Governance and Management of Horizontal Business Networks: An Analysis of Retail Networks in Germany

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Abstract

The paper examines two important elements in the development and effectiveness of horizontal business networks: governance and management. Case studies were conducted in three horizontal retailer networks in Germany with the aim of understanding how these networks are structured and which internal governance mechanisms support their development. Through secondary data and in-depth interviews, the study shows that the retail networks developed and implemented their own governance mechanisms and management structures to retain and attract a large number of members, facilitate strategic decision making and increase their effectiveness. The results highlight that governance structures are transitional and adapted according to specific contingencies. In the cases studied, the growth and effectiveness of the business networks have demanded changes in the governance structure, with greater autonomy for professional network managers. Although the retail network keeps its cooperative character, there is a trade-off, in which member-firms agree to delegate greater decision making power to managers in exchange for greater network efficiency and competitiveness.

Keywords: Retail networks, Business networks, Cooperation, Network governance, Network management

Introduction

Academic discussions on interorganizational cooperation have advanced significantly in recent decades. Aspects such as the forms and characteristics of interorganizational relations (Grandori and Soda 1995; Marcon and Moinet 2000; Todeva 2006); the reasons that lead firms to choose the cooperative strategy (Axelrod 1984; Child and Faulkner 1998); and the kinds of results achieved through this strategy (Podolny and Page 1998; Dyer and Singh 1998; Zineldin and Dodourova 2005) have been examined in many studies. However, few scholars have attempted to analyze the internal processes of cooperative arrangements, their formal structure of governance and management practices. This has led to a preponderance of information on inputs and outputs of cooperation, but relatively little knowledge about how to manage cooperative arrangements (Pereira and Pedrozo 2004; Hibbert et al. 2008) and the problems involved in managing collective activities (Park, 1996).

In this paper we focus on horizontal cooperation networks. This is a form of cooperation in which legally independent firms from the same sector of activity, often current or potential competitors, act collectively in order to strengthen their competitive position in relation to competitors or in relation to the preceding or subsequent links in the value-chain (Zentes et al. 2003). The continuity of cooperation is contingent upon the ability to achieve the proposed objectives and make the members more competitive. For this reason, network governance and management are key aspects for the development of the network and the achievement of the proposed goals.

From a managerial perspective, the field of studies into interorganizational networks has gaps that represent research opportunities: there are relatively few studies aimed at understanding the organization, governance and management of networks, as shown in the meta-studies from Oliver and Ebers (1998), Brass et al. (2004) and Balestrin, Verschoore and Reyes (2010). Furthermore, studies into interorganizational relationships are largely static, they imply that networks remain in a state of balance and fail to take into consideration the fact they undergo dynamic processes of change, as highlighted Doz (1996), Sydow (2003), and Oelsnitz and Tiberius (2007) and Tiberius (2008). As exceptions, one can refer to the studies of Ring and Van den Ven (1994) and Sydow (2004), who suggest networks have their own developmental dynamics.

This study aims to fill part of this gap by investigating how three horizontal cooperative networks of retail firms established in Germany are structured and which governance mechanisms they employ to support their development. There is a long history of business cooperation in Germany, so much so that in some market segments the cooperative networks are dominant and compete on an equal footing with national and multinational companies (Dannenmaier et al. 2003). The fact that many business networks have remained competitive for a long period of time, adapting to market changes, makes them an interesting object for study, which offer some insights into how to structure and govern horizontal cooperative retail networks.

We follow the suggestion from Provan, Fish and Sydow (2007) and study business networks at the network level rather than the organizational level of analysis. According to these authors there are few studies that analyze this level and only by examining it can we understand such issues as how networks evolve and how they are governed. We focus specifically on cooperative retail networks and show that these networks developed their own micro-governance mechanisms and adapted their management structure in order to grow and reach higher levels of effectiveness over the time.

1. Governance of Interorganizational Relations

In studies of interorganizational networks, the term governance is used from two perspectives. Williamson (1975) uses the concept of network governance as an alternative form of governance of economic activities, on a continuum between market and hierarchy. This approach is studied by authors such as Jones, Hesterly and Borgatti (1997) and Powell (1990) who examine why and under what conditions firms choose network governance rather than hierarchical or market forms. In other words, these authors discuss the situations in which network governance is superior and has advantages over market and hierarchical forms. In the other view of governance in interorganizational networks, it is characterized as the rules of the game (Riemer and Klein, 2006), the design of the structure, the internal organizational and coordination elements of the networks (Provan and Kenis, 2007; Albers, 2005) and is referred to as micro-governance by Theurl (2005).

Once the decision to opt for a cooperative strategy has been taken, the member-firms must decide which governance structures and mechanisms should be adopted by the business network in order to achieve the best results. Conceptually, governance refers to the set of rules, restrictions, incentives and mechanisms applied to coordinate the participants in an organization. Theurl (2005) calls it micro-governance and points out that the rules include procedures for cooperation, management, decision-making, conflict-resolution and ways to adapt the operation, including entry and exit rules, as well as communication structures.

In addition, in the case of interorganizational networks, the need for governance arises because there are managers (network members or contracted) who assume the role of representing the interests of member-firms. What differentiates the governance of business networks from that of corporate governance is that the actors are firms, not individuals. In a cooperative network, the governance structure is the result of a bargaining process between the firms participating in the arrangement or their respective managers. These firms agree to forfeit their freedom to some extent and enable the cooperative arrangement to coordinate certain aspects of their businesses under the system of rules created by the group (Albers 2005).

