Lecture 16

Organization & Geography
Business Organization

I. • The Problem

II. Types of Organization

III. The New Competition

IV. Corporate Geography
I. The Problem (of Organization)

A. Organization

B. Management

C. Competition
Organizing for Production

- Recall: production & distribution
  - Complex systems, difficult puzzles
- Coordination (see lectures 9 & 10)
  - Material & labor inputs
  - Outputs to market
- Direction & planning
  - What to make & how?
  - Who & where to make it?
What to do with this mess?

**Industry Background**

- **Component Fabrication Activities**
  - Substrate
  - Media
  - Head fabrication
  - Wafer
  - Wafers
  - Semiconductors
  - Bare PCBs

- **Subassembly Activities**
  - Motors
  - Head-gimbal assembly
  - Head-stack assembly
  - PCB stuffing and other electronics assembly

- **Final Assembly Activities**
  - Head-disk assembly
  - Testing

**Inputs throughout the value chain**

- Equipment and tooling
- Research and development
- Sales, administration, other
- Miscellaneous parts, e.g., base plate, screws, filters
- Consumables, services, utilities, etc.

**CONSUMPTION & DISTRIBUTION**

**THE CHICKEN INDUSTRY AND US CAPITALISM**

**Figure 8.4** The broiler filière c. 1995

**Figure 2.3** Hard disk drive industry value chain. Source: Adapted from Gourevitch et al. (2000).
Organizing for capital

- Investment
  - What, where, when, how much?
- Profits
  - Monitoring returns
- Costs
  - Cost control, reduction
- Revenues
  - Marketing, pricing
I. The Problem (of Organization)

A. Organization

B. • Management

C. Competition
What is Management?

- Organizers
  - Command & control functions
  - Hierarchy & direction
- Capitalists
  - Command of capital investment
  - Search for profits
- Bosses – *the third rail of management*
  - Command & control of workers
  - Capital & exploitation (*more to come in Part V*)
Management technology

- Production & distribution
  - Engineering & monitoring
- Capital
  - Investing, monitoring & calculating
- Labor
  - Hiring & firing (HR)
  - Motivating & orchestrating
Revolutions in modern management

Are revolutions in production systems (lecture 10)
- Factories
- Railroads & long-distance sales
- Assembly lines
- Lean production
- Global supply networks
  Etc.

And in types of ‘organizations’
- Stock markets
- Corporations
- Chain stores
- Subcontracting networks
- Logistics companies
  Etc.
I. The Problem (of Organization)

A. Organization
B. Management
C. • Competition
Can managers do better?

- What are competitors doing?
- Is there a better way?

Multiple forms of organization…
Which organization is best?

- Coase’s challenge
  - Why not one big firm?
  - What is the optimal scale/scope?
- Williamson’s question
  - Markets or hierarchies?
    - To make or buy?
  - Transactions costs vs. management costs
But matters are more complicated

- Markets vs. firms ~ simple model
  - Only costs
  - Only two choices

*What about?*

- Types of firms? Contracting & networks?
- Capital flows?
- Labor control?
I. The Problem
II. •Types of Organization
III. The New Competition
IV. Corporate Geography
II. Types of Organization

A. Markets
B. Firms
C. Corporations
D. Networks
Markets are...

- Exchange systems
  - Price setting & clearing
- Institutional frameworks
  - Rules, oversight, etc.
- Open systems (more or less)
  - Entry, exit
  - Monopoly & oligopoly
- Variable
  - Product, institutions, # of participants
No perfect solution

- Market imperfections
  - Monopoly, cheating, herd effects, bottlenecks, imperfect knowledge, etc.

- Market uncertainty & risk
  - Why firms & networks often better

Markets NOT always the best solution
several Nobel prizes for this…Williamson, Akerlof
II. Types of Organization

A. Markets

B. • Firms

C. Corporations

D. Networks
Firms

- Many names
  - Business, company, corporation etc.

- Legal types
  - Proprietorship
  - Partnership
  - Corporation (LLC)

- What’s in a firm?
  - Property
  - Capital
  - Production
  - Technology (knowledge)
  - Labor
  - Management
Firms & markets

- Firms $\neq$ markets
  - Firms operate in markets
  - But firms do things markets cannot

- Virtues of firms
  - Coherent
  - Directed
  - Controlled
  - Legally protected

- Failings of firms
  - Too small
  - Self-interested
  - Oppressive
  - Inflexible
Small firms still important

- Create most job, lose most jobs
- Nimble
- Innovative
- Fragile
II. Types of Organization

