The 6Cs of Corporate Strategy

GLOBAL BUSINESS STRATEGY

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Porter defines corporate strategy as "the overall plan for a diversified company." The 6Cs are the heart of it:

- CONTROL
- COORDINATION
- COMMITMENT
- CULTURE
- COMPLEMENTARY ASSETS
- COHERENCE

THE 6Cs: NOT A WIDELY HELD CORP STRATEGY CONCEPT

- IT IS MY OWN NOTION
- BUT, EVERYONE AGREES THAT THESE INGREDIENTS ARE NEEDED
  - TOGETHER
  - INTEGRATED
  - AS A SYSTEM

SYSTEM PARTS BEFORE THE WHOLE SYSTEM

- CONTROL MEANS GETTING WHAT YOU WANT WHEN YOU WANT IT:
  - CLASSICAL NOTIONS OF THEORY X AND THEORY Y
    - FREDERICK TAYLOR
    - ELTON MAYO & HUMAN RELATIONS MOVEMENT
  - MORE RECENT FOCUS: BEYOND “Y”
    - JOSEPH LITTERER
    - ROBERT ECCLES

CONTROL & COORDINATION

- MAX WEBER
  - LEGITIMATE AUTHORITY
  - BUREAUCRACY
- CHESTER BARNARD
  - COMMUNICATION AS CONTROL
- JOSEPH LITTERER
  - PHYSICAL, MENTAL & SOULFUL CONTROL

CONTROL LEADS NATURALLY TO COMMITMENT

- BUT COMMITMENT HARD TO DEFINE AND MEASURE BECAUSE CULTURES (NATIONAL, OCCUPATIONAL & ORGANIZATIONAL) DEFINE COMMITMENT DIFFERENTLY
- PARTICIPATION EASIER TO DEFINE & MEASURE
- BUT COMMITMENT & PARTICIPATION NOT THE SAME

NEWER CONCEPTS OF CONTROL, COMMITMENT & COORDINATION

- DEFINED IN TERMS OF COSTS: AGENCY, TRANSACTION & INFORMATION COSTS
  - OPPORTUNISM
  - TRUST, REPUTATION & FREQUENCY OF INTERACTION
  - SMALL NUMBERS BARGAINING (MARKET FAILURE) AND
    - LOCATION SPECIFICITY
    - PHYSICAL ASSET SPECIFICITY
    - HUMAN CAPITAL SPECIFICITY

KNOWLEDGE & MARKET FAILURE

- INSEPARABILITY
- KNACK, KNOW-HOW & KNOWLEDGE AS FORMS OF INFORMATION NOT EQUALLY SEPARABLE, CODED, CONVEYABLE
- EXPLICIT VS. TACIT DISTINCTION OVERDONE (IN MY OPINION)
  - ALMOST ALL KNACK, KNOW-HOW & KNOWLEDGE IS STICKY IN SOME WAY

HAYEKIAN KNOWLEDGE

- GENERAL KNOWLEDGE IS EASILY & CHEAPLY TRANSFERRED
- SPECIFIC KNOWLEDGE IS DIFFICULT & COSTLY TO TRANSFER

COSTS OF HIERARCHY (SOMETIMES CALLED GOVERNANCE COSTS)

- BUREAUCRATISM: SLOW, INFLEXIBLE & RULE-BOUND
- AGENCY COSTS & MORAL HAZARD
- ADVERSE SELECTION (ASYMMETRICAL INFORMATION)
- COSTS OF MEASURING, MONITORING AND MANAGING AGENTS PERFORM

CHOOSING THE SCOPE OF THE FIRM (pp. 120-28)

- STEP 1: DISAGGREGATE VALUE CHAIN
  - COSTS & PROFITS ALONG THE WAY
- STEP 2: COMPETITIVE ADVANTAGE
  - WHEN YOU'RE BETTER THAN ANYONE ELSE
- STEP 3: MARKET FAILURE
  - RESOURCES NOT RELIABLY AVAILABLE
- STEP 4: NEED FOR COORDINATION
  - CONTINUOUS MUTUAL ADAPT--->FIRM
- STEP 5: IMPORTANCE OF INCENTIVES
  - PAY4PERFORMANCE Vs. MKT INCENTIVES

CHAPT 6 JUMPS TO COMPLEMENTARY ASSETS & COHERENCE

- WITHOUT CONSIDERING CULTURE
- CULTURE IS NOT NORMALLY W/I CORPORATE STRATEGY FIELD
  - ALTHOUGH THERE ARE EXCEPTIONS
  - WM. OUCHI & THEORY Z
  - Y. DOZ & METANATIONAL FIRM

CULTURE, VIEWED BROADLY, IS CONTROL, COORDINATION & COMMITMENT

- ACTUALLY, MANY VIEWS OF “WHAT IS CULTURE”
- I LIKE CLIFFORD GEERTZ, EDGAR SCHEIN, & MARY YOKO BRANNEN

MARY YOKO BRANNEN

- HOW DO FIRM OFFERINGS CHANGE AS THEY MOVE FROM ONE CULTURAL ENVIRONMENT TO ANOTHER

ORGANIZATIONAL STRUCTURE: LIMITED ALTERNATIVES

- FUNCTIONAL, DIVISIONAL & MATRIX STRUCTURES
- “STRUCTURE FOLLOWS STRATEGY”
  - ALFRED D. CHANDLER AND THE M-FORM HYPOTHESIS
  - PURE & MIXED MODELS
    - JAPANESE ENTERPRISE SYSTEM IS AN EXAMPLE OF A MIXED MODEL

TYPES OF CONTROL
(in chapt. 6)

- OUTCOME CONTROL
- BEHAVIORAL CONTROL
- CLAN CONTROL

COMPLEMENTARY ASSETS

- OR WHAT YOU NEED TO REALIZE FULL VALUE FROM WHAT YOU'VE GOT
  - ALREADY FAMILIAR WITH PORTER'S COOPERATIVE STRATEGIES
    - TRANSFERRING SKILLS
    - RESTRUCTURING
    - PORTFOLIO MANAGEMENT
    - SHARING ACTIVITIES

TODAY'S COMPLEX, KNOWLEDGE-INTENSIVE BUSINESSES

- OFTEN REQUIRE COMPLEMENTARY ASSETS TO BE HELD JOINTLY
- AND PUTS FIRM-SPECIFIC CONTROL, COMMITMENT, COORDINATION & CULTURE AT SOME RISK

COHERENCE, AS A RESULT, IS JEOPARDIZED

- 5 COSTS OF COHERENCE
  - COMPROMISE COSTS AS A RESULT OF SUBOPTIMAL DECISIONS
  - INFLEXIBILITY COSTS AS A RESULT OF LOSS OF CONTROL OF ACTIVITIES
  - COORDINATION COSTS
  - INCENTIVE COSTS
  - COMPLEXITY COSTS

CORPORATE RESPONSIBILITIES: MANAGE THE 6Cs

- SET STRATEGY
- GUARDIAN OF RESOURCES
- GENERAL OVERHEAD FUNCTIONS
- SETTING ADMINISTRATIVE CONTEXT