1.1 Governance structures and mechanisms

The simplest structure is shared-governance, in which groups of firms work collectively without a formal and exclusive administrative entity (Provan and Kenis 2007). Governance occurs through formal or informal meetings of representatives from the firms involved. Although its strong point is the involvement of all partners, this model is generally not very efficient because it depends on actors whose own organizations demand a great deal of their time and resources. This model of governance is difficult to maintain and it is more likely to work in networks with few members. Jones, Hesterly and Borgatti (1997) argue that there may be a relation between network size, the adopted governance structure and the performance of member-firms.

As an alternative to shared-governance, interorganizational networks often opt for the creation of a network administrative organization (NAO) in order to manage the network and its activities (Provan and Kenis

2007). Park (1996) calls this structure as trilateral governance structure, a management entity composed of professional agents in order to administer the process of collective decision making. Member-firms can work with each other, but the key decisions and activities are coordinated through a separate entity. This entity has decision making power over the members and monitors the cooperative activities, with limits defined by the member-firms themselves.

One of its weaknesses is that member-firms in the network may come to rely too heavily on the NAO and decision making processes can become bureaucratic. So, in the pursuit of efficiency, there is the risk that decisions will not be taken by the members, but for the members by the NAO (Provan and Kenis 2007). Hybrid governance forms are developed from these basic forms. In addition, Provan and Kenis (2007) believe governance structures may be transient in nature and become modified as the network develops.

Unlike the analysis of generic models of governance provided by Provan and Kenis (2007), Albers (2005) conducted a review of the internal governance mechanisms used to achieve better performance in interorganizational relationships. These can be defined as rules for participation, decision making and the instruments used to influence the behavior of the member-firms, in accordance with specific goals. At this level of analysis, the governance mechanisms are structured so as to offer motives or incentives for actors to behave in accordance with the proposed objectives, even when alternative behavior might be or seem more appropriate in the short term.

When analyzing the governance of interorganizational relationships, Albers (2005) focused on two dimensions: the structural and the instrumental. The structural dimension of governance characterizes the way in which the cooperative agreement is organized and regulated, including the formal rules on how the network or alliance will be managed (Oxley 1997). According to Albers (2005), this dimension refers to the centralization of decision making within the group, formalization of activities, rules and regulations and specialization of governance. Although there is a limit to the centralization of decision making processes in cooperative networks, Albers' (2005, 2009) studies show that the increase in the number of members in the network is positively associated with the centralization of decision making. As the number of members in the network grows, it becomes important to obtain a higher degree of centralization in decision making and formalization of activities in order for the collective goals to be achieved.

On the other hand, the instrumental dimension of network governance concerns the instruments by which the management, organization, regulation and control of the network are put into effect so that the member-firms behave in the manner required to achieve desired goals (Oxley 1997). This dimension involves the use of coordination, incentive and control mechanisms (Albers 2005). Coordination includes mechanisms such as the supervision of the actors and the standardization of processes. Incentive mechanisms or tangible and intangible rewards, as part of a governance structure, are used to change the behavior of agents to achieve the objectives of the arrangement (Albers 2005). Finally, control is the process of monitoring and evaluating the performance of individual actors, in relation to expected results and behaviors.

2. Management of Interorganizational Relations (IOR)

In addition to governance, the effectiveness of a business network is enhanced by network management practices, which allow the objectives to be achieved and the member-firms to improve their individual performance. According to Hibbert et al. (2008), the management of an interorganizational network refers to a series of processes and practices undertaken by a team of individuals focused both on defining the direction to be taken by an interorganizational entity and in the implementation and allocation of resources to achieve those purposes. Sydow (2006) argues that the management of an interorganizational network implies significant changes to the functions and management practices, compared with those used in hierarchical organizations and corporations. One must consider the existence of confluent but not necessarily consensual interests, of interdependencies and the need for strategies that members are willing to implement. The more complex the networks become, the more difficult it is to manage them (Hage and Alter 1997).

By reviewing and comparing the studies that address the management in IORs it is possible to assemble a set of practices considered important by the authors, although they use different nomenclatures. The selection and regulation of members are considered by authors such as Ritter and Gemünden (1998), Sydow and Winderler (1994) and Grandori and Soda (1995). This practice concerns the identification and admission of new members who are able to contribute to the network and whose profile suit the culture and strategies of the network (Ritter and Gemünden 1998).

Another set of practices, cited by Sydow and Winderler (1994) and Grandori and Soda (1995), involves the planning, communication and evaluation of strategies. Even though they may be traditional business

management practices, Sydow and Winderler (1994) point out that these functions should be modified so as to follow the dynamics of networks, which are kept in operation based on constant negotiation processes. Moreover, the evaluation of the results provides information that feeds back to the management of the network and should result in changes.

A third set of cited practices concerns motivating the members to learn, exchange information and knowledge and to generate innovations. Ritter and Gemünden (1998) refer to them as the exchange function, related to encouraging the network members to exchange knowledge about markets, technologies, products and management practices among themselves. That is, the network management should be able to leverage these exchanges, which reflect on learning, innovation and performance, as pointed out in the study by Balestrin, Vargas and Fayard (2008).

