Social Network Analysis: Work and Organization Studies

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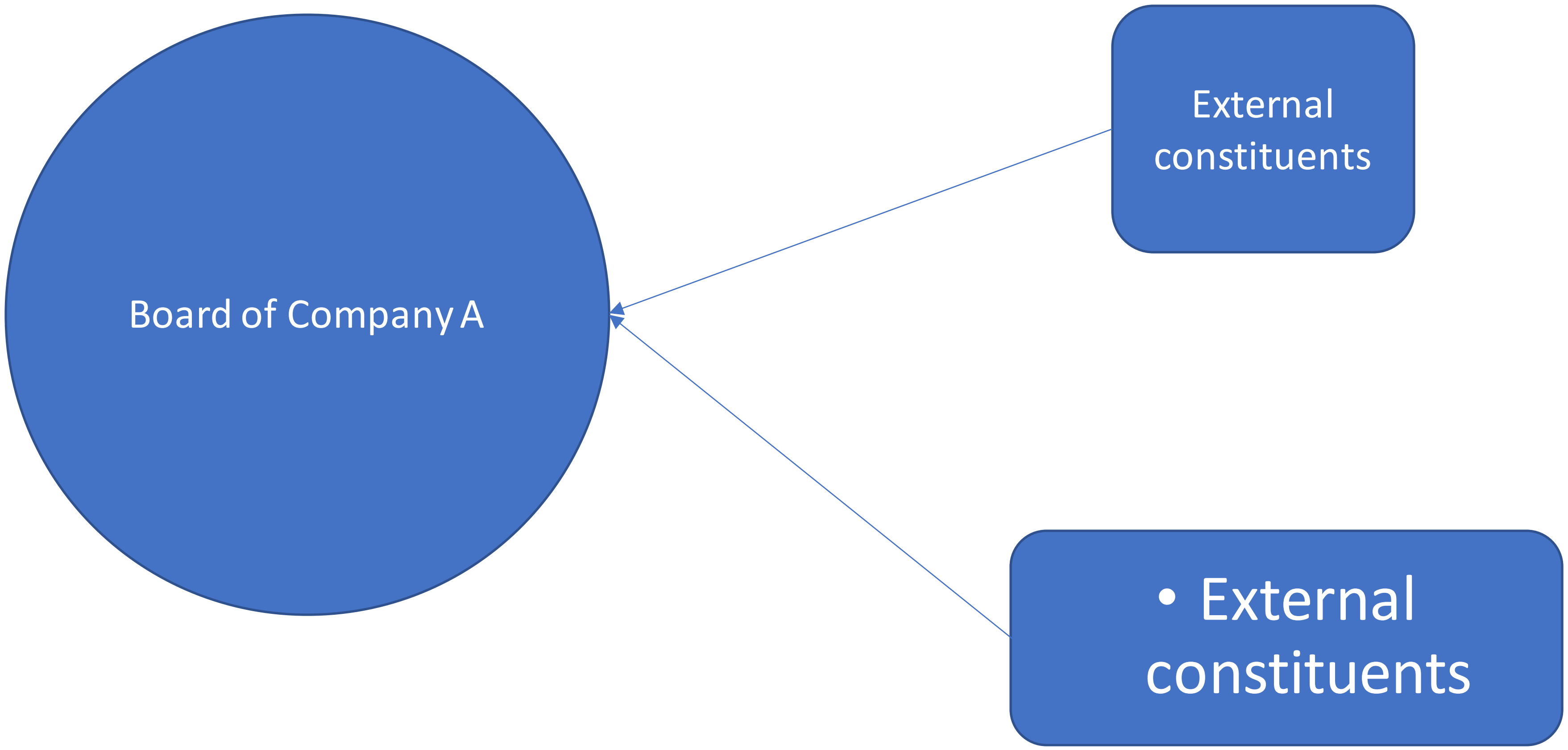
What this chapter entails

- Social network analysis of labor market
  - Job seekers finding a job through weak tie
  - Employers fill job vacancies with employee referral
- Social network analysis of intra-organizational network
  - Structural hole: an egoistic view
  - Power: a structural view
  - Competitive edge: an utility view
- Social network analysis of inter-organizational network
  - Interlocking board
  - Strategic alliances

