

INTERORGANIZATIONAL NETWORKS

Interorg'l interactions involve many communication & exchange relations, creating various types of **interorganizational networks**:



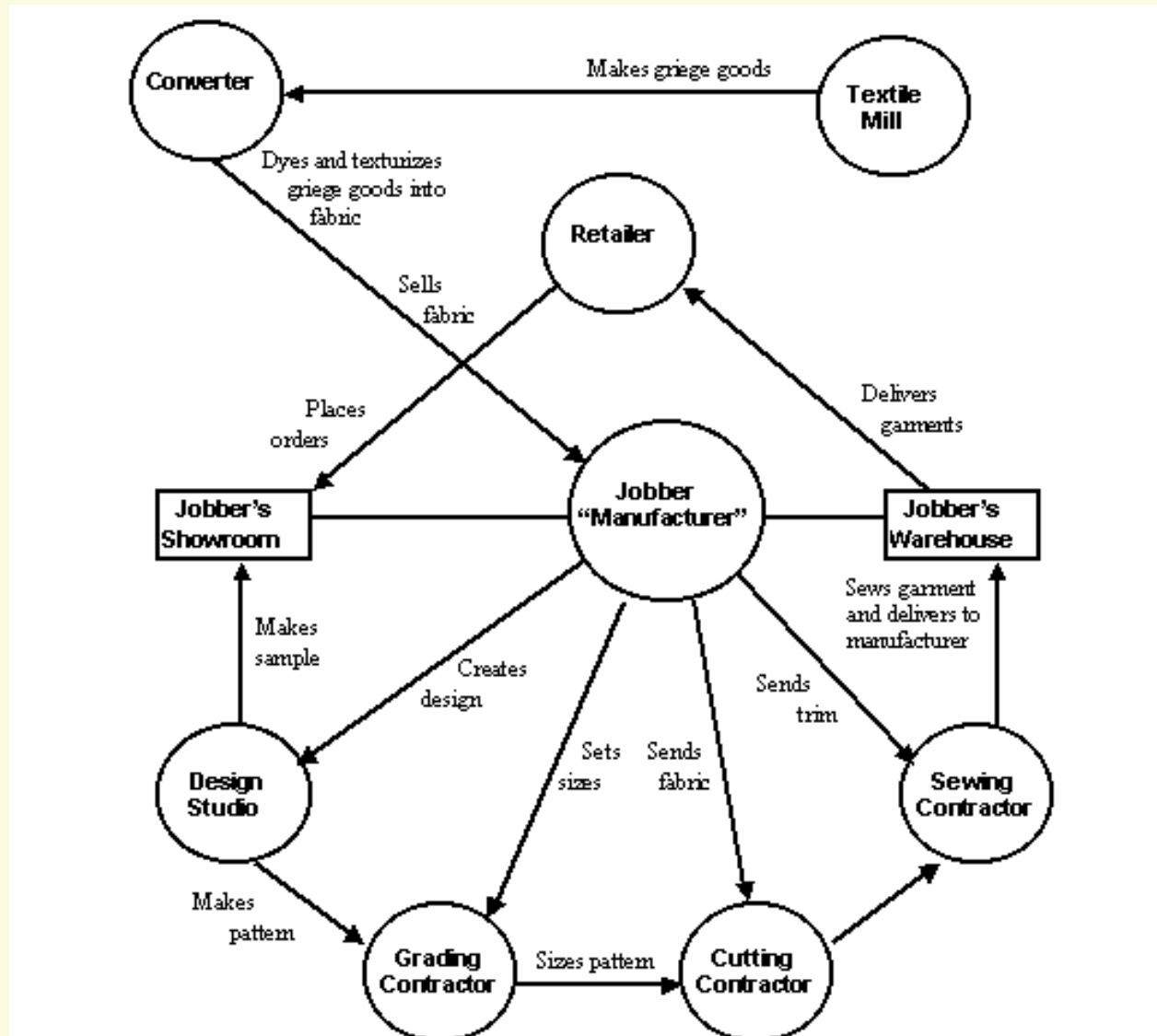
- ▶ Spot market transactions
- ▶ Relational contracting
- ▶ Mergers & Acquisitions
- ▶ Interlocking board directorates
- ▶ Joint ventures & IJVs
- ▶ Strategic alliances

Network analysts examine **relational contents & structural forms** among interconnected organizations. They seek to explain:

- (1) Which orgs decide to form interorg'l relations & what types of ties?
- (2) What are the patterns of interorg'l communication & resource exchanges in those networks? What density, centralization, etc.?
- (3) How do networks shape org'l behaviors & performance outcomes?