In addition to these three sets of management practices, business networks offer their members a portfolio of services designed to overcome the competitive weaknesses of individual firms (Balestrin, Verschoore and Reyes 2010). In a study of the 15 largest horizontal retail networks in Germany, Ahlert et al. (2006) identified a range of services offered to members, from negotiating and purchasing from suppliers, marketing, personnel development, to financial services, quality management, inventory optimization and market research. Each network is able to define those services that are most relevant to its members.

The first two sections of the article have presented theoretical approaches about two elements considered relevant to the development of business networks and that are thought to contribute towards the competitiveness of member-firms: governance and management. Figure 1 summarizes the main points discussed and the variables that formed the basis for the empirical study presented in the following sections.

[Insert Figure 1 here]

3. Methodology

Currently some 200 000 retail firms in Germany participate in cooperative arrangements, gathered in more than 320 business networks in 45 industries, which generate 2.4 million jobs and an annual turnover of 350 billion Euros (Veltmann 2009). Among the sectors with the largest number of horizontal business networks are the food (38 networks), furniture (32 networks), building materials (24 networks), clothing (24 networks), auto parts and accessories (24 networks), domestic appliances and communication (22 networks) retail sectors.

The present study examines the micro-governance and management of interorganizational retail networks and the changes in the structure of these networks over time. For the analysis, a multi-case study was carried out involving three horizontal cooperative networks in the retail sector in Germany. The multiple case study, which involves more than one case and allows comparison and confrontation, is a variation of the case study, a method used in order to investigate a phenomenon within its real context using multiple sources of evidence (Yin, 1994).

The studied networks were selected based on an exploratory interview with the executive director of *Zentralverband Gewerblicher Verbundgruppen* (ZGV) (Note 1), who recommended them because of their historical development and the results they have achieved in the market. These factors make them suitable objects of study for the analysis of governance, management and the changes implemented over time to sustain the development and competitiveness of member-firms.

The research was conducted with the following retail networks: Intersport (sports equipment); Expert (electronics and related industries) and; ANWR (retail footwear, sporting goods and bicycles). The retail networks (Table 1) have been in existence for between 47 and 90 years, and comprise more than one sector of activity, working nationally and internationally with members in other countries or through cooperation agreements. A detailed description of the networks and their governance and management practices is presented in the analysis section of the paper.

[Insert Table 1 here]

3.1 Data collection, research protocol and data analysis

Data were gathered from multiple sources, allowing for triangulation of the data, as suggested by Yin (1994), for the conduct of case studies. Secondary data on the surveyed networks were used, especially published studies, communication materials and annual reports of the activities provided by the networks. Moreover, in-depth interviews, using a semi-structured script, were held with the president or director of each of the networks. The interviews were conducted in August and September 2009 at the head office of each network, lasted between 75 and 120 minutes and were transcribed for analysis.

The research protocol was based on the theoretical review of management and governance in interorganizational networks and the variables outlined in Figure 1. In relation to network governance, the design of the interviews focused on the variables, centralization of decision, standardization and control mechanisms used by the networks in the light of studies by Albers (2005, 2009), Oxley (1997) and Provan and Kenis (2007). Respondents were also asked about the changes that occurred over time in order to understand the dynamics of change in network governance. Regarding network management, the selected variables were planning, reporting and evaluation, selection of members, the encouragement of learning and innovation and the services provided to the members, according to observations made by Sydow and Winderler (1994), Grandori and Soda (1995), Ritter and Gemünden (1998), Balestrin, Verschoore and Reyes (2010), and Ahlert et al. (2006).

Once transcribed, the interviews were analyzed according to the categories described above and divided into two subsections for each network: governance and management. In the discussion section, the features of each network are compared, with special attention to the similarities and differences between their governance mechanisms and management practices. In addition, the relationship between the governance structure and management practices of these retails networks was analyzed in the light of the growth and development of the networks over time.

4. Governance and Management of Horizontal Retail Networks in Germany

The data collected from the three cooperative retail networks are initially presented separately, through a description of each network and its governance and management structures. Later in the article, comparisons are made that highlight the similarities and differences between the networks, as well as a discussion in the light of the theories presented.

4.1 The Intersport retail network

Founded in 1956, Intersport brings together sporting goods shops and currently ranks first in the German market with a share of 34%. The business network consists of 1200 member-firms and more than 1500 outlets, of which 800 use the network brand (Intersport 2009a). In 1999, Intersport assumed control of Golden Team Sport, at the time the third largest cooperative network of sporting goods stores in the German market. In early 2003, the second largest branch network of sports shops in Germany (Sport Voswinkel) was acquired by Intersport. In 2004 the network again shifted its business model by acquiring a member-firm that was up for sale and whose removal would considerably reduce the size of the network. As the acquisition was considered strategic, it was made by the directors and then communicated to the General Assembly of members.

Intersport Germany is co-founder and member of Intersport International Corporation (Switzerland), which brings together retailers from 25 countries (Intersport 2009b). International expansion and acquisition or merger with networks in related business areas is part of the network's growth strategy, which is seen as a necessity in a globalized economy with large suppliers. The interview was conducted with the president of Intersport in Germany, who also occupies the role of vice president of Intersport International.

