

# Chapter 12

## Cross-Border Inter-Firm Networks in Contemporary Europe: The Effects of Structural and Cultural Embeddedness on Firm Performance

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### ABSTRACT

*Globalization and regionalization in the contemporary world transform inter-state relationships and intensify economic, social, and political exchanges across borders, thereby creating favorable conditions for cross-border inter-firm networking. The purpose of this chapter is to contribute to the emerging literature on cross-border inter-firm networks by providing both theoretical insights on the causal mechanisms of network-related effects on firm performance and empirical analysis of existing cross-border partnerships in the domain of European integration, as well as their effects on firm performance. The chapter also examines the differences in the structure of European cross-border networks and explores factors that determine network structure such as regional integration and cultural variations.*

### INTRODUCTION

The forces of globalization in the modern world generate the rapid growth of international linkages and foster economic interdependence by enhancing the flows of capital, labor, goods and technology across the boundaries of nation-states.

Simultaneously, there is evidence such flows occur most intensely across the borders of countries that belong to an effective regional grouping based upon location in a given geographical area—a phenomenon called regionalism or regional integration (Bergsten, 1993; Gamble & Payne, 1996; Grugel & Hout, 1999; Rosamond, 2000; Breslin & Higgott, 2000; Beeson, 2003).

DOI: 10.4018/978-1-4666-4979-8.ch012

Policy-driven harmonization of economic regulations, norms and standards and intensified cross-border exchanges in the integrated areas provide a solid foundation for cross-border inter-firm networking. Inter-firm networking is increasingly important in economic life, as it represents a mode of regulating complex transactional interdependence as well as cooperative interdependence among firms, “which is different from the aggregation of these units within a single firm and from coordination through market signals (prices, strategic moves, tacit collusion, etc.) and which is based on a cooperative game with partner-specific communication” (Grandori & Soda, 1995, p. 1).

Different studies revealed positive effects of inter-firm networking on firm learning, performance, and innovation (Powell et al., 2002; Chepalla & Saraf, 2010; De Vaan, 2010). Cross-border inter-firm networking is especially important for firms in less-developed localities, as in the process of collaboration, such firms often change their organizational culture and practices to mimic their more successful counterparts from more developed localities (Galaskiewicz & Wasserman, 1989; Joiner, 2001). Therefore, cross-border inter-firm collaboration is crucial for the economic development on both sides of the border and helps to manage common regional economic problems that transcend the competencies of single national governments and provincial authorities (Wattanapruttipaisan, 2001; Joas et al., 2007).

While there have been several theoretical studies of the general aspects of inter-firm networking, empirical research on inter-firm networks and especially on cross-border inter-firm networking and its embeddedness in the regional socio-cultural and politico-economic context is somewhat limited. This chapter contributes to the emerging literature on cross-border inter-firm networks by providing theoretical insights on the causal mechanisms of network-related effects on firm performance, as well as an empirical analysis of cross-border part-

nerships in their regional contexts in the domain of European integration.

The chapter consists of three major parts. The first part summarizes approaches to studying inter-firm networks and analyzes existing research on the network-related effects on firm performance. The second part discusses the peculiarities of the European Union (EU) enlargement and the impact of European integration on cross-border inter-firm networking. The third part provides an empirical analysis of cross-border inter-firm networks, examines their effects on firm performance in contemporary Europe, and evaluates the effects of European integration and regional socio-cultural and politico-economic contexts on the network parameters and inter-firm cooperation. The chapter concludes with the discussion of prospects for cross-border inter-firm networking in the context of regional integration and globalization in contemporary world.

## **THEORETICAL APPROACHES TO INTER-FIRM NETWORKS AND FIRM PERFORMANCE IN INTER-FIRM NETWORKS**

Inter-firm networks are considered to be an organizational form with distinct structural properties. They are usually defined as structures consisting of companies linked together through some form of sustained interaction and pursue common objectives, or work towards solving common problems (Huggins, 2001). The number of inter-firm co-operation initiatives has rapidly increased during the past decade (Harbison & Prekar 1998; Brown, 1999; Duysters et al., 1999), and recent studies investigate a variety of issues about inter-firm cooperation such as how and why inter-firm networks are formed (Sydow, 1998), their optimal configuration (Jackson & Wolinsky, 1996), and how they operate (Jones, Hesterley, Fladmoe-Lindquist, & Borgatti, 1998).

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