A. Markets
B. Firms
C. • Corporations
D. Networks
Corporations

- A special type of firm
  - Not just large

- Features
  - Limited liability
  - Joint ownership (shares)
  - Directors (collective)
  - Public & private

- Internal organisation
  - Divisional
    - Multi-Product
  - Vertically Integrated
    - Own supplier & distributor
  - Conglomerate
    - Subsidiaries
Advantages of corporations

- Diversification
  - Larger product lines
  - Lower risk
- Professionalism
  - Trained managers
  - Up-to-date methods
- Technology
  - Patents, IPRs, know-how
  - R&D labs
- Capital
  - Survival vs. efficiency
- Social power
  - Vs. other firms
  - Vs. state
  - Vs. labor
Disadvantages (for capital)

- Huge & ungainly
- Slow to change
- Too hierarchical
- Working at cross-purposes

Not to mention problems for the rest of us
II. Types of Organization

A. Markets
B. Firms
C. Corporations
D. •Networks
Networks

- Networks = systems of firms
  - Quasi-market (OW) or relational
    - Contracts, agreements, trust, etc.
- Network types
  - Vertical (subcontracting)
    - Hierarchical, tight coordination
  - Horizontal
    - Long-term contracts, logistics, joint-ventures
  - Multiplex
    - Industrial districts
Some perspective

- We have already discussed...
  - Industrial location (single firms)
  - Trade between places (markets)
  - Clusters & districts (multiplex networks)
  - Long-distance production (more networks)

- We’ve neglected the large firm (corporation)
Business Organization

I. The Problem

II. Types of Organization

III. • The New Competition

IV. Geography
III. The New Competition

A. The Corporation
B. New Competitors
C. Restructuring
The Modern Corporation -- An American invention

- Railroad era, 1870-1900
  - Huge scale, large geography, close timing
  - Stock market & LLC
- Trust era, 1900-1920
  - Sugar, steel, tobacco, farm machinery, etc.
  - Horizontal concentration
  - Cf. British holding companies & partnerships
- Divisional corporation, 1920s
  - Multi-functional, multi-product
  - New management technology (Alfred Chandler)
Postwar dominance

- US industry astride the world
  - Fordist production
  - Divisional corporation
  - Professional management
  - Sophisticated marketing
    - *US model spreads around world*

- Debates over the corporation
  - Thornstein Veblen, *Engineers and the Price System* (1919)
  - Berle & Means, *The Modern Corporation & Private Property* (1932)
  - Ronald Coase, ‘Economies of scope’ (1948)
  - Alfred Chandler, *The Visible Hand* (1977)
[need slide on corp growth]
US corporations go global

- Logic
  - Seek new markets
  - Buy competitors
  - Secure supplies

- Global octopus
  - European fears
  - 3d world resentments
  - Japanese blockade
III. The New Competition

A. The Corporation
B. • New Competitors
C. Restructuring
New contenders

- German
  - Lead firms + close contractors
- Japanese
  - Groups & subcontractors (keiretsu)
- French
  - National champions

Parallels spread of postwar industrialization & development (see lec. 3) …But with a lag
The global host

- Korean, Taiwanese, Malaysian, Mexican, Brazilian > 1990
  - Mostly into other NICs

- Parallels global industrialization
  ...with a lag
Rediscovery of smaller firms

- Viability of the small firm
  - Never went away
- Start-ups
  - New sectors, new tech, new places
- Clusters & districts
  - Third Italy, Silicon Valley, Hollywood

M. Piore & C. Sabel, *The New Industrial Divide*
Allan Scott, *Metropolis*
Limits of corporate growth

- “This study provides an update for Stonebraker's [1979] study of concentration, mobility, and turnover among the largest firms in the U.S. His conclusion still holds:

- "every statistical measure of turnover or mobility examined has been stable since late 1920's...even though the largest companies have become relatively larger, they have not been able to solidify or improve their relative position compared to their competitors over time.”
US model in doubt

- **New critics**
  - Business Week, *The Hollow Corporation*
  - Schoenberger, *The Cultural Crisis of the Firm*

- **New awareness**
  - US model not the end of history
  - Alfred Chandler, *Scale & Scope.*

- **New management theory**
  - *Theory Z* etc.

- US corps regroup to face global competition
III. The New Competition

A. The Corporation
B. New Competitors
C. • Restructuring
Refocusing

- Shed low profit parts
- Return to core competence
- Shift to growth sectors
Decentralizing

Reform of management
- Flatter hierarchies
- More autonomy
- Profit-centers

New Management Gurus of 1980s & 90s
Tom Peters, Paul Hawken, etc.
Externalizing

- Outsourcing
  - Subcontracting
  - Contract manufacture

- Joint Ventures
  - Temporary partnership
  - E.g., Disney-Pixar, NUMMI

- Technology alliances
  - E.g., Linux group, Google/Sun vs. Microsoft
Growing (out of trouble)

- **Size:** still tried & true
  - Eliminate competitors
  - Diversify products
  - Increase financial weight
    - (big corps never die?)