4.1.1 Governance of Intersport

The decision making structure follows the cooperative model: the network member-firms elect the council (which has control and supervisory functions) and which in turn, elects the board (with management functions). Although the rules of network governance provide decision making autonomy to managers, according to the network president "decisions are slower than in a centrally managed company, but the network needs to live with that. The feeling cannot arise within the network that decisions are removed from the reality of members, for whom the network in fact exists".

Originally all the participants were linked to the cooperative network, but a few years ago the network added an affiliated company to its structure, to which retailers that are considered passive members are linked, as they take no part in the decisions of the cooperative network. These members meet in an advisory council that forwards suggestions and proposals, without being able to vote at the general assembly of the network.

Due to the network's geographical scope and the number of members, regional guilds have been developed as a governance mechanism. This mechanism allows discussion of topics relevant to the network, serving as a communication channel to the members regarding decisions and strategies, but also for businessmen to discuss the strategies of the network and generate feedback to managers. Each guild (there are around 100 in the country) has one representative and there is an informal rule that those who wish to apply to the supervisory board of the network need to be representatives of guilds.

As the network acts as a guarantor for the purchases of each firm from the suppliers, the network exercises control of the retailers by examining their financial indicators. A significant group of stores (500) uses a management system that connects them directly to the NAO, providing real-time information to network managers. The network does not require standardization of marketing activities and does not control the activities undertaken by the member-firms, except for national and regional campaigns which members identified with the Intersport brand are encouraged to join.

4.1.2 Management of Intersport

Intersport employees perform administrative activities and provide services such as product assortment, marketing, professional and ongoing training and IT support to members. Moreover, the network finances the sales in member-firms, assuming the responsibility for payments to the supplier partners.

The network adopted a strategy of hiring regional consultants (15 nationwide), whose role is to encourage communication between the NAO and the retailers. These consultants are charged with identifying the needs of firms in terms of support and channel the demands to the headquarters, which seeks to solve the problems by retaining experts in various subjects or by hiring outside experts.

One difficulty faced by the network is the fact that it grew rapidly in the past, with insufficient criteria being applied in the selection of members. This has led to the current situation where there are member-firms of very different features and sizes. From the standpoint of the conditions offered by the network, those members cannot be treated exactly the same. According to the president, "the network firms do not receive the same treatment, but the conditions offered by the network are the same for all. Those who are prepared to contribute more to the network also get more". The network has adopted a range of discounts, according to the volume of purchases made by each member.

The satisfaction of the members regarding the network is assessed annually by an outside consulting firm. The fact that there are few requirements for member-firms – in relation to adoption of the brand, standard visual presentation of the network and supplier partners – requires that the management of the network has to be especially effective. According to the president, the freedom of members to choose between the services offered by the network or obtaining those services elsewhere means that the network has to ensure it is being extremely efficient.

4.2 The Expert retail network

Expert is a coalition of 230 independent retail electronics firms, with at total of 410 stores in Germany. Created in 1962, the current configuration of the network is the result of mergers with other smaller networks in various regions of Germany. Some years ago, the network had its own subsidiaries responsible for the wholesale activities and services for members such as marketing, IT-management and insurance. International cooperation also has a long history: since 1967 there has been an international alliance of the segment and there are currently 7400 stores linked to International Expert in 22 countries.

In 1980 a group of firms from the electrical installation, automation and heating sectors, currently totaling 35 firms, came together under the umbrella of the Expert network. A third branch of the network consists of retailers from the electronic communication, navigation systems and telephony sectors (Expert, 2009). These three segments make Expert a multi-sector network, where the management and delivery of services seeks to enhance synergy between the sectors.

Recently, Expert has created a company responsible for coordinating the ten wholly owned subsidiaries, so that the network can take on stores where there is no successor to the business, preventing them from being taken over by competitors. The subsidiaries are treated as member-firms, but are 100%-owned by the network and have no power to vote at meetings of the Council. The data collection interview was held with one of the network's top executives, suggested by the President of Expert.

4.2.1 Governance of Expert

According to the executive, the network continues to be a cooperation of independent firms, although over the years there has been an advance toward the branch system. Since its establishment, the network has been legally structured as a limited company because this status facilitates legal entry and exit of members. The character was cooperative: one member, one vote. In 2000 the structure was changed to a stock corporation whose shareholders are the member-firms. Relations are governed by a share contract and a license contract with the rights and duties of the shareholders.

In view of the interviewed executive, the share-ownership structure provides the retail network with advantages.

The value of the shares serves as a guarantee for purchases that each firm makes from suppliers. The income tax paid annually by the network on the capital (12%) encouraged participants to invest in the network and to accumulate enough capital for the group's strategic projects. Finally, changing the structure of the network changed the weight of each member in group decisions: with the share-ownership structure, members who have more shares also have more votes. Each firm has at least 15 shares, with a maximum of 100, obtained by integrating capital or by converting the annual bonus into shares.

Decision making is the responsibility of the network managers in conjunction with the supervisory board - elected by shareholders and comprising six members, of whom at least four are retailers - with autonomy regarding the group strategies. "Difficult decisions that affect the members in a particular way must be taken by consensus. It is important that the council is representative, that the structure of retailers [in terms of size and location] is represented." Below the General Assembly of shareholders, the network has established 12 regional groups for the discussion of issues related to network.

