they assume that social ties affect economic behaviour only minimally" (Uzzi 1996, 674). A structural hole is a "relationship of non-redundancy between two contacts. . . . As a result of the hole between them, the two contacts provide network benefits that are in some degree additive rather than overlapping" (Burt 1992, 65). Nonredundant contacts have no direct contact with one another or have contacts that exclude others. Finally, the following is the concept of weak ties (Granovetter 1973):

> People live in clusters of others with whom they have strong relations. Information circulates at a high velocity within these clusters. Each person tends to know what the other people know. Therefore, . . . the spread of information on new ideas and opportunities must come through the weak ties that connect people in separate clusters. The weak ties so often ignored by social scientists are in fact a critical element of social structure. Hence, the strength of weak ties. Weak ties are essential to the flow of information that integrates otherwise disconnected social clusters into broader society. (Burt 1992, 72)

The use of social network analysis tools and concepts by researchers has enhanced our understanding of the behavior of alliances (Gulati 1995) and organizations in networks. For instance, Tolbert et al. summarize recent research findings as follows:

> Firms cluster because of their involvements on each other's boards, . . . such clusters relate to community influence, to corporate giving, to the adoption of defenses against corporate takeovers, or to the prices firms pay when acquiring other firms. We also know that network positions are related to power and that the structure of resource dependence relations shadows how firms conform to the demands of other firms or how they extract profits from one another. (1995, 343)

Network analyses processes and concepts have enabled a number of important questions to be answered. One will note the obvious implications for managers and practitioners. For instance, in organizational terms is there an optimal means of connecting to network partners? Uzzi (1996) suggests that firms that connect to their networks by embedded ties have greater chances of survival than do firms that connect to their networks via arms-length ties.

Is there an optimal network position? Burt (1992) argues yes and suggests that it is those that provide the most access to information or resources, offer the least constraints, and take the least effort to maintain.

Is there an optimal form of network that organizations may wish to join? Uzzi's response is that "optimal networks are not composed of either all embedded ties or all arm's length ties, but an integration of the two. A crucial implication is that embedded networks offer a competitive form of organizing but possess their own pitfalls. . . . Thus a firm's structural location, although not fully constraining can significantly blind it to the important effects of larger network structure, namely its contacts contacts" (1996, 694).

What good comes from participation in a network? One set of writers suggests that "strategic networks potentially provide a firm with access to information, resources, markets, and technologies; with advantages from learning, scale, and scope economies; and allow firms to achieve strategic objectives such as sharing risks and outsourcing value chain stages and organizational functions" (Gulati, Nohria, and Zaheer 2000, 203).

Another trio of theorists argue that "networks are also adept at risk spreading and resource sharing to avoid costly duplication of independent effort; offer enhanced flexibility compared to other forms of integration such as take-over or merger; and provide increased access to know how and information through collaborative relations before the formal knowledge stage" (Clegg, Hardy, and Nord 1996, 2).

Summarized, these benefits can take two forms. Membership in a network can improve the information that an organization has access to and it can enhance its control over its destiny. Theoretical explanations of informational benefits arise from research on the topic of embeddedness. "Relational embeddedness suggests that actors who are strongly tied to each other are likely to develop a shared understanding of the utility of certain behaviour" (Gulati 1998, 297) because of their extensive social relations. "Structural embeddedness refers to the informational role of the position an organization occupies in the overall structure of the network" (297). Companies participating in networks can obtain a control advantage by being located between two other companies. This middle position can prove beneficial when the other two firms are seeking a relationship with the firm in question or are in conflict with each other (Gulati 1998; Burt 1992).

Why might networks or interactions not arise? One group of scholars answer this by suggesting when "the advantages for interacting are absent for one or another party or some institutional constraints inhibit interacting" (Tolbert et al. 1995, 344). This builds on the idea that "networks also have a potential dark side and may lock firms into unproductive relationships or preclude partnering with other viable firms" (Gulati, Nohria, and Zaheer 2000, 203).

While much of the previous discussion addresses the role of an organization as part of a network, another research stream portrays the organization as a network. Indeed, the network organization has caught the attention of many a writer and scholar. It has been described as the prototypical organization for the future and is what many think of when one associates the word "network" with "corporation," "firm," or "company." It is also an idea that although conceptually attractive, means different things to different people. For instance, one description notes the role of communications technologies:

> It is decentralized, and consists of an internal network where activities which are distributed around an internal network of divisions or units, linked through electronic forms of communication in very communication-intensive organizations by modern information technology. Hierarchies become one means among many to coordinate and control actions across people, knowledge, time and space. . . . Decisions are based on expertise, openly solicited and listened to in the organization. (Clegg, Hardy, and Nord 1996, 11)

