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

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TODAY'S TALK CONCEPUTAL

- BUT LARGE BODY OF EMPIRICAL WORK
  - THE JAPANESE ENTERPRISE SYSTEM, 1992
  - KNOWLEDGE WORKS, 1997
  - NETWORKS, MARKETS, & PACIFIC RIM, 1998
    - MKT & HIERARCHY SUBSTITUTING vs. REINFORCING
  - REMADE IN AMERICA, 1999
  - GROWING EXPERIENCE WITH S.V.-ASIA PACIFIC INTERACTIONS
    - "GOOD FENCES MAKE GOOD NEIGHBORS: PROPERTY RIGHTS, APPROPRIABILITY, AND OPEN FIRM BORDERS IN JAPAN"
    - "DOUBLE TIME/DOUBLE BIND: THE TIME VALUE OF KNOWLEDGE & ORGANIZATIONAL CAMPAIGNING"

CORPORATE STRATEGY FACES NETWORK ORGANIZATION:

- OLD VIEW: FIRMS AS INDEPENDENT ACTORS RESPONDING TO ENVIRON-MENTAL UNCERTAINTY (E.U.)
- NEW VIEW: FIRMS AS INTERDEPENDENT AGENTS RESPONDING TO E.U.
- PUTS KEY NOTION OF FIRM-BASED COMPETITIVE ADVANTAGE (F.C.A.) UNDER CHALLENGE

5 DIMENSIONS OF THE NETWORK CHALLENGE

- DEFINITIONAL
- DISCIPLINARY
- ORGANIZATIONAL
- TECHNICAL
- BEHAVIORAL

DEFINITIONAL:
COMPETING ALONE vs.TOGETHER

- PORTER ON CORPORATE STRATEGY: “OVERALL PLAN FOR A DIVERSIFIED COMPANY”

  (***FROM CA TO CS, p. 2)***

  – INTERNAL RELATEDNESS ALLOWS FIRMS TO CREATE VALUE AS A WHOLE
    - ATTRACTIVENESS TEST
    - COST-OF-ENTRY TEST
    - BETTER-OFF TEST
  – ALIGNING & INTEGRATING VALUE CHAIN = FCA

DEFINITIONAL

- PRAHALAD & HAMEL

  "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 UP TO NOW

- FIRM-BASED COMPETITIVE ADVANTAGE (F.C.A.)
- ALLIANCES-PARTNERING WITHIN F.C.A. CONTEXT
  (Y. Doz & G. Hamel, Alliance Advantage, 1998.)
  - AVOIDING BLEEDTHROUGH
  - CONTAINING COOPERATION
  - WIN/LOSE THINKING
  - MARKETS VS. HIERARCHIES THINKING

CORPORATE STRATEGY

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

HENCE, THE DEFINITIONAL CHALLENGE

- UNITS OF ANALYSIS
  - FIRMS OR SOMETHING BEYOND FIRMS?
- TRADITIONAL VIEW
  - FIRMS & THE ENVIRONMENT
- EMERGING VIEW
  - BILATERAL ALLIANCES & PARTNERSHIPS AND MULTILATERAL NETWORKS

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, OUP, p. 4)

DISCIPLINARY CHALLENGE I

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

DISCIPLINARY CHALLENGE II

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

ORGANIZATIONAL CHALLENGE

- VALUE CHAIN vs. NETWORK EFFECTS
  ONE SET vs. MANY
- VALUE CHAIN EFFECTS
  - LIMITED BY A SINGLE FIRM'S PIPELINE

- NETWORK EFFECTS ARE DIFFERENT

NETWORK EFFECTS

- VALUE DEPENDS ON AND GROWS IN RELATION TO NETWORK SIZE
  - NOT FIRM-BASED, VALUE CHAIN THROUGHPUT
- HOOKING TO NETWORK, EVEN A LITTLE, IMPARTS HUGE OPPORTUNITY
  - NOT FIRM-BASED, ZERO-SUM GAME

NO CONTEST IN VALUE ADDED POTENTIAL

- SUM OF INTERNAL FIRM PARTS
  - ADD ONE SET OF ELEMENTS (BUT WITH SEVERAL PERMUTATIONS/ORDERINGS)
- VS. SUM OF INTERNAL-EXTERNAL PARTS
  - ADD & MULTIPLY MANY SETS OF COMBINATIONS AND PERMUTATIONS

METCALFE'S LAW

- NAMED AFTER BOB METCALFE, FOUNDER OF 3COM AND ETHERNET
- COST OF A NETWORK EXPANDS LINEARLY WITH INCREASE IN SIZE, WHILE VALUE OF NETWORK INCREASES EXPONENTIALLY