4.2.2 Management of Expert

The network offers storeowners a wide range of services from central purchasing with guarantees for the suppliers, guidance and advice on the use of IT systems, marketing activities, point of sale and layout development, merchandising and staff development.

There is no obligatory use of brand or visual standardization, though currently, most stores are identified. The contracts do not even oblige the members to purchase products from partner suppliers. According to the executive, the firms may, but are not required to take part in activities and services. "We define that for all the services we offer we need to win 75% of the members, because that means that the service is useful and interesting to them. This is the minimum percentage necessary to achieve a good cost-benefit ratio, but we cannot force them to join". Besides the 12 regional groups established by the network as a governance facilitator, the network has created marketing groups as a management tool. For the interviewed executive, "at this informal level the information flow and exchange of experience is much more effective and intense than at the formal level."

The network also has six regional managers in direct contact with the members. These managers are responsible for visiting the members and offering support as well as monitoring their activities and keeping the headquarters informed. If necessary, the headquarters draws up an action plan that should be carried out by the retailer under the supervision of the headquarters. "When measures are not taken or fail to function, the network reduces the member's limits or no longer accepts responsibility for their purchases."

4.3 ANWR Gruppe

The interview was conducted with the president of the Ariston-Nord-West-Ring (ANWR), which is the result of the merger of several German cooperative networks in the footwear and sporting goods sectors over 90 years. Currently, ANWR acts as a holding company controlling companies which provide services to the member-firms, two banks belonging to the group and three cooperative networks to which retailers are linked. The banks finance about 10,000 firms, including members and external clients, as well as granting credit for opening new stores, refurbishments and expansions.

The main cooperative network in the group is ANWR Schuh, with 1500 shoe retailers and about 3800 stores. As the segment that established the network, these members are controllers of the group and are entitled to vote at General Meetings. In the footwear segment, the network offers three business concepts: Quick Schuh (mass-market shoe franchise), Best Partner (for class A shoes) and Street & Sport (sports and leisure products franchise). Sport 2000 (sporting goods stores) is a second associated network, to which 800 firms are linked with 1000 outlets in Germany, and another 150 stores in Switzerland (ANWR, 2009). The third associated network operates in the bicycle and accessories segment, with 500 retailers in Germany.

Growth has always been a clear goal for the network and this was also a major driver for mergers between cooperative networks that resulted in the current configuration of ANWR. According to the president, "the survival of small cooperative networks in the long term is impossible, because there are many services that can only be offered when there is a minimum number of participants". Sales turnover is also a key factor to achieve representativeness in the industry, especially with global suppliers.

4.3.1 Governance of ANWR

Within the governance structure of ANWR, network managers have full autonomy to make strategic decisions which are regularly discussed with the nine retailers that sit on the supervisory board. Regarding the managers' broad decision making autonomy, the President recalled that the Assembly has the power to remove them and

that firms disassociating from the network would be a clear sign that strategic decisions are not correct, thus demanding change. Each network has an advisory council, a mechanism that offers the businessmen an opportunity to influence decisions that affect their business, although they are not entitled to vote at meetings of the network.

The control exerted on the members differs according to the business concept they are in. For franchisees (Quick Schuh and Sport & Street) there is little autonomy for the shops, including in the choice of the product range, which is decided at the headquarters. As a general control mechanism, ANWR requires regular financial statements from member-firms, since it acts as a guarantor of purchases from suppliers. "When the situation is not positive, the headquarters provides consultants who examine the business and suggest solutions or modifications. If the retailer wants to work with us, we undertake a program of restructuring or reorganization, if he does not want to accept change, then we stop working together."

4.3.2 Management of ANWR

Due to its size, ANWR has one management structure for the corporation (ANWR Gruppe) and distinct management structures for each associated network. The managers of each segment and the chairman of the holding company form the board of directors of the group, which is responsible for general strategy. The second level consists of 20 officers linked to the various areas that make up the group. Because of the rapid expansion of the network, there are member-firms with different sizes and characteristics. To keep the network attractive to large firms a bonus system was created that favors firms with purchase higher volumes. Everyone receives the same conditions from the suppliers, but the network passes a bonus to those with higher turnover. "In this system, the large businesses have financial advantages and small businesses have access to products that they would never have access to individually,"

In order to better understand the needs of the members, they are classified into groups according to size and ANWR offers different services and support in terms of marketing strategies. "With the large businesses we work strongly with finance and the expansion of stores, with the small businesses our task is to improve the business, point of sale and improve the product range". ANWR also encourages the entrepreneurs to meet in regional groups, to exchange experiences and benchmarking. However, participation is voluntary and limited due to the existence of competing firms within the group. In order to encourage contact between the members, the network is creating virtual social networks that facilitate communication and the exchange of information among the entrepreneurs.

To evaluate their results, networks in the group have used various tools such as an annual survey of the level of satisfaction of the businessmen with the services offered by the network and the results of the strategies, even including the creation of roundtables in the General Assembly, calling on the businessmen to discuss with network managers and reflect on aspects related to the future of the group. In parallel, each segment also has regional advisers that, besides discussing strategy with retailers, are expected to evaluate the satisfaction of the entrepreneurs (only businesses over a certain size are attended).

