CORPORATE STRATEGY AND NETWORK ORGANIZATION: MORE THAN THE SUM OF THE PARTS?

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CORPORATE STRATEGY FACES NETWORK ORGANIZATION:

A NEW BUSINESS MODEL

- OLD VIEW: FIRMS AS INDEPENDENT ACTORS RESPONDING TO ENVIRON-MENTAL UNCERTAINTY (E.U.)
- NEW VIEW: FIRMS AS INTERDEPENDENT WITH, IF NOT DEPENDENT ON, OTHER ORGANIZATIONS TO RESPOND TO E.U.
- PUTS THE VERY NOTION OF FIRM-BASED COMPETITIVE ADVANTAGE (F.C.A.) UNDER CHALLENGE

5 DIMENSIONS TO THE CHALLENGE

- DEFINITIONAL CHALLENGE
- DISCIPLINARY CHALLENGE
- ORGANIZATIONAL CHALLENGE
- TECHNICAL CHALLENGE
- BEHAVIORAL CHALLENGE

DEFINITIONAL: COMPETING ALONE vs.TOGETHER

- PORTER ON CORPORATE STRATEGY: "OVERALL PLAN FOR A DIVERSIFIED COMPANY" (***FROM COMPETITIVE ADVANTAGE TO CORPORATE STRATEGY, p. 2)***
- INNER-RELATEDNESS ALLOWS FIRMS TO CREATE VALUE AS A WHOLE
  - ATTRACTIVENESS TEST
  - COST-OF-ENTRY TEST
  - BETTER-OFF TEST
- ALIGNING, INTEGRATING VALUE CHAIN = FCA = COMPETITIVENESS

PRAHALAD & HAMEL OFFER A SIMILAR VIEW IN "THE CORE COMPETENCE OF THE CORPORATION"

- "MANAGEMENT'S ABILITY TO CONSOLIDATE CORPORATEWIDE TECHNOLOGIES & PRODUCTION SKILLS INTO COMPETENCIES THAT EMPOWER INDIVIDUAL BUSINESSES TO ADAPT QUICKLY…" p.81

CORPORATE STRATEGY HERETOFORE

- HAS FOCUSED ON “THEORY OF THE FIRM” & “IMPERFECT COMPETITION”
- ROOTED IN 19TH & 20TH CENTURY NOTIONS OF FIRMS & COMPETITION
- RIGHT ANTECEDENTS IN A 21ST CENTURY WORLD?

HENCE, THE DEFINITIONAL CHALLENGE

- APPROPRIATE UNIT OF ANALYSIS?
- THE FIRM OR SOMETHING BEYOND THE FIRM
- TRADITIONAL VIEW:
  FIRMS & THE ENVIRONMENT
- EMERGING VIEW:
  NETWORKS, ALLIANCES & COALITIONS

NETWORK ORGANIZATION: A DEFINTION

- NETWORK ORGANIZATIONS ARE COMPOSED OF SETS OF INTERDEPENDENT ACTORS WHO COOPERATE OFTEN FOR MUTUAL ADVANTAGE AND, BY DOING SO, CREATE COMMUNITIES OF PRACTICE

  (M. FRUIN, 1998, NETWORKS, MARKETS, AND THE PACIFIC RIM, OXFORD UNIVERSITY PRESS, P. 4)

DISCIPLINARY CHALLENGE
FOLLOWS UNIT OF ANALYSIS CHALLENGE

- REDUCTIONISM (THE FIRM AS REDUCED SET OF ROUTINES & PRACTICES=F.C.A.)
- PLURALISM (FIRMS AS BOUNDARY SPANNING SETS OF ROUTINES & PRACTICES MIMICING MARKET vs. HIERARCHICAL CHOICE

THE DISCIPLINARY CHALLENGE

- INDEPENDENCE VS. INTERDEPENDENCE
- STAND ALONE VS. STAND TOGETHER
- COMPLEXITY REDUCING VS. OPPORTUNITY ENHANCING
- SUM OF INTERNAL PARTS (ROUTINES) VS. SUM OF INTERNAL-EXTERNAL PARTS

NO CONTEST

- SUM OF INTERNAL PARTS:
  ADD ONE SET OF ELEMENTS (BUT WITH SEVERAL PERMUTATIONS/ORDERINGS)
- SUM OF INTERNAL-EXTERNAL PARTS:
  MANY SETS OF COMBINATIONS AND PERMUTATIONS ARE POSSIBLE