Relational Contracting

A typical small interfirm production network is NYC better dress industry:



SOURCE: Brian Uzzi. 1997. "The Sources and Consequences of Embeddedness for the Economic Performance of Organizations: The Network Effect." *American Sociological Review* 61:674-698.

Mergers & Acquisitions

Corporate mergers, acquisitions, & buyouts are common ways firms try to increase company size, market share, and stock value. Largest U.S. **merger waves** 1992-2000 & 2003-present. Worldwide 2006 = 40,000+ announced M&As for \$3.66 trillion.

Friendly M&As: AOL + Time Warner: \$178B in 2000

AT&T + BellSouth: \$73B in 2006

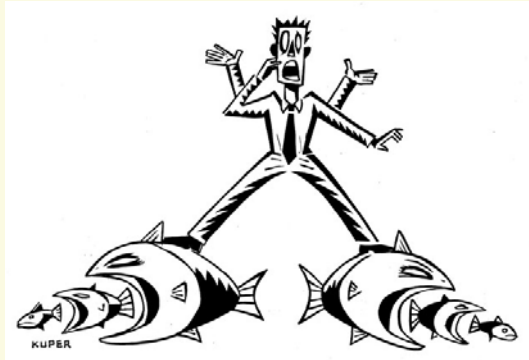
Hostile takeovers: Last week, BEA rejected \$6.7B Oracle offer



Social networks often drive acquisitions: companies more likely to accept a friendly takeover bid if it has many board interlocks to industry firms, commercial & investment banks

A Bad Deal?

Do mergers worsen an acquirer's economic performance?



- M&A requires 35-50% premium over stock market price
- 50-70% of M&As fail to produce positive share returns
- “Synergies” & economies of scale often don't occur
- Integration of two corporate cultures is rarely smooth

Media mergers have been particularly lousy performers:

- ▶ Vivendi bought Universal: stock price fell by 80%
- ▶ AOL-Time Warner: Shares -77%, \$50B written off
- ▶ Vodafone bought Mannesman: stock collapsed
- ▶ Disney bought, then wrote off several dot-coms



However, Boston Consulting Group study of 705 firms 1992-2002 found: Highly acquisitive companies had annual shareholder returns of 11.5%, about same as 11.3% of firms with organic growth. The mixed-strategy group fared only a little worse, with a 10.9% annualized return (vs. S&P 500's 9.3%).

Other People's Money



Watch scenes from *Other People's Money* (1991) starring Gregory Peck, Penelope Ann Miller, and Danny DeVito.

Larry “the Liquidator” Garfield tries a hostile takeover of Peck’s money-losing New England Wire & Cable Co. He wages a proxy fight to win control, but plans to sell-off the mill. If successful, Larry and his backers will reap big profits but the W&C employees will all be put out of work.

What are the conflicting stockholder & stakeholder interests depicted in this dramatization?

Do you agree with the treacherous W&C president: “Everyone looks out for their own self-interest. What’s in it for me – isn’t that what it’s all about?”

Or should other moral principles than profit-maximization govern the corporation?

What would happen to capitalism if jobs and community welfare took precedence over the bottom line?

Interlocking Boards of Directors

Two firms have **interlocking director boards** when executive of one org sits on other's board, or firms have a common director(s).

