Frmwk 3: Initiative and Coordination

**One**

+ **Two**

= **Three**

The Goals: Initiative, Coordination

“markets motivate, hierarchies control …”

- incentives, initiative
- spot market
- non-integrated
- integrated
- network
- “bringing authority into the market”
- decentralized
-command
- firm
- coordination, control

Initiative OR Coordination

- incentives, initiative
- spot market
- command
- firm
- coordination, control

Environment / strategy rewards initiative more than coordination

Initiative OR Coordination

- incentives, initiative
- spot market
- command
- firm
- coordination, control

Environment / strategy rewards coordination more than initiative
**Initiative AND Coordination?**

- incentives, initiative
- spot market
- command firm
- coordination, control

Day & Wendler, *McK Q 98*

**Alternative Internal Goals**

- incentives, initiative
- non-integrated vs. integrated
- "multi-domestic" vs. loose federation
- "transnational" vs. networked
- "global" vs. scale via standardization
- coordination, control

A. P. Sloan?

**Productivity Dispersion & Competition**

- Why concrete?
  - high transportation costs
  - multiple markets
  - homogeneous good with physical output measure
  - available instrument for concrete market density = construction industry

**Results**

1. Higher productivity and less dispersion in high density (more competitive) markets
2. But almost as much dispersion in less competitive markets

Syverson, *JPE 2004*

**Intra-Firm Productivity Differences**

- Commercial food division of a large multi-business firm with 40 operating units that prepare, deliver, and set-up food
- All 40 units are very similar along multiple dimensions; located in the US, employ low-skilled labor, utilize same technology, serve similar customers, produce similar products
- Multifactor productivity index computed as standardized output (meals & set-up) divided by standardized inputs (labor & capital costs)
- Use regression analysis to adjust for local labor markets, size of local market, antiquation of equipment, product quality, and local monopoly

Chew, Bresnahan, & Clark, 1990
Current **Internal Performances**

- incentives, initiative
- spot market
- "multi-domestic" = loose federation
- "transnational" = networked
- command, firm
- coordination, control

**Don’t use frontier to express formal structure!**

**Internal Management**

- incentives, initiative
- spot market
- "multi-domestic" = loose federation
- "transnational" = networked
- command, firm
- coordination, control

Alternative **External Goals**

- incentives, initiative
- spot market
- alliance
- hand-in-glove supply
- non-integrated
- integrated
- command, firm
- coordination, control

**Current External Performances**

- incentives, initiative
- spot market
- alliance
- hand-in-glove supply
- non-integrated
- integrated
- command, firm
- coordination, control

**Don’t use frontier to express formal structure!**
Relational is Required
(in hard problems)

Q1) Which formal structure best facilitates a desired relational contract?

Q2) Which relational contracts can be facilitated by a given formal structure?
Relational is Required
(in hard problems)

Q2) Which relational contracts can be facilitated by a given formal structure?

Build an Equilibrium

Q3) Can you build the desired equilibrium?

Build an Equilibrium

Q3) Can you build the desired equilibrium?

Increasing Coordination?

Q3) Can you build the desired equilibrium?
**Increasing Initiative/Empowerment?**

- incentives, initiative
- spot market
- non-integrated
- integrated
- coordination, control

Q3) Can you build the desired equilibrium?

Oticon, …

**Increasing Coordination?**

- incentives, initiative
- spot market
- non-integrated
- integrated
- coordination, control

Q3) Can you build the desired equilibrium?

Chrysler, …

**Increasing Initiative/Empowerment?**

- incentives, initiative
- spot market
- non-integrated
- integrated
- coordination, control

Crown Equipment after Fitch buys Richardson Smith?

**Many Formal Governance Structures**

- **Multiple Orgzns**
  - "spot market"
  - Alliance
  - Joint Venture
  - Consortium
  - ...

- **One Orgzn**
  - Functional
  - Divisional
  - Matrix
  - "Networked"
  - ...

- Not providing recipe for **Make vs. Buy**

- Am proposing "habits of mind"
  - What collaboration are we trying to implement?
  - What are the alternative formal governance structures?
  - What do they achieve?
  - What more can we do?