Between intra-organizational network and inter-organizational network

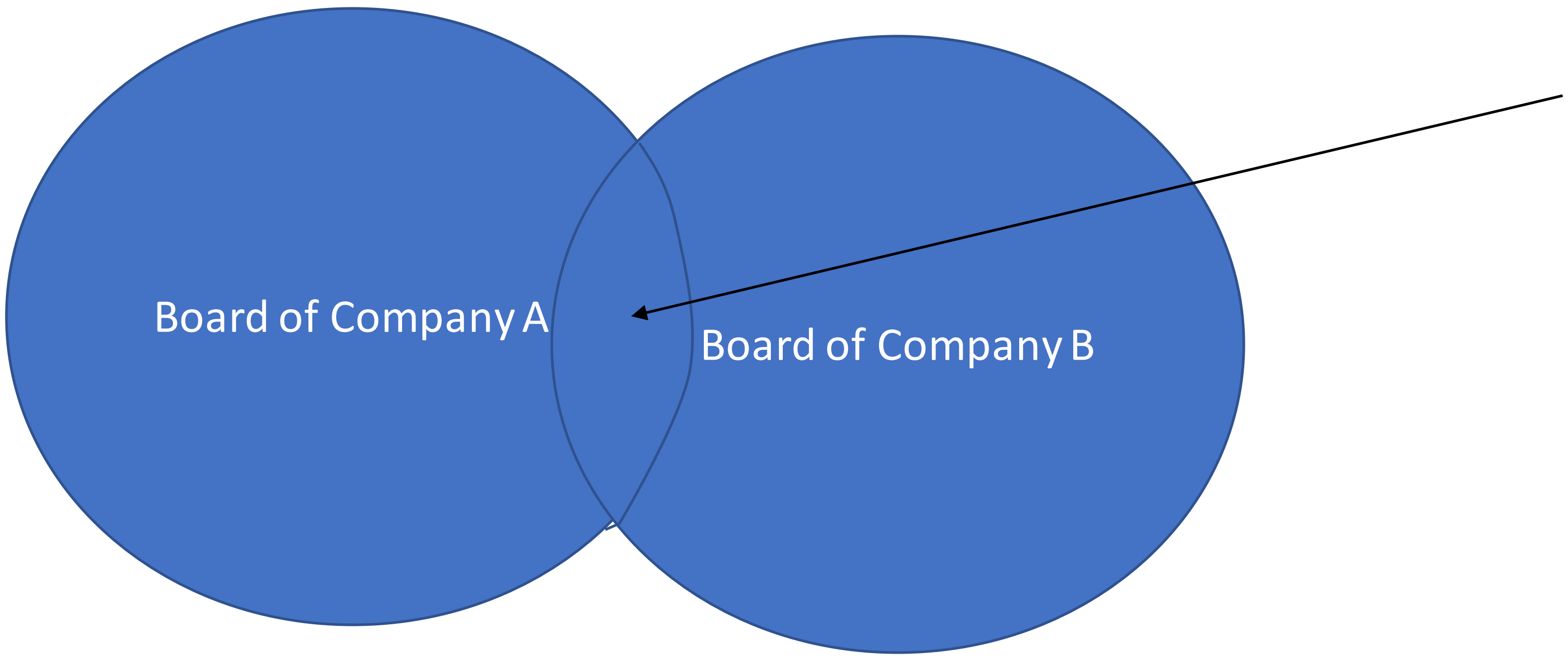
- Only exists on textbooks
- Intra-org networks may very well extended to inter-org networks
- Friendship may start with boundary spinning personnel and become precursor of inter-organizational ties.
- Companies capitalize on personal ties to have competitive edge by finding strategic partners through those ties.