The president of the network holding company believes that the cooperative networks managed by the entrepreneurs themselves (shared-governance) find it difficult to develop. "In our case, we have professional management and, furthermore, member-firms can influence the network's decisions through the General Assembly and through the supervisory board, which is composed of businessmen, in order to monitor and control." The interviewee argues that there are two major limitations to networks where the management is made up of entrepreneurs: the inability of the entrepreneur to devote sufficient time to manage both his/her business and the network; and "each businessman that acts in the network management inevitably also represents their own interests. The network needs to protect itself against the possibility that those entrepreneurs who work in the network management focus more on their own interests than those of the collective."

5. Discussion

In all the analyzed cases, the governance structure has moved toward an NAO (Provan and Jenis 2007) or a trilateral governance structure (Park 1996), employing professional managers. The reasons for this is twofold, the growth-based strategy of the networks, requiring professional managers and exclusive dedication, and the perception that conflicts of interest may occur when the entrepreneurs themselves manage the network. The cases indicate that the governance structure in the networks are transient and need to be modified to support their development, confirming the assumption of Provan and Kenis (2007). At a certain moment, the entrepreneurs understand that it would be impossible for a participatory or self-governing structure to sustain the growth of the network and maintain an agile decision making process, confirming the arguments of Albers (2005, 2009).

Drawing a parallel with the structural dimension of governance described by Albers (2005) and Oxley (1997), it can be seen that the three retail networks have opted for a more centralized decision making with a board of directors, together with a supervisory council. Although the cooperative character remains represented in the General Assembly, there has been a reduction in the influence of the member-firms in strategic decisions. The governance structure setup increases agility in decision making and includes specialized managers to decide on the path to be taken by the network.

To offset the reduction in the participation of the member-firms specific governance mechanisms have been developed in the form of members' guilds and regional representatives. These serve to represent groups of members and as a channel of communication, functioning as a mechanism for employers to feel closer to the network and in order that their opinions reach the management. As stressed by the interviewees, the network micro-governance has been modified by the member-firms themselves who are aware that the reduction in participation in decision making would be offset by the possibility of expanding the network and make it more responsive and professional.

Regarding the instrumental dimension of governance (Albers 2005; Oxley 1997), the retail networks have created mechanisms to coordinate and control members. The regional consultants represent a governance tool that enables closer monitoring of activities undertaken by the firms. Nevertheless, the case studies show that networks do not exert strong control over the members, and prefer to stimulate engagement through management practices and collective actions that are perceived as important to the competitiveness of their firms. This is due to the freedom of action that the networks offer the members, with the absence of any obligation to adopt standardization practices or opt for exclusive suppliers. Table 2 presents a summary of the structure and governance structure and mechanisms of the three retail networks studied.

Insert Table 2 here

Three strategies were used by the networks to expand the number of member-firms and the volume of business, so enabling the provision of services that would not be possible with fewer members. The adoption of the system of subsidiaries by Intersport and Expert, as well as the adoption of the franchise system by ANWR, shows the emergence of hybrid models of interorganizational relationships, which combine the cooperative system with the other two. Similarly, the inclusion of related branches within the same network represents a growth strategy and takes advantage of synergies and economies of scale. Mergers have had a key role in the consolidation of networks, encouraging regional groups to become part of larger retail networks or creating new ones.

As noted by the President of ANWR, the development of horizontal retail networks in Germany seems to indicate there is no longer a typical form of cooperation. However, the governance mechanisms created allow these networks to act professionally in the market without losing their cooperative character. "This gives the members the opportunity to play a role in the course of business and prevent us from forgetting our cooperative origins. (...) We must be ever vigilant [to the member-firms' needs] because the network wants to grow and it needs to bring its members with it."

In addition to changes in the governance system, the networks have also developed management practices to sustain their growth and development. As highlighted by Sydow and Winderler (1994), success is measured by examining the financial indicators of the members and through formal mechanisms designed to evaluate the satisfaction of the entrepreneurs with the network and the services offered. The establishment of regional consultants makes it possible to both exercise more subjective control over the activities of entrepreneurs, albeit limited, and also offer support in the solution of their problems.

The increased centralization of the network decision making in the hands of network managers and the fact that there are regional representatives and consultants also has an impact on interpersonal relationships. The interviews indicate that a more professional and centralized managerial setup reduces the participation of members in discussions or group activities. As a result, there may be reduction in the exchange of experiences and information, requiring the adoption of management practices that foster exchanges and interpersonal contacts, as suggested by Ritter and Gemünden (1998) and Balestrin, Vargas and Fayard (2008). One solution was the creation of regional groups, in which entrepreneurs share experiences and discuss aspects of the network.

The fact that members are free to choose whether to take up the proposals made by the NAOs constitutes an interesting mechanism for self-regulation and assessment of the effectiveness of strategies for each network. The non-compulsory membership programs, services and campaigns created by the networks - except in cases of franchises and national standardized campaigns – increases the responsibility of managers when developing actions and strategies. A strategy that is seen as being inconsistent or ineffective by the member-firms will be

automatically rejected or disregarded. Table 3 presents a summary of the management practices used by the networks.

Insert Table 3 here

In the three cases presented here, there is a strong relationship between network micro-governance and network management. Although they are distinct concepts, in practice they are complementary and mutually adjustable. The professionalism and efficiency of network management seems to be an important key to the functioning of a governance system with greater autonomy for the managers and less involvement of the entrepreneurs. In Intersport, Expert and ANWR, the results provided by the strategies set by the management of each network, together with specific management instruments, may have influenced the willingness of entrepreneurs to change the system of governance and relinquish participation in all the decisions regarding the network.

