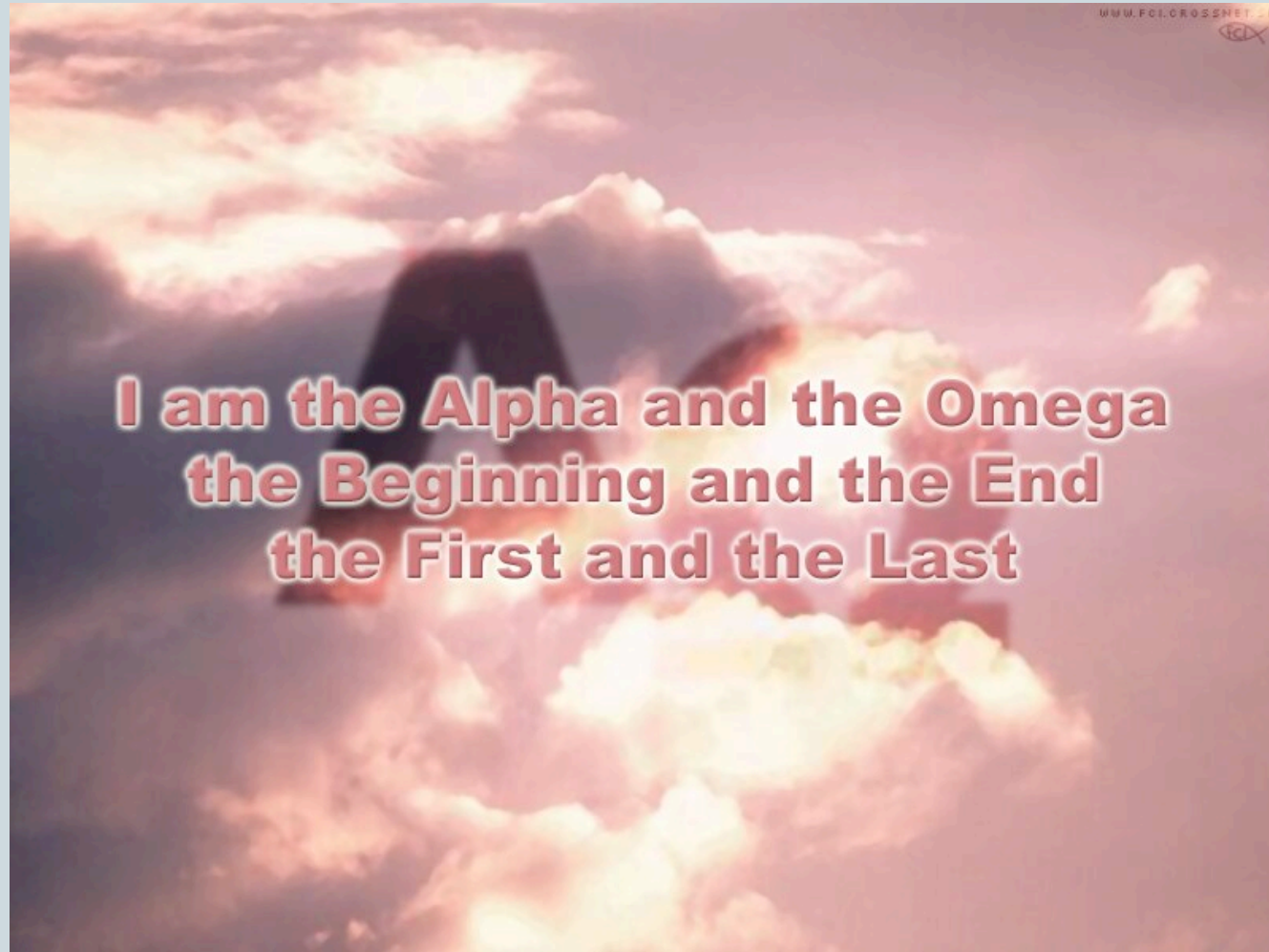


The Network Economy



**SESSION SIX
KNOWLEDGE,
INNOVATION AND
COMPETITIVE
ADVANTAGE
MARCH 3, 2001**

Are Organizations a Cause or an Effect?