Inter-org network: Interlocking board (unilateral appointment)

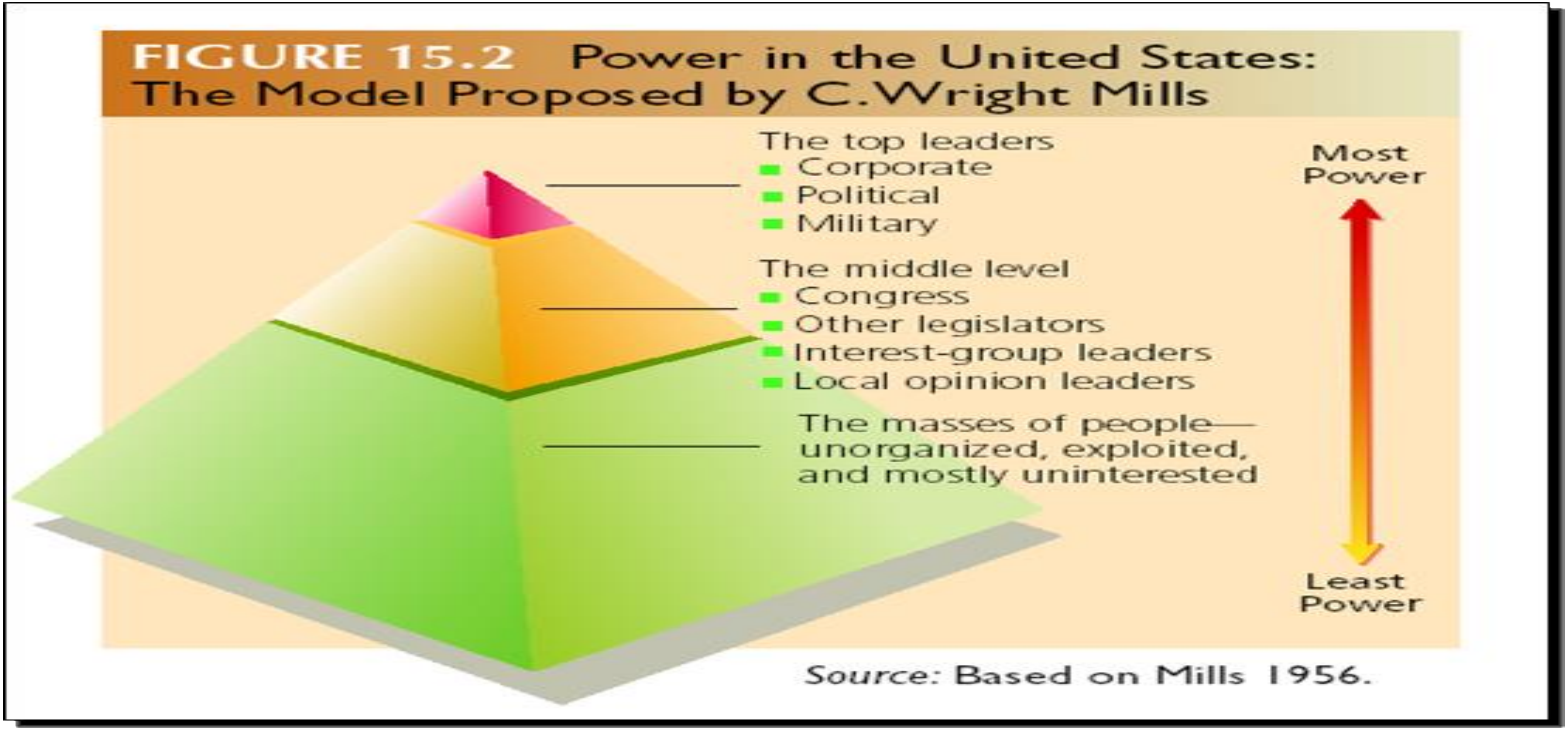


Interlocking board (mutual appointment)