5.1 Theoretical and Managerial Implications

With the analysis of the German retail networks, it is possible to consider the ways in which the variables size of the network, centralization of decision making and professional management are interwoven. While growth is not an obligatory strategy for horizontal networks, when it comes to cooperation in retailing, turnover plays a very important role. A retail network with few members is at risk of not generating sufficient economic benefits to cover the costs of cooperation, leading to an exodus of the membership or its dissolution.

As pointed out by Jones, Hesterly and Borgatti (1997), the empirical results highlight that there is a relationship between the network size and its governance structure. Due to limited resources, smaller retail networks may opt for shared-governance (Provan and Kenis 2007). However, it is likely to prove very inefficient due to the inability of member-firms to devote all their time to the network, with the risk of there being insufficient effort for the collective enterprise. With the increasing number of participants, shared-governance may become impossible or ineffective due to difficulties in decision making and conflicts of interest that slow the actions of the network. At worst, the members have the power to veto strategies they consider not fully aligned with their interests, hampering the strategic development of the group. In this situation, the network needs to establish a NAO that is able to guide and support the process of growth and consolidation, confirming the suggestion from Provan and Kenis (2007) in their theoretical essay. It is not a question of giving up the cooperative character of the network, but instead, investing in the professionalization and efficiency of its management.

Achieving efficient management, however, also requires giving greater autonomy to managers. Managers who dedicate themselves exclusively to the business network take on the responsibility of defining and implementing strategies. For the member-firms, this means giving up much of their decision making power in the network, entrusting it to third parties, with direct influence on their own business. Parallel to this reduction in the participation of the member-firms in decision-making, the networks are able to develop governance mechanisms to compensate for the centralization of decision making through guilds, advisory boards or discussion groups, as reported in the empirical study.

Based on the discussions on growth of the German retail networks and their governance and management, one can note a strong interrelationship between these three variables. The growth of the retail network is dependent on the professionalization of the management and greater centralization of decision-making. Figure 2 shows two types of retail networks in different situations: the network represented by ball "A" is a retail network with a small number of members, with a structure of shared-governance and self-management by the entrepreneurs. Ball "B" on the far side of the figure, represents a retail network with a large number of members, with professional management and centralized decision-making.

Insert Figure 2 here

The development of a retail network from condition "A" to condition "B" seems to be a way forward when it comes to retailing, where growth is needed in order to ensure the benefits capable of sustaining the cooperative strategy. These empirical results contribute towards the theoretical base regarding governance and the dynamics of the development of business networks (Sydow 2004; Provan and Kenis 2007) and provide some insights for managers interested in understanding how large networks with long histories have changed their structures over time.

6. Concluding Remarks

The paper describes and examines the micro-governance and management of horizontal business networks, two important elements for the development and effectiveness of cooperative retail networks. The study of three horizontal networks in the retail sector in Germany allowed the analysis of the governance structures and

mechanisms of these networks and the changes introduced by them to adapt to the market. The results empirically confirm the proposition from Provan and Kenis (2007), who argue that governance systems are transitional structures. Moreover, the case studies also show which governance mechanisms retail chains used to support their development and remain attractive for member-firms over time.

The centralization of decision making in a NAO, with autonomy for managers and less participation of the member-firms in the decision making process was offset by the introduction of governance mechanisms such as regional guilds and representatives. The growth in the number of network members and the sales turnover would not be viable without the establishment of a professional managerial structure with more autonomy to propose collective strategies. It is therefore a trade-off, in which member-firms agree to delegate greater decision making power to managers in exchange for greater network efficiency and to obtain greater benefits and competitiveness. This agreement only holds if the network management is effectively able to make the members more competitive over time.

From the managerial viewpoint, the study contributes to discussions on the management of interorganizational retail networks by showing the governance mechanisms and management tools used by three successful German cooperative retail networks. From the theoretical standpoint, the study confirms the findings of other studies devoted to understanding the governance of interorganizational networks (such as Albers 2009 and Provan and Kenis 2007) and goes further by describing the specific governance mechanisms employed by the retail networks in question. Besides that, the paper opens up new discussions. By delegating management to professionals, the networks run the risk of facing agency problems, since there is the possibility that conflicts of interest may arise. Further studies could analyze the risks of agency problems arising in the relationship between the network members and managers, as well as the possible solutions to these problems in terms of governance mechanisms.

Another aspect that deserves attention concerns the requirements and qualifications required of managers of interorganizational relationships. Because these organizational formats are seeking to deal with the interests of a large number of firms and do not follow the logic of traditional hierarchies - the chain of command and control - it is natural that such managers should be required to have different skills and abilities. Specific research could explore this theme and contribute to this field of knowledge. One noteworthy methodological limitation of this study is that the cases examined were based on the interpretation of the network managers, and it is therefore recommended that parallel studies be carried out with the network member-firms, in order to assess their understanding of the efficiency of governance and management in these networks.

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Note

Note 1. The *Zentralverband Gewerblicher Verbundgruppen* (ZGV) is the German Confederation of Retail Business Networks which brings together 320 horizontal business networks. The organization acts as a service to its members, negotiating with partners and vendors and lobbies on behalf of the business networks in the European Parliament and the German Parliament. In addition to offices in Berlin and Cologne, the ZGV has an office in Brussels, capital of the European Parliament.