Concomitant = Director holds two corp board seats at the same time

Serial = Director rotates seats over time, businesses & governments



In 2001, Sun Microsystems held seats on four media corporations – Disney, AOL Time Warner, Knight-Ridder, General Electric/NBC

Theorists disagree on origins & impacts of board interlocks:

Resource dependence: Dependent org gives director seat to other firms controlling its most problematic goods/services (cooptation)

Bank hegemony: Finance sector (banking, insurance) dominates industries that have heavy capital requirements (credit, securities)

Managerial domination: CEO controls his company by manipulating proxy elections to put friendly CEOs from other firms on the board

Social cohesion: Multi-seat directors discuss the “big picture,” thus coordinate political interests & actions of the Capitalist Ruling Class

EXERCISE

Due to a sudden death, MINN-Widgets must urgently fill a vacancy on its board of directors. M-W needs to: raise \$2B capital to expand into China; clean up toxic waste at two plants; develop a better sexual harassment policy; and fight a shareholder lawsuit over excessive CEO pay. Discuss why each candidate below is a better/worse choice:

- **Anne Baker**: Vice Pres. of Second Fourth Bank; former staffer at World Bank; sits on boards of NOW and several liberal cause orgs
- **Charlie Dane**: Friend & personal lawyer of M-W's CEO; on boards of eight investment banks and manufacturing firms; extensive ties to U.S. Dept of Justice, Chamber of Commerce, Am Bar Assn, etc.
- **Eva Fong**: Executive Director of Friends of China; extensive links to East Asian communities and NGOs; mostly had an academic career, with some federal government posts, but little business experience
- **Gary Homer**: President & Chief Scientist of Ecospill; on advisory board of Environmental Protection Agency; major financial backer of anti-conservation and right-wing orgs

A Transnational Business Community?

Are transnational interlocks creating a “global capitalist class”?



The 176 largest global corps show modest interlocking: “... from 1970s to 1990s an **Atlantic business system** developed. However, Japanese firms were not integrated into this network.” (Carroll & Fennema)

For 1996, Figure 3 shows “...less of a concentration of interlocking among a few firms, and more inclusion of French, Swiss, British & North American companies.”

Kentor & Yang Figure 2 shows higher U.S.-European board integration: “**There is indeed an emerging transnational business community.**”
The two replies maintain their disagreement; what side do you take?

Does a growing global concentrated of financial power via interlocking corporate boards threaten popular control of governments and economies in democratic nation-states?

Could communication among interlocked directors lead to collusion & illegal behaviors (price-fixing, stock manipulation)?