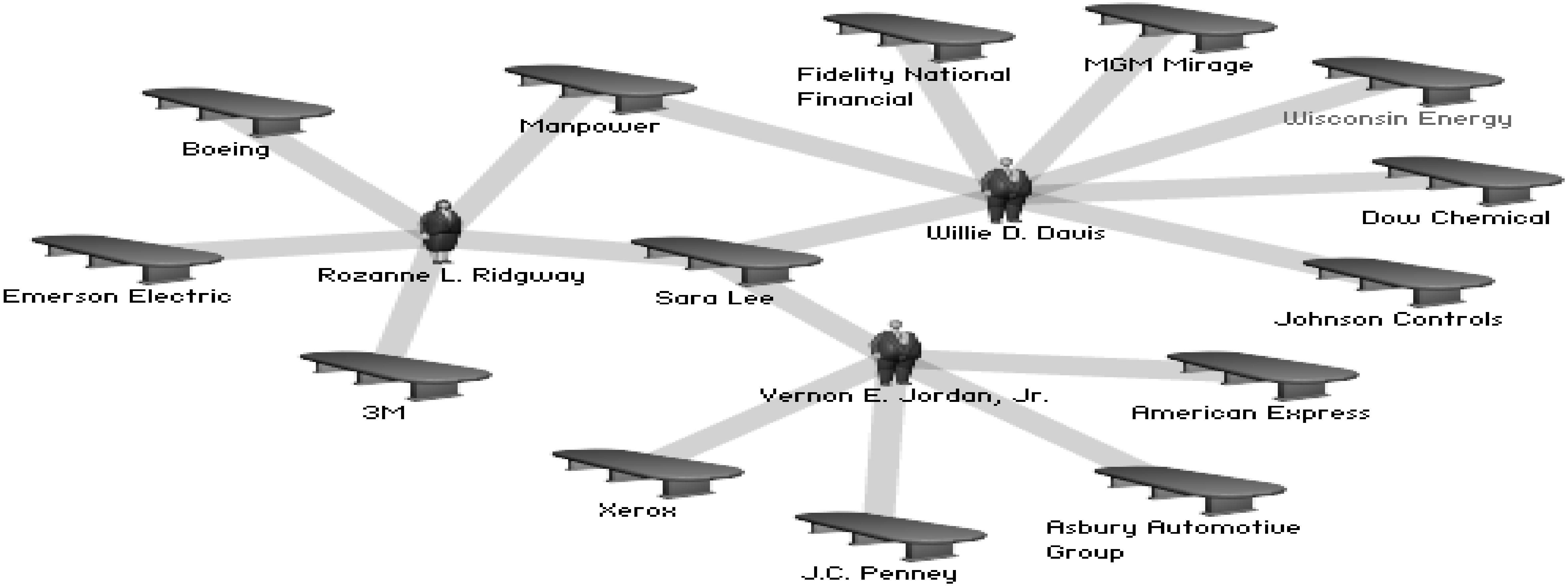
- Shared board members



Does inter-locking produce power concentration?