A second description suggests a very human influence:

> Organizations consist of multiple, overlapping networks with permeable boundaries. Members are interlocked in a variety of relationships that "transcend office walls" through community projects, childcare concerns, informal friendships, neighbourhood activities, and company socials. Since communication serves as a building block that connects individuals, groups, and inter-organizational levels, organizations are clusters of task activities, social interactions, innovations and a variety of organizational processes. (Putnam, Phillips, and Chapman 1996, 384)

A third description points to some of the hoped for and desirable attributes of a network organization. "Although the precise definition of the so-called 'network organization' varies from person to person, in general it is regarded has having many properties—flexibility, responsiveness, adaptability, extensive cross-functional collaboration, rapid and effective decision making, highly committed employees, and so on not found to the same degree in alternative organizational forms" (Moss Kanter and Eccles 1992, 525).

Along with descriptions such as these, research on the topic of networks within organizations or "personal interaction patterns" has provided insights associated with power (Krackhardt and Hanson 1993), turnover, organizational culture (Kilduff and Corley 2000), information flows (Stevenson and Gilly 1991), attitudes, promotion opportunities, income (Carroll and Teo 1996), the role of coalitions (Stevenson, Pearce, and Porter 1985; Stevenson, 1990), and social support (Tolbert et al. 1995, 344).

Unfortunately, despite this growing body of literature, answers to these questions, and insight into organizations in networks and organizations as networks, our understanding of the behavior of these entities is far from complete. An important reason for this shortcoming is simply the nature of a business network—which can be described as an entity that is not structured as a market nor as a hierarchy and one where efficiency may not be the most important determinant of its form.

> Networks are "lighter on their feet" than hierarchies. In network modes of resource allocation, transactions occur neither through discrete transactions nor by administrative fiat, but through networks of individuals engaged in reciprocal, preferential mutually supportive actions. Networks can be complex. They involve neither the explicit criteria of the market nor the familiar paternalism of the hierarchy. The basic assumption of a network relationship is that one party is dependent on resources controlled by another and that there are gains to be had by the pooling of resources. In essence, the parties to a network agree to forego the right to pursue their own interests at the expense of others. Individual units exist not by themselves but in relation to other units. These relationships take considerable effort to establish and sustain thus they constrain both partners ability to adapt to changing circumstances. As they evolve it becomes more economically sensible to exercise voice than exit. Benefits and burdens come to be shared. Expectations are not frozen but change as circumstances dictate. . . . [T]he entangling strings of reputation, friendship, interdependence and altruism become integral parts of the relationship. (Powell 1990, 303)

Despite the important insights that have arisen from this perspective, there are a number of shortcomings associated with this body of insight. Unclear is the answer to the question: Are network organizations discrete mechanisms or do they consist of a continuum of forms ranging from pure market to pure hierarchy (Barney and Hesterley 1996, 122)? Some theorists argue that the primary tool of this style of research, social network analysis, has been used mainly as "a tool for analyzing data about organizations rather than for understanding organizations per se" (Tolbert et al. 1995, 344). These same scholars also suggest that many of the insights obtained from this stream of research could also have been obtained using other perspectives such as resource dependence. Furthermore, most research of this tradition does not take into more than one network (Gulati 1998).

Moss Kanter and Eccles (1992) add a few other criticisms. Most current methodologies used by researchers to collect data are fairly time consuming and represent a noticeable intervention in the organization in which data are collected. User-friendly software that enables managers to assess the characteristics of networks of which they are members is still fairly rare. Furthermore, the issue of relevance arises from time to time. Indeed, it is not always clear what managers want to know about networks. Also, there is still little attention paid to how networks are constructed by their members and how the members are using them.

Finally, some theorists argue that the network perspective is not really a cohesive theoretical perspective, but rather that it resembles a catchall heading for a broad array of research interests. One need simply to examine the indexes of Pettigrew, Thomas, and Whittington's *Handbook of Strategy and Management* (2002) and Hitt, Freeman, and Harrison's *The Blackwell Handbook of Strategic Management* (2001) to understand why this might be the case. Networks are tied to research on organizational change, multinational corporations, the entrepreneurial process, globalization, governance, strategic alliances, and decision making. If we also examine the index of Clegg, Hardy, and Nord's *Handbook of Organization Studies* (1996), one notes a connection of the network perspective with organizational culture, postmodern theory, structuration theory, transaction cost theory, and metaphorical theory. One last example suggests the use of a network perspective can help researchers understand firm conduct and performance in five important areas of strategy research: "industry structure, positioning within an industry, inimitable firm resources and capabilities, contracting and coordinating costs and dynamic and path dependent constraints and benefits" (Gulati, Nohria, and Zaheer 2000, 205).

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