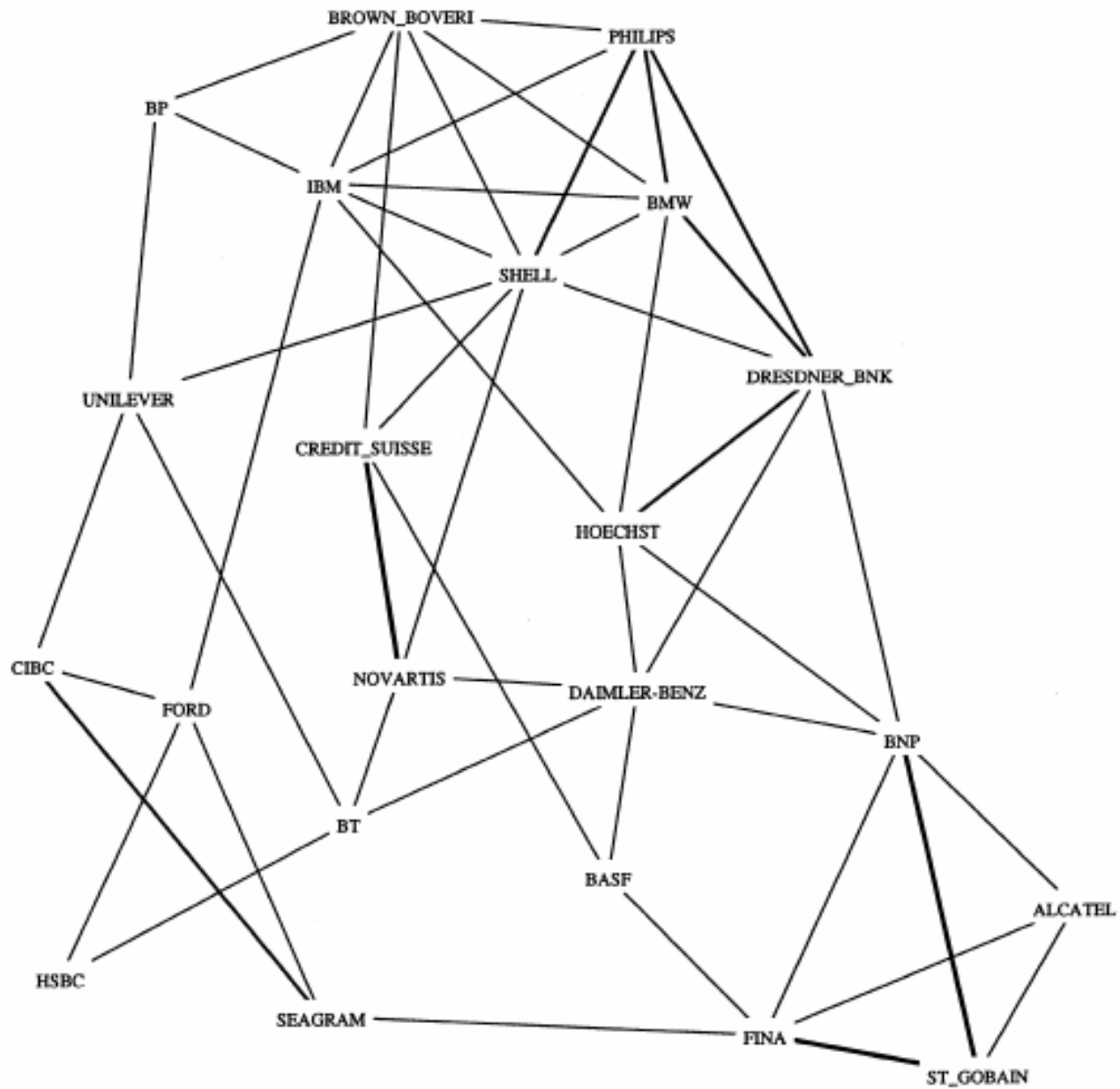


Figure 3 The Core of the Transnational Network, 1996
 Line thickness indicates the number of shared directors