The fear is unwarranted



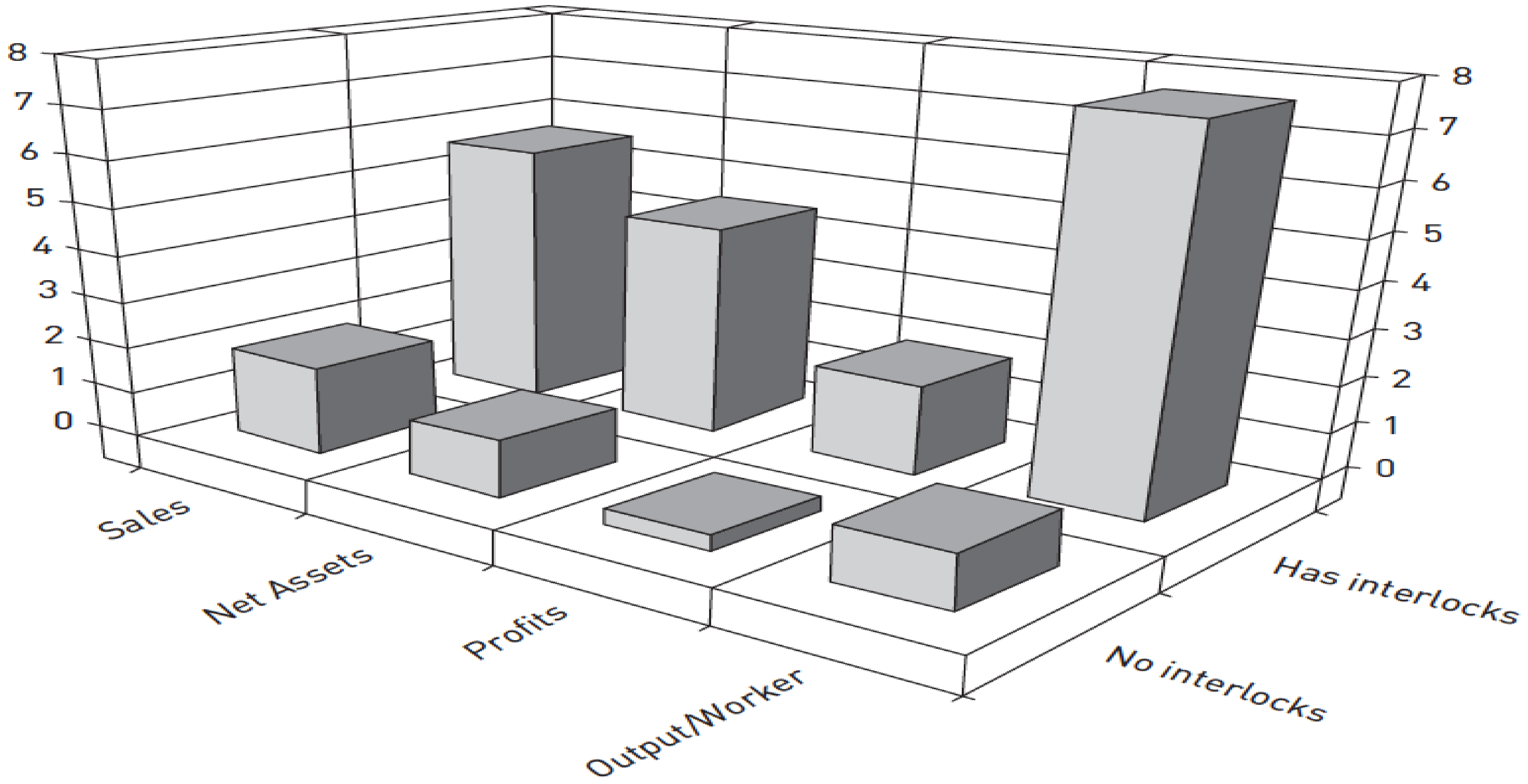
Then why orgs lock-in with sharing board members?

- Business scan
- Fine tune their operating environment
- Orgs executives use board recruitment to propagate their agenda
  - Low-control board adds passive pro-management members
  - High-control board adds outspoken pro-stake holder members
- Local celebrities, well-connected individuals are recruited

Does board interlocking pay off?

US: NO, board interlocking does not produce higher profitability (Mizruchi 1996)

China: yes, firms with interlocking board outperform their peers without interlocking board in sales, net assets, profits, and productivity.



Note: Adapted from p. 182 of Keister, L. A. (2000). *Chinese business groups: The structure and impact of interfirm relations during economic development*. New York, NY: Oxford University Press.