Table 1. Research sample

Network	Intersport	Expert	ANWR
Segment	Sports goods and more recently footwear retailing	Domestic appliance and related sectors retailing	Footwear, sports goods and bicycle retailing
Founded in	1956	1962	1919
Headquarters in Germany	Heilbronn	Hannover	Mainhausen
Member-firms in Germany	1200	243	1500
Members annual turnover	2.4 billion Euros	3.06 billion Euros	15 billion Euros
The network results form mergers and alliances	Yes	Yes	Yes
Acts at an international level	Through partnership	Through partnership	Has members abroad

Table 2. Elements of the structure and governance of retail networks

Elements of the structure and governance	Intersport	Expert	ANWR
Decision making process	Strongly centralized in the board of directors	Strongly centralized in the board of directors	Strongly centralized in the board of directors
Participation of the member-firms in the decisions	Low – limited to electing the supervisory council	Low – limited to electing the supervisory council	Low – limited to electing the supervisory council
Degree of control the network exercises over the members	Low – evaluation by regional representatives	Low – evaluation by regional representatives	Low – evaluation by regional representatives
Membership participation mechanisms	Regional Guilds without voting rights	Regional Guilds without voting rights	Consultative councils without voting rights
Model of network governance	NAO with contracted managers	NAO with contracted managers	NAO with contracted managers

Table 3. Management tools in the business networks

Network management tools	Intersport	Expert	ANWR
Results measurement practices	Analysis of the financial results	Analysis of the financial results	Analysis of the financial results
Network satisfaction measurement practices	Annual survey	None	Annual survey and assessment seminars
Communication flow within the network	Vertical (headquarters – members) and horizontal (in the regional groups)	Vertical (headquarters – members) and horizontal (in the regional groups)	Predominantly vertical (headquarters – members).
Conditions offered to the members	Vary according to the size of the member	Vary according to the size of the member	Equal, but with differentiated bonuses
Compulsory visual standard	No	No	No
Degree of visual standardization of the members	More than a third adopt the network trademark	Practically all adopt, even though not compulsory	High in the Franchises and medium in the cooperative system

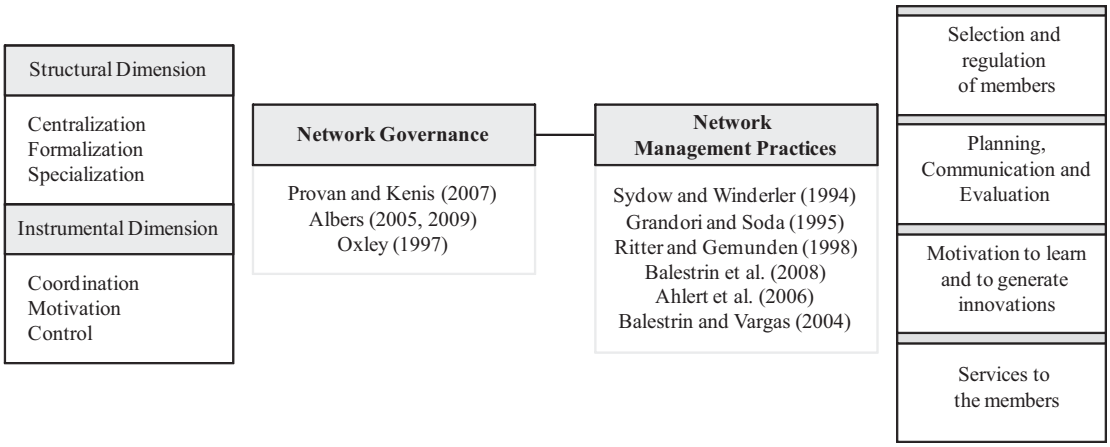

Figure 1. Governance and Management Practices of interorganizational networks

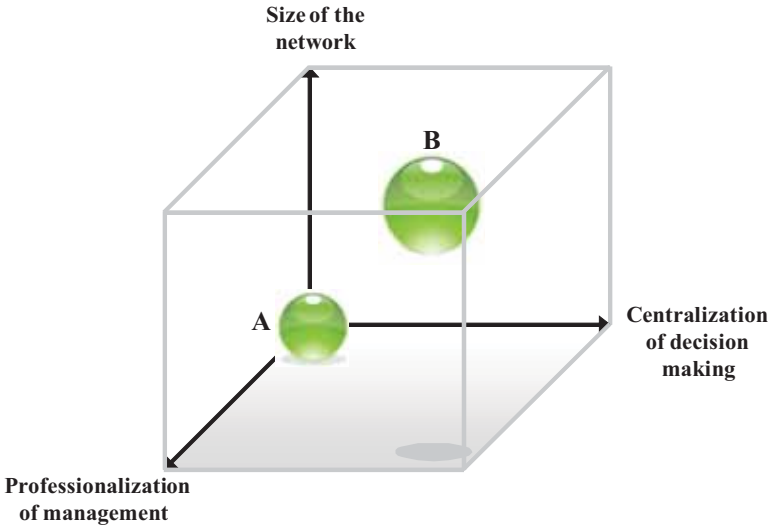

Figure 2. Growth strategy and governance modifications in horizontal business networks