Williamson & Lazonick Compared



- **Both focus on organizations & their role in the economy.**
- **Williamson views organizations as a means of reducing costs (the adaptive firm)**
- **Lazonick looks at firms as a means of gaining strategic advantage (The innovative firm).**
- **Williamson assumes equilibrium outcomes.**
- **Lazonick assumes outcomes are indeterminate.**

What is the Myth of the Market Economy?



- **The Market is where the action is.**
- **Firms play no role in economic growth.**
- **A firm's technological and organizational capabilities are given.**
- **A firm's control over its environment is necessarily bad.**



Local Street Market
from [TeeJe](#)

The Story of the Firm is the Story of Production and Its Costs

Firm Strategies determine the position and shape of a company's cost curve



Netlaw Media - Key Strategies for...
from [Netlaw Media](#)

What Kinds of Costs Are Entailed in Production?



Fixed costs.
Variable Costs
Average Costs
Average variable costs.
Marginal costs.



The Cost of Doing Business
from [TalkingTree](#)

What Kind of Forces Are These Costs Subject To?



265/365 | f=force -and- friction...
from [LookingSmug](#)

Increasing returns.
Decreasing returns
Economies of scale
Economies of scope
Economies of speed.
Economies of
agglomeration
Internal economies
External economies

In What Ways Can Firms Deal With Costs?



Internalize costs through vertical integration.

Externalize costs by purchasing inputs in the market.

Share costs through external economies.



Controlling IT Costs; Enterprise...
from [Wonderlane](#)

How Do Lazonick and Williamson Differ With Respect to Asset Specificity?

For Williamson
asset specificity
signals market
failures.

For Lazonick,
asset specificity
is a sign of a
firm's success.



"Frozen Assets"
from [Ian Sane](#)