ORGANIZATIONAL CHALLENGE

- VALUE CHAIN vs. NETWORK EFFECTS or ONE SET vs. MANY POSSIBLE SETS
- VALUE CHAIN EFFECTS LIMITED BY A FIRM'S SINGLE-PIPELINE THROUGHPUT (SCALE & SCOPE LIMITATIONS FOR THE MOST PART)
- NETWORK EFFECTS ARE DIFFERENT

NETWORK EFFECTS

- VALUE DEPENDS ON NETWORK SIZE
- VALUE GROWS IC.N RELATION TO NETWORK SIZE
  (NOT FIRM-BASED THROUGHPUT)
- HOOKING TO NETWORK, EVEN A LITTLE, IMPARTS HUGE OPPORTUNITY
- NOT FIRM-BASED, ZERO-SUM GAME
  (as in F.C.A.)

METCALFE'S LAW

- NAMED AFTER BOB METCALFE, FOUNDER OF 3COM AND ETHERNET
- 2ND MOST FAMOUS "LAW" AFTER MOORE'S LAW
- COST OF A NETWORK EXPANDS LINEARLY WITH INCREASE IN SIZE, WHILE VALUE OF NETWORK INCREASES EXPONENTIALLY

TECHNICAL CHALLENGE

- TWO DIFFERENT NETWORK MODELS: “OPEN BORDERS” & OPEN STANDARDS
- OPEN BETTER THAN CLOSED BORDERS
  - CORE FIRM OPENS BORDERS & CREATES CLOSED NETWORK AROUND PROPRIETARY RESOURCES
  - SELECTIVE MEMBERSHIP/LIMITED ACCESS
  - NETWORK EFFECTS GREATER THAN VALUE CHAIN EFFECTS BUT LIMITED BY CORE FIRMS’ ABILITY TO ALIGN, COORDINATE & INTEGRATE

OPEN BORDERS IMPROVES ON STAND- ALONE MODEL

- JAPANESE FIRMS AS EXEMPLARS, e.g. TOYOTA & TOSHIBA'S JIT MNFG & DISTRIBUTION SYSTEMS
- THESE ARE PROPRIETARY NETWORK SYSTEMS WITH LARGE INVESTMENT IN GOVERNANCE RELATIONS
- OFTEN W/O INSTITUTIONAL SUPPORT, e.g. PROPERTY RIGHTS, IN JAPAN'S CASE

NETWORK VARIETY: MORE OR LESS HIERARCHICAL & EMBEDDED

- IN BETWEEN OPEN BORDERS AND OPEN STANDARDS
  - INFORMATION SHARING IS PROPRIETARY MORE OFTEN THAN NOT
  - VALUE OF WHAT IS SHARED PARTAKES OF MUTED NETWORK EFFECTS
  - AMD'S JOINT VENTURE WITH FUJITSU: i.e. FAISAL

OPEN STANDARDS MODEL

- VALUE CREATED BY ADDING TO, HOOKING TO OPEN STANDARDS
- OPEN STANDARDS AVAILABE TO ALL WHO CHOOSE TO USE THEM
- NOT SELECTIVE, SO LARGER NUMBER OF POTENTIAL CONTRIBUTORS & USERS
- MORE INDUSTRY & INSTITUTIONAL SUPPORT (antitrust laws may apply)
- LESS FIRM CONTROL & COORDINATION

OPEN BORDERS vs. OPEN STANDARDS or TPS vs. JAVA

- PROPRIETARY vs. NON-PROPRIETARY
- LIMITED DISCLOSURE vs. FULL DISCLOSURE
- MORE HIERARCHICAL vs. LESS HIERARCHICAL
- LOW PROPERTY RIGHTS PROTECTION vs. MORE PROPERTY RIGHT PROTECTION
- HANDS-ON vs. HANDS-OFF MANAGEMENT
- WIDER VETTING, MORE FINE TUNING, BUT LESS CONTROL a la open source software movement