Other consequences of interlocking board

Diffusion of M-form management

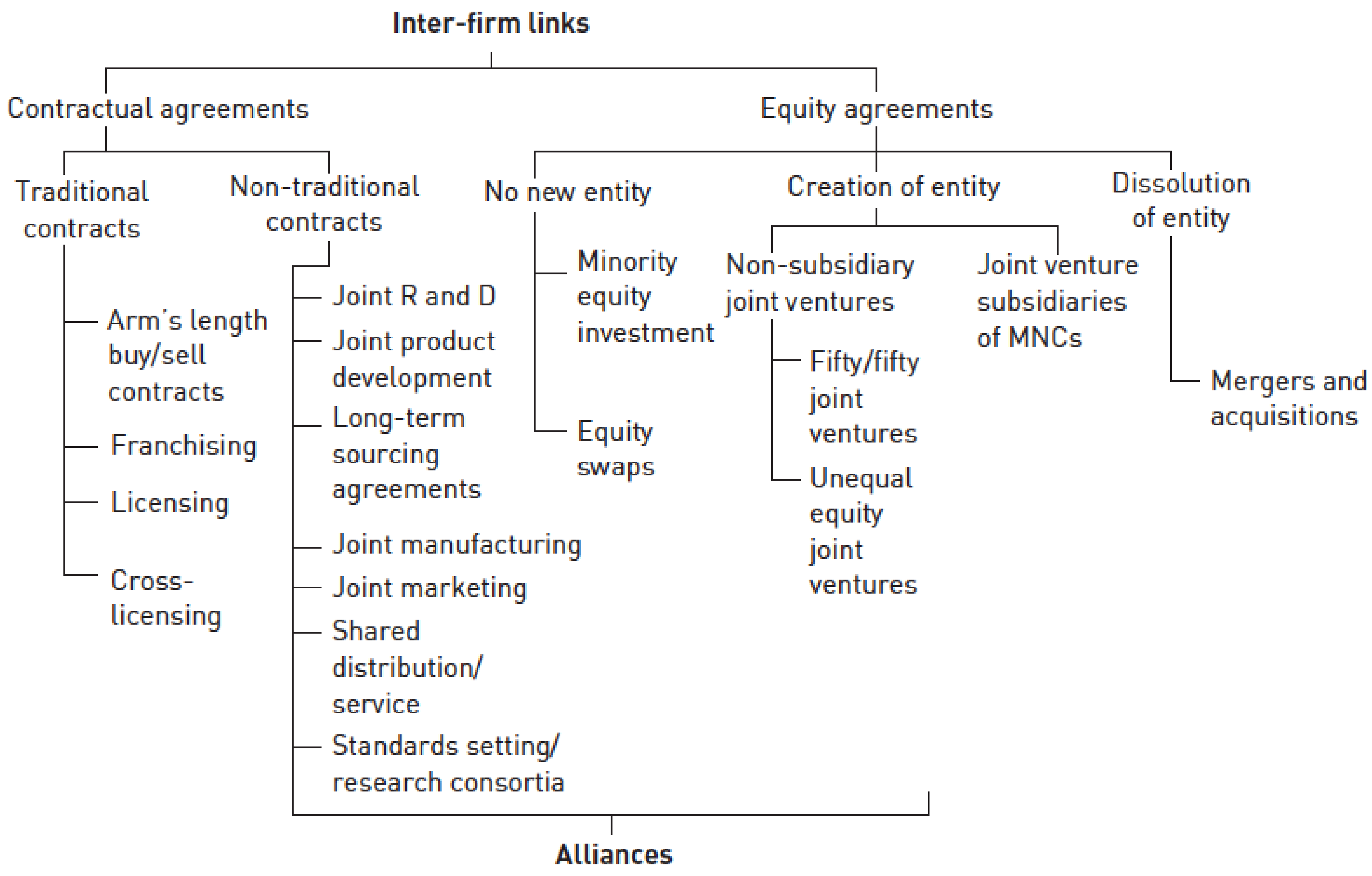
Adoption of poison pill

- Poison pill is counter measure of hostile takeover

Nasdaq defect to NYSE

Strategic alliance

A strategic alliance refers to a strategic partnership involving at least two partnering firms. It is strategic in the sense that the alliance is formed as a direct response to major strategic challenges or opportunities that the partner firms face (Child & Faulkner, 1998, p. 5). After the alliance is formed, the partner firms remain independent, share benefits and managerial control over the performance of assigned tasks, and make continuing contributions in one or more strategic areas (Yoshino & Rangan, 1995). Strategic alliances take on a variety of different forms, but we found that John Child (2005, p. 224) provided one of the best typology maps of inter-firm links in general, and strategic alliances in particular, which is shown in Figure 5.14.



Note: Adapted from p. 224 of Child, J. (2005). *Organization: Contemporary principles and practice*. Chichester, West Sussex, England: Wiley.