What is Lazonick's Recipe for Growth

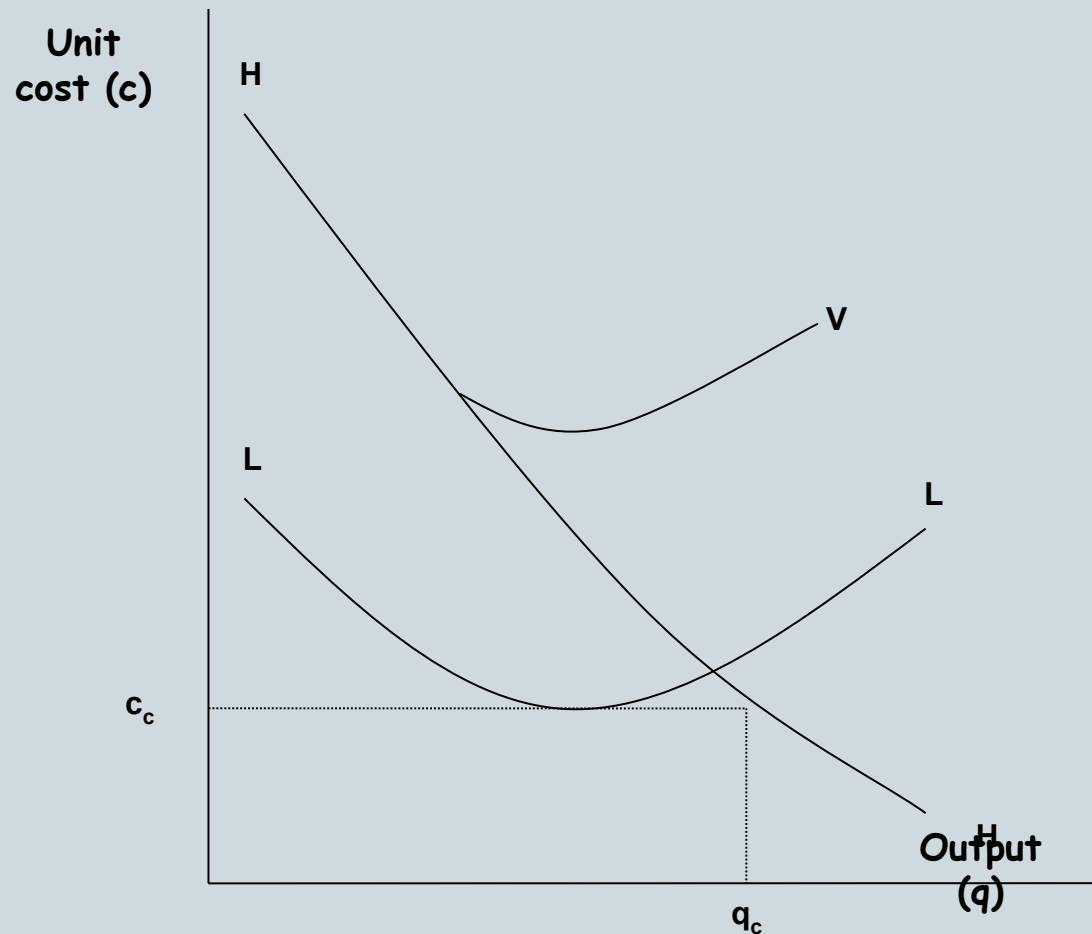


The High Fixed Cost Strategy

Employ technology & organizational changes to produce higher quality products at affordable prices.



The High Fixed Cost Strategy and Low Fixed Cost Strategy Compared



What Lessons Does Lazonick Draw from Marx?



- The productive process is at the center of economic growth.
- Greater labor utilization reduces unit capital costs.
- Technology can be employed to increase labor productivity.

Karl Marx
from [Dunechaser](#)



What Lessons Does Lazonick Draw from Schumpeter?



- The need for entrepreneurial activity resulting in innovation such as:

new products

new suppliers & inputs

new markets

breaking barriers to entry



Joseph Schumpeter
from [Friedrich Hayek](#)

What Are the Limitations of Marx's and Schumpeter's Account?

technology
from

[Matt Delbridge](#)



Schumpeter underestimated the importance of organization.

Marx overestimated the role of technology.



Multicomplex Management (MCM) and...

from [Hans Bruno Lund](#)

How Does Lazonick Extend & Link Marx & Schumpeter?



- Capitalizing on technology requires organizational change—investment in management.
- Capitalizing on technology requires social and institutional change—investment in human resources.



Untitled from [Jeffrey Guterman](#)

Comparing Lazonick and Christianson



- **Both emphasize the role of organizational structure and strategy.**
- **Lazonick focuses on the structure of production costs.**
- **Christianson focuses on the structure of demand—the value network.**

How Does Christensen Characterize Technologies?



- **Sustaining technologies—continually enhance performance for mainstream customers.**
- **Disruptive technology—deteriorating performance in the near term, but fill a market niche. Low margins not high profits.**
- **Technology advances can outstrip what the market needs.**

What Is A Value Network



- **The nested network of producers and markets through which the components at each level are made and sold to integrators at the next higher level.**

The food chain
from [Karf Oolhu](#)



How Does Position in a Value Network Determine a Firm's Costs & Profitability?



- Value attributes differ across value networks.
- Cost structures differ across value networks.
- Prospects for profitability vary across value networks.

Beware **Jessie Chews
Chains**
from
[dudeaz...!!...One day I'll
come...](#)



The Role of Sustaining & Disruptive Technologies



- **Sustaining technologies evolve along the s-shape curve within a value network.**
- **Disruptive technologies are valued according to different attributes and value propositions.**
- **When fully developed, disruptive technologies can rapidly invade higher level value networks.**

total Disruption
from [Filor](#)



What Accounts for the Failure of Successful High Fixed Cost Firms?