MAKING MONEY THE OPEN STANDARDS WAY

- SUPPORT SELLERS
  - revenue from distribution, branding, after sales service, e.g. Red Hat
- LOSS LEADERS
  - advanced versions for a fee, e.g. Netscape
- WIDGET FROSTING
  - hardware cos. open source software to get better software drivers, e.g. Cirrus Aircraft or VA-Research
- ACCESSORIZING
  - builds products/services around open standards, e.g. O'Reilly & Associates offering manuals on how to use Linux products
- SERVICE ENABLER
  - give away product in conjunction with other services, e.g. AOL gives away NETSCAPE browser to its customers

BEHAVIORAL CHALLENGE

- BEYOND CONTROL, COORDINATION & HIERARCHICAL COMMITMENT
- TO INTERACTIVITY, CONNECTION, COMMUNICATION & COORDINATION IN CHESTER BARNARD'S SENSE:
  - AUTHORITY IN NATURE OF COMMUNICATION
  - AUTHORITY RELATED TO NETWORK EFFECTS BECAUSE VALUE RELATED TO NETWORK SIZE

CLASSICAL 6Cs:

CONTROL, COORDINATION, COMMITMENT, CULTURE, COHERENCE & COMPLEMENTARY ASSETS

- EITHER/OR
- EITHER AVAILABLE W/I FIRMS OR GENERALLY AVAILABLE (as in S.V., that is, some environments more trusting, more resourceful, etc. than others)
- EITHER REDUCTIONISM OR ENVIRON-MENTALISM

NETWORK COMPETITION RELAXES/REPLACES 6Cs

- COMPETING ON NETWORK-SPECIFIC (PROPRIETARY) VS. GENERAL KNOWLEDGE
- PROPRIETARY KNOWLEDGE IS THE OPEN BORDERS STANDARD
- GENERAL KNOWLEDGE IS THE OPEN STANDARDS STANDARD

NETWORK ORGANIZATIONAL ADVANTAGES

- COSTS SHARED
- CONTRACTUAL CONSTRAINTS RELAXED
- MARKET SHARE GROWTH EMPHASIZED
- TRANSACTIONAL VELOCITY INCREASES
- ORGANIZATIONAL LEARNING ENHANCED
- NETWORK-BASED EQUITY GROWS
- FUTURE PARTNERING MADE EASIER

CORPORATE STRATEGY HERETOFORE

- ALL ABOUT FIRM-BASED COMPETITIVE ADVANTAGE (F.C.A.)
- ALLIANCES-PARTNERING WITHIN F.C.A. CONTEXT
  (G. Hamel, "Collaborate with the Japanese and Win," or Y. Doz & G. Hamel, Strategic Alliances, 1998.)
  - AVOIDING BLEEDTHROUGH
  - CONTAINING COOPERATION
  - WIN/LOSE THINKING
  - MARKETS VS. HIERARCHIES THINKING

NEW STRATEGY & INDUSTRY EFFECTS

- COOPERATION MORE IMPORTANT IN SOME INDUSTRIES: IT AS EXEMPLAR
- RAPID EVOLUTION OF PRODUCTS, MFG PROCESSES, TECHNOLOGIES, STANDARDS & PROTOCOLS
- HUGE CONVERGENCE & DIVERGENCE OF COMPETITIVE FORCES MAKES F.C.A. RISKY

CORPORATE STRATEGY FROM NOW ON

- RECOGNIZE LEGITIMACY OF NETWORK ORGANIZATION & POWER OF NETWORK EFFECTS
- RELAX RELIANCE ON F.C.A., PROPRIETARY KNOWLEDGE & CORE COMPETENCE
- RETHINK 6Cs: COMMAND, CONTROL, COORDINATION & COHERENCE

MORE THAN THE SUM OF THE PARTS?

- OLD PARADIGM: FCA AS MEASURE, FIRM-AS-INTEGRATOR, FIRM-BASED VALUE CHAIN
- NEW PARADIGM: NETWORKS AS MORE THAN THE SUM OF **FIRM-BASED PARTS**
- OPEN STANDARDS LEAD TO NETWORK EFFECTS WITH POWERFUL INDUSTRY CONSEQUENCES (INTEL-AMD, SUN-AOL-NETSCAPE)
- IF SUM OF THE PARTS IS NOT FIRM-BASED, A NEW BALL GAME
- CORPORATE STRATEGY BEYOND THE FIRM = **CORPORATE STRATEGY & NETWORK ORGANIZATION**