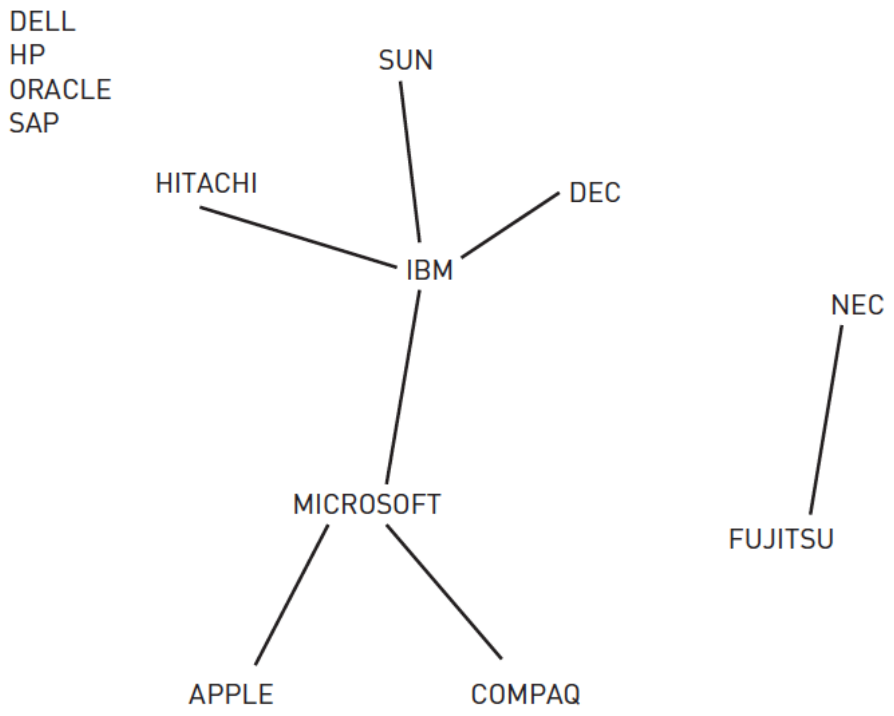
Joint venture

- Two or more legally distinct firms pool a portion of their resources within a jointly owned legal organization that serves a limited purpose for its parents.

One of these joint ventures was between Motorola and the Panda Electronic Group of Nanjing China. Established in 1995, the joint venture drew a 60% equity investment from Motorola and a 40% investment from Panda Group. For Motorola, this was an opportunity to expand its market in China, whereas for Panda Group, the joint venture allowed them to absorb more capital and advanced technology in the wireless industry. The Motorola–Panda Group joint venture, however, ended in 1997 when Motorola was unable to reach a license agreement with Apple Computer (Luo, 2000).

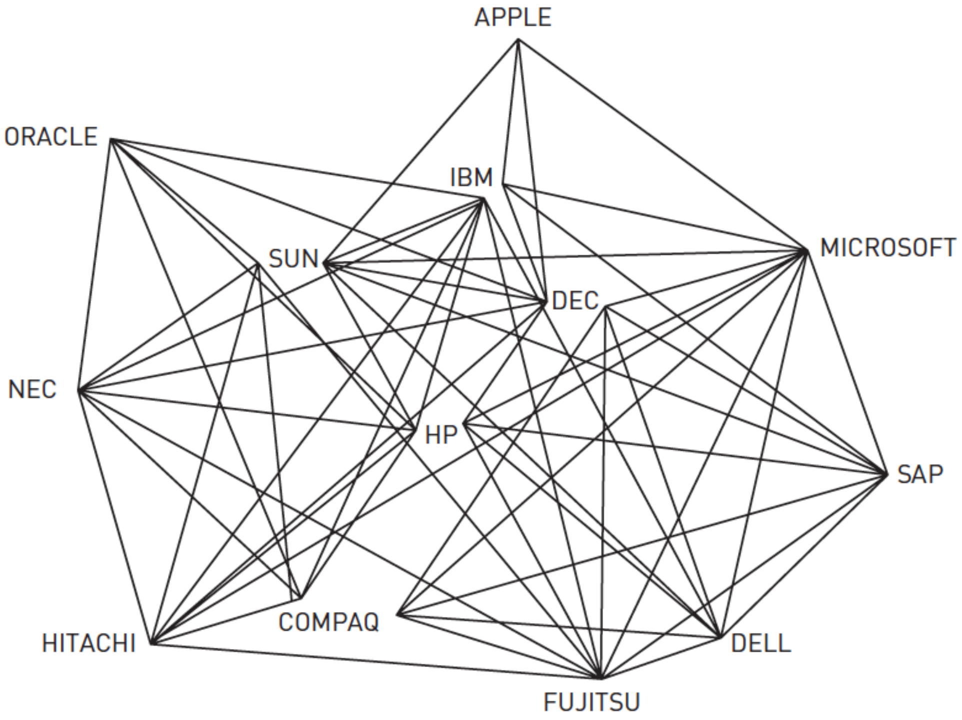
Strategic alliances become more prevalent