TECHNICAL CHALLENGE

- DIFFERENT NETWORK MODELS
  - "OPEN BORDERS" & OPEN STANDARDS
- OPEN BETTER THAN CLOSED
  - CORE FIRM OPENS BORDERS & CREATES NETWORK WITH PROPRIETARY RESOURCES
  - SELECTIVE MEMBERSHIP/LIMITED ACCESS
  - NETWORK EFFECTS GREATER THAN VALUE CHAIN EFFECTS BUT LIMITED BY CORE FIRMS' ABILITY TO COORDINATE & ALIGN

OPEN BORDERS

- IMPROVES ON STAND- ALONE MODEL
  - JAPANESE FIRMS AS EXEMPLARS, e.g. TOYOTA & TOSHIBA'S MFG & DISTR SYSTEMS
  - PROPRIETARY NETWORK SYSTEMS W/ LARGE INVESTMENT IN GOVERNANCE
  - OFTEN W/O EXPECTED INSTITUTIONAL SUPPORT (BECAUSE PROPRIETARY)
    - e.g. PROPERTY RIGHTS, IN JAPAN'S CASE
    - "Good Fences Make Good Neighbors" paper

NETWORK VARIETY
MORE OR LESS HIERARCHICAL & EMBEDDED

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

OPEN STANDARDS MODEL

- VALUE COMES FROM HOOKING TO OPEN STANDARDS
- OPEN STANDARDS AVAILABLE TO ALL
- NOT SELECTIVE, SO LARGER NUMBER OF POTENTIAL CONTRIBUTORS & USERS
- INDUSTRY & INSTITUTIONAL SUPPORT (antitrust laws may apply; Sun & MicroSoft)
- LESS FIRM CONTROL & COORDINATION

OPEN BORDERS vs. OPEN STANDARDS

or TPS vs. JAVA

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

MAKING MONEY THE OPEN STANDARDS (SOURCE) WAY

- SUPPORT SELLERS
  - revenue from distribution, branding, after sales service, (Red Hat)
- LOSS LEADERS
  - advanced versions for a fee, (Netscape)
- WIDGET FROSTING
  - hardware cos. open source software to get better software drivers, (Cirrus Aircraft, VA-Research)
- ACCESSORIZING
  - builds products/services around open standards, (O'Reilly & Associates offering manuals on how to use Linux products)
- SERVICE ENABLER
  - give away product in conjunction with other services, (AOL gives away NETSCAPE browser to 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 you got'em or you don't)
- EITHER W/I FIRMS OR WIDELY AVAILABLE (like S.V., some environments more resourceful, trusting, etc. than others)
- EITHER REDUCTIONISM OR ENVIRON-MENTALISM

NETWORK COMPETITION RELAXES/REPLACES 6Cs

- WITH COMMUNITIES OF PRACTICE BASED ON
  - PROPRIETARY KNOWLEDGE IS THE OPEN BORDERS STANDARD
  - GENERAL KNOWLEDGE IS THE OPEN STANDARDS STANDARD
  - MIGHT SAY JAPANESE vs. AMERICAN WAY

NETWORK ORGANIZATIONAL ADVANTAGES

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

NETWORK & COUNTRY EFFECTS

- NETWORK ORGANIZATIONS ARE RELATED TO INSTITUTIONAL ENVIRONMENT AND PREVAILING ORGANIZATIONAL PATTERNS
  - SO, COUNTRY EFFECTS ARE NOTE-WORTHY, ESP DURING EMERGENCE
  - BUT COUNTRY EFFECTS MAY DIMINISH AS GLOBAL COMPETITION INCREASES

NETWORK & INDUSTRY EFFECTS

- COOPERATION MORE PRONOUNCED IN SOME INDUSTRIES: IT, BIOTECH
- RAPID EVOLUTION OF PRODUCTS, MFG PROCESSES, TECHNOLOGIES, STANDARDS & PROTOCOLS
- CONVERGENCE & DIVERGENCE OF INDUSTRY FORCES = F.C.A. RISKY

CORPORATE STRATEGY FROM NOW ON

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

MORE THAN THE SUM OF THE PARTS?

- OLD PARADIGM: FIRM VALUE CHAIN & FCA AS MEASURES
- NEW PARADIGM: NETWORKS AS MORE THAN THE SUM OF **FIRM-BASED PARTS**
- OPENNESS LEADS TO NETWORK EFFECTS WITH POWERFUL INDUSTRY CONSEQUENCES
  - INTEL-AMD, SUN-AOL-NETSCAPE
- A NEW BALL GAME, IF SUM OF THE PARTS NOT FIRM-BASED