- **Mergers**
  - Fast road to growth
  - Global mergers
  - Keep up with changing geography of industry
Finance vs. Management

- Attack of the new financiers (1980s)
  - ‘Raiders’ of the Lost Art (of management)
  - Wave of mergers and sell-offs

- Managerial reaction (1990s)
  - Go private (escape)
  - Stock options (join)

- Return of the financiers (2000s)
  - Private Equity firms (KKR, TPG, etc.)
Business Organization

I. The Problem
II. Types of Organization
III. The New Competition
IV. • Geography
IV. Corporate Geography

A. • Territorial Imperative
B. Spatial Divisions
C. Headquarters
D. Virtual Corporations
Global corporations

- Multi-locational operations
- Internal financial flows
- Intra-firm trade

15-25% of US trade is within American multinationals
Why global corporations?

- Cheaper labor
- Cheaper transport
- Global communications
- Better suppliers

+ Greater geo-organizational capacity of corporations
  - I.e., management revolution
The problem of geography

- Management by territory can be quite independent (esp. national)
- Inability to integrate & oversee many operations in market
IV. Corporate Geography

A. Territorial Imperative
B. • Spatial Divisions
C. Headquarters
D. Virtual Corporations
Complex geographies

- Far-flung operations
  - Where do plants go & why?

- Corporate vs. market logic
  - What degree of freedom?
  - Spatializing Coase & Williamson

- Old corporate geography to simple
  - Determined by firm
  - Hierarchical
Whirlpool’s global ‘footprint’

- Microwaves:
  - engineered in Sweden, made in China, sold in US
- Stoves:
  - designed, produced & sold in US
- Refrigerators:
  - Designed in EU, assembled in Brazil, sold in EU

- Why they still make stoves in US:
  - “We pay $23/hr in Ohio, $3 in Mexico, and $1 in China, but for one hour of labor, the difference won’t begin to cover the shipping costs, let alone the investment it would take to build a new factory in Mexico or China.”
Corporations and clusters

- Locating in industrial districts

  - Double advantage
    - Internal + external economies
    - Generalists + specialists

  - Examples
    - Lockheed divisions to Silicon Valley (1960s-)
    - Japanese electronics giants to Silicon Valley (1980s)
    - Global advertisers to Bangkok (1990s)
    - Yahoo entertainment division to Santa Monica (2000s)
    - Intel office in PowerBar building to work with EECS
Corporations & states

- National barriers to global operations
  - Japanese rules against foreign mergers
- US ‘national security’
  - Stops Hitachi from buying National Semi (1980s)
  - Stops China National Oil buying Union Oil (2000s)
- French nationalism
  - Prevents buyout of Gaz de France (2000s)
Internal divisions of labor

- Multi-part corporations
  - Product divisions
  - R&D
  - Engineering & design
  - Marketing

- Part of the power of the corporation is integrating disparate division of labor

*See also next lecture (17)*
IV. Corporate Geography

A. Territorial Imperative
B. Spatial Divisions
C. Headquarters
D. Virtual Corporations
Corporate HQs

- Often in place of origin
  - H-P, Chevron, Ford, IBM, Microsoft
  - Seminis Seeds
    - HQ in Cal., 23% of world market, 42% of NorAm, 38% of EU
- Relocation to big cities
  - For finance & business services
- Relocation to suburbs
  - Corporate office parks
- Relocation abroad
  - Business shifts dramatically
  - Escape taxes & regulations
HQs @ home
HQs in the burbs
HQ relocations

- Chrysler: Detroit » NY in 1930s
- Bechtel: Oakland » SF in 1950s
- Halliburton: Houston » Dubai 2006
IV. Corporate Geography

A. Territorial Imperative
B. Spatial Divisions
C. Headquarters
D. • Virtual Corporations
Virtual Corporations

- Types
  - OEMs, retail giants, logistics
- Logic
  - Keep key functions internal
  - Manage vast externalized, long-distance
- Capacity
  - Extremely sophisticated management
- But where in the world IS Dell?
  - Or AMD, Nike, Seagate, UPS, etc.
Dangers of distance

- Breakaways & suppliers can become competitors

- Hua Wei, breakaway from Cisco, now has huge factory complex for routers etc. in Shenshei