FIGURE 5.15 • Strategic Alliances Among 13 IT Firms 1990



Note: Adapted from p. 147 of Knoke, D. (2012). *Economic networks*. Cambridge, England: Polity.

FIGURE 5.16 • Strategic Alliances Among 13 IT Firms 2000



Note: Adapted from p. 149 of Knoke, D. (2012). *Economic networks*. Cambridge, England: Polity.

Consequences of strategic alliances

SOCIAL NETWORKS IN ACTION: ORGANIZATIONAL ALLIANCES FOR ESTABLISHING INDUSTRIAL STANDARDS

The famous battle between Betamax and VHS for the standard of the home entertainment industry illustrates the importance of strategic alliances. Although Sony was behind Betamax and persuaded the Japanese Ministry of International Trade and Industry to endorse it as the industry standard, the strategic alliance led by JVC, which backed the VHS, joined by powerful allies Hitachi, Mitsubishi, and Sharp was a much stronger force than Sony. In the end, VHS won as the industrial standard format.

Other consequences of strategic alliances

- Long term performance
- Profitability
- Productivity
- Survival rate
- Long term growth

SOCIAL NETWORKS IN ACTION: CIVIL AVIATION

Take civil aviation as example: The industry went through government deregulation post-911, which was intended to encourage competition. Many contractors rushed to offer the kinds of services needed for new start-ups, from writing applications for

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government certification, to selling tickets, to staffing gates at airports, to catering the food, to even flying the airplanes. Many secondhand airlines also scattered in the Arizona desert, waiting to be purchased (Scott & Davis, 2006, p. 294). Venture capitalists seized the opportunity to provide seed money for the start-ups. As a result, small discount airlines flourished by the mid-2000s, with JetBlue, Allegiant Air, Frontier, Southwest, Spirit, and Sun Country airlines providing convenient daily flights connecting thousands of mid- to small-size metros across the United States.

Inter-org link across industries

- Vertical integration: merger of firms across different industries
- Forward vertical integration: a car manufacture purchase a car rental company – Ford purchased the Hertz Rental in the 1990s
- Backward vertical integration: Ford acquired rubbers, glass, and metal companies to secure its suppliers in 1920s.
- Vertical disintegration (spinoff or de-integration): in 2005, Ford sold the Hertz back to private investors
- Reasons for vertical disintegration
  - Financial constraint
  - Stock market pressure
  - Available of network form of governance

Four firm concentration

- Four-firm concentration ratio: proportion of an industry's output accounted for by the four largest producers in the industry.
- The higher the ratio: the higher the level of monopoly
- What is the best positional configurations of four-firm concentration ratio?
  - A firm's own industry has high ratio, where its client and supplier industries have low ratio.

SOCIAL NETWORKS IN ACTION: STRUCTURAL AUTONOMY AND PROFITABILITY

One real-life example is the Sealed Air Corporation (a manufacturer of bubble-wrap packaging materials) in the late 1980s. Its main suppliers were from the commodity chemical industry, and its buyers were every home or business that shipped fragile items. The company also had patents that protected it from significant competition from other firms within the same industry. Such structural autonomy allowed the company to reap a high profit margin of 50% in the 1980s (Scott & Davis, 2006, p. 302).