

Chapter 7

Governance of Supply Chains for Sustainability: A Network-Based Approach

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ABSTRACT

The main objective of this chapter is to shed some light on governance and membership strategies of network organizations. Today's business environment compels firms to join forces in order to be competitive and sustainable. However, the success of the networks mainly depends on their network composition and how they are governed. In this chapter, the author proposes some strategies and the proper governance structure facilitating these strategies by taking the effects of severity of resource acquisition challenges and external legitimacy of whole network organization into consideration. The arguments are based on Resource Based Theory and Stakeholder theory. Moreover, the author of this chapter suggests a counter example for the claim propounded by Provan and Kenis (2007) that the evolution of network governance from more formalized one to the less formalized one is unlikely. From these respects, the chapter contributes to the literature since mentioned points have been rarely discussed.

INTRODUCTION

Competitive pressures in the business environment necessitate both efficiency and effectiveness. All players in the markets have to keep up with increasing competitive pressures and innovations while achieving lower product or service costs. The new dynamics of markets have urged firms to develop a new business equation. Firms started to adopt a new strategy enabling competitive success that focuses on “doing fewer things better, with less” rather than resource accumulation and control. Naturally, companies in today's business world find themselves constructing into networks in which one firm may take the role in research and design of a product, another firm may take responsibility for production and a third firm may provide distribution, and so on (Snow et al., 1993)

DOI: 10.4018/978-1-5225-2036-8.ch007

Compared to other organizations, network organizations differ in some aspects (Miles & Snow, 1992). Firstly, traditionally structured firms tend to keep all assets necessary to produce a given product or service in hand, whereas networks deploy the collective assets of member firms located at various points along the value chain. Secondly, within networks, member firms are well aware that they are interdependent on each other. As a result, in order to retain their position in the network, they share information, cooperate with each other, and customize their product or service. Previously, traditionally structured firms avoided such kinds of collective activities with other players in the markets. Thirdly, beyond just fulfilling a contractual obligation, subcontractors have embraced a more proactive role by which they aim to improve the final product or service. To sum up, networks are defined as not just pile of firms which come together to complete contractual business, but also as a group of firms which strive to create an effective and efficient outcome on collective and cooperative base similar in “the Japanese keiretsu”. It is inferred from remarks mentioned above that networks are collaborative arrangements. However, this deduction leads to a common assumption that hierarchy and control would not be proper for networks (Kenis & Provan, 2006). Therefore, there is reluctance among scholars for discussing formal mechanisms of control for networks (Provan & Kenis, 2008). While there is a considerable number of research on an organizational level of analysis of networks focusing on egocentric theories (which is interested in dyadic or network ties and network specific properties of individual network members; Provan & Fish, 2007), little attention has been paid to research on the governance of networks which mainly refers to a focus on “whole network” (Provan and Kenis, 2008). Examining whole network is very important since how networks evolve and how they are governed can be illuminated through an analysis on the governance of networks (Provan & Kenis, 2008). Additionally, focusing on the governance structure of a whole network may provide many major insights into supply chain management. A supply chain is defined as “the alignment of firms that bring products or services to market” (Lambert, et al., 1998, pg. 504) or “the network of organizations that are involved, through upstream and downstream linkages, in the different processes and activities that produce value in the form of products and services delivered to the ultimate consumer” (Christopher, 2011, pg. 13). As inferred from the definitions, a supply chain is regarded as “a network of organizations”. This network should be considered as a well-recognized organization for Supply Chain Management (Christopher, 2011; Mentzer et al., 2001). Proper governance of a network should be deemed to be very vital for Supply Chain Management since leading-edge companies have realized that the real competition is not a company against a company, but rather a supply chain against a supply chain (Christopher, 2011). However, in addition to vertical relationships in a supply chain mentioned by its definitions, a modern supply chain management should pay attention to horizontal business relationships or collaboration (Mason & Boughton, 2007). Based on the discussion above, the model proposed in this chapter for the governance of networks is assumed to work for supply chains as well as other forms of network organizations and give some understanding of sustainability of supply chains and organizations in supply chains. As mentioned above, being competitive, which is here considered to be closely related to sustainability¹ is mainly subject to being in a competitive supply chain. This necessitates determining most proper strategy to govern a supply chain, namely network of organizations. Sustainable whole networks require formalized governance processes imbued with enough authority and legitimacy to build trust within a network and negotiate the tensions between exploitation and exploration, namely achievement of ambidexterity at network level (Carter et al., 2013). Approaching to the supply chains from a network base perspective may also provide beneficiary insights for the management of green supply chains. The initial stage of creating a sustainable supply chain can be the design of the products, which results in less material usage, less transportation costs and remanufacture

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