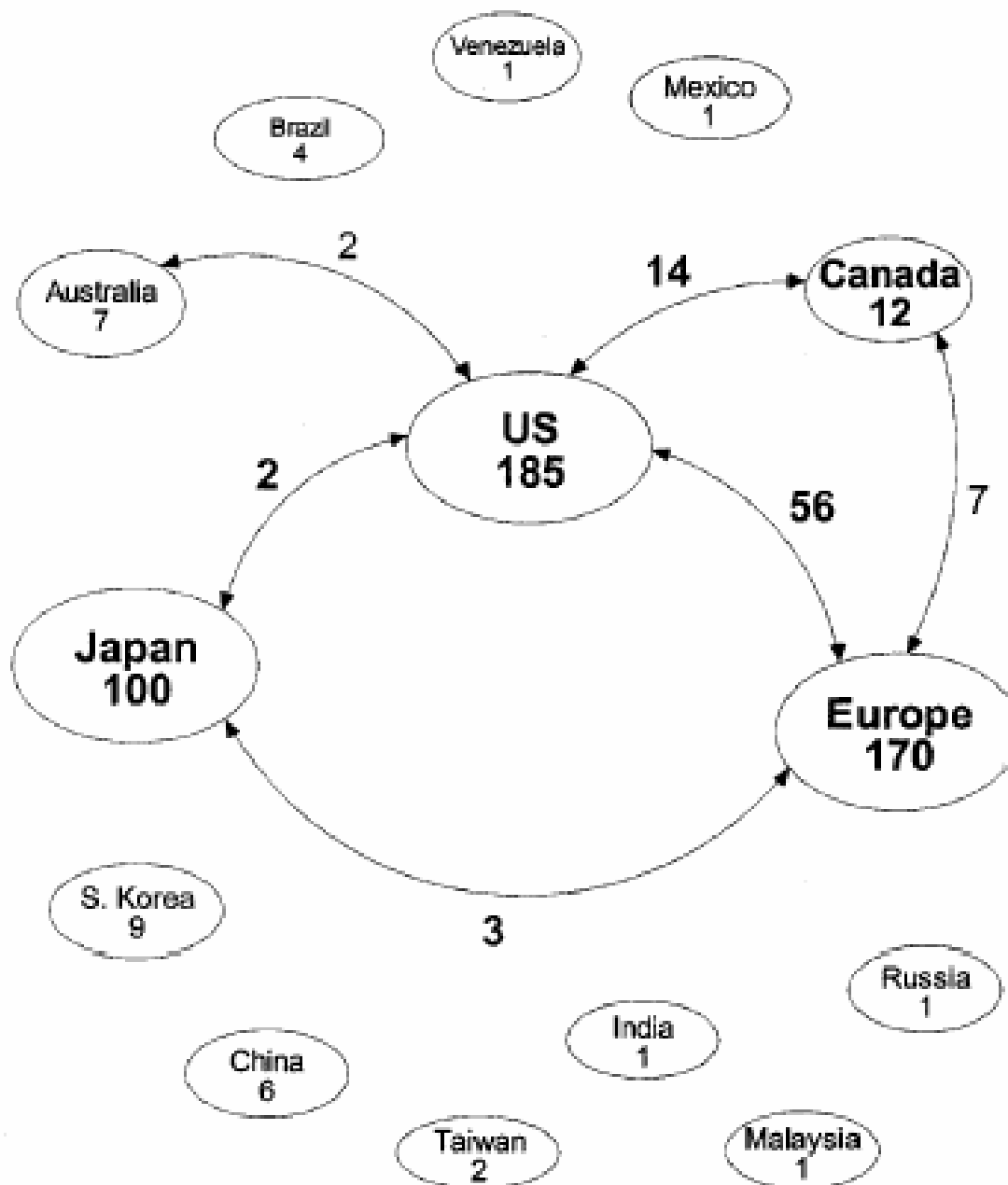


Figure 2 Distribution of Global 500 Firms and International Interlocks in 1998
(Number of Global 500 Firms within Circles)

Strategic Alliances

Strategic alliance: An agreement among partnering firms that:

- (1) remain legally independent;
- (2) share managerial control over performance of assigned tasks;
- (3) make resource contributions in strategic areas, e.g., inventing technologies, manufacturing, or penetrating new markets;
- (4) agree on how to distribute any benefits resulting from their alliance.



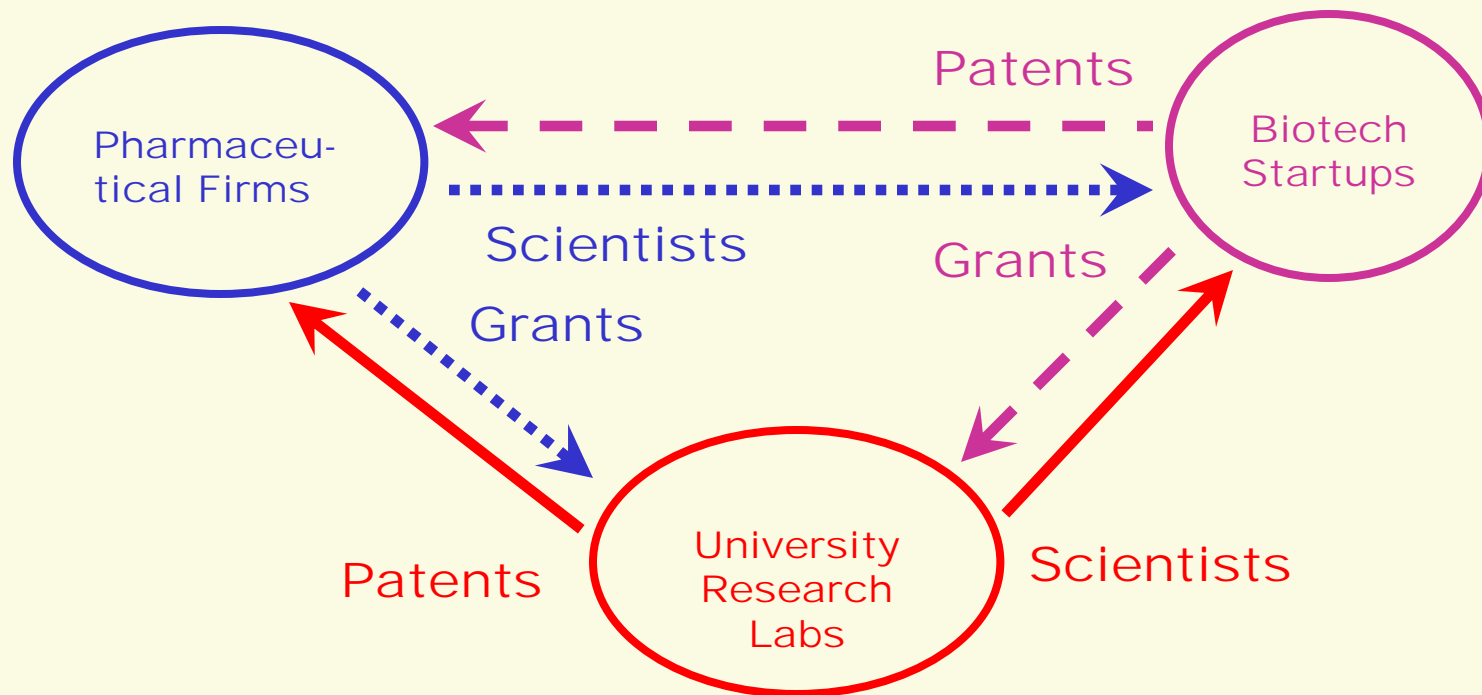
Communication networks can facilitate the flow of information among potential partners about alliance opportunities. CEO friendships, board interlocks, professional ties can all serve as intelligence-gathering channels.

Because **trust among partners** is so crucial for success, communicating with partners-of-partners can help to verify past performance or misconduct.

Strategic Alliance Simulation

This Strategic Alliance Simulation involves interorg'l communication and resource exchange networking in the biotechnology field

Three types of orgs each hold two types of resources. They compete to find alliance partners willing to exchange a required third resource.



ORG'L GOALS: Form alliances with partners willing to exchange resources & to acquire the most resources at the lowest "price"

Rules of the Game

THE SIMULATION RUNS IN FIVE STAGES

- 1: Simulation Master randomly assigns students to **3-person color-coded orgs**. Meet to decide your org's **division of labor** – choose a CEO, Accountant, and Alliance Negotiator.
- 2: Negotiators **communicate** with other orgs' CEOs to **obtain information** about what resources they hold and their interest in forming a strategic alliance. (How many of their resources would CEO be willing to exchange for the resources your org holds?)
- 3: Your org's members meet to **process information** gathered by your Negotiator. Identify possible target org(s) with which your org could form strategic alliance(s).
- 4: Negotiators form alliance with target org(s) CEO, by exchanging resources (colored papers) to **complete an alliance deal(s)**.
- 5: When time's up, Accountants **count acquired resources** & report to Simulation Master, who tallies results and declares a Winner.

Shorter Writing #4:

Interorganizational networks take a variety of forms for different purposes. Drawing from the readings, lectures, videos, discussions, and/or your participation in the Strategic Alliance Simulation, discuss EITHER:

(A) How can organizations use their communication networks to exchange information about other orgs' resources, their interests in forming a collaborative project, and their behavior in previous strategic alliances? How could information acquired through such networks help to improve organizational performance?

OR

(B) How might interlocking directorates among large corporations, at the national and transnational levels, create a cohesive capitalist class? In what ways could organizations belonging to such interlocking board networks obtain competitive advantages?

DUE in class Thursday, November 1

PAPER SPECS: Maximum word limit = 500, typed double-spaced with one-inch margins, 12-point Times Roman font. Include your name and student ID, Assignment #, and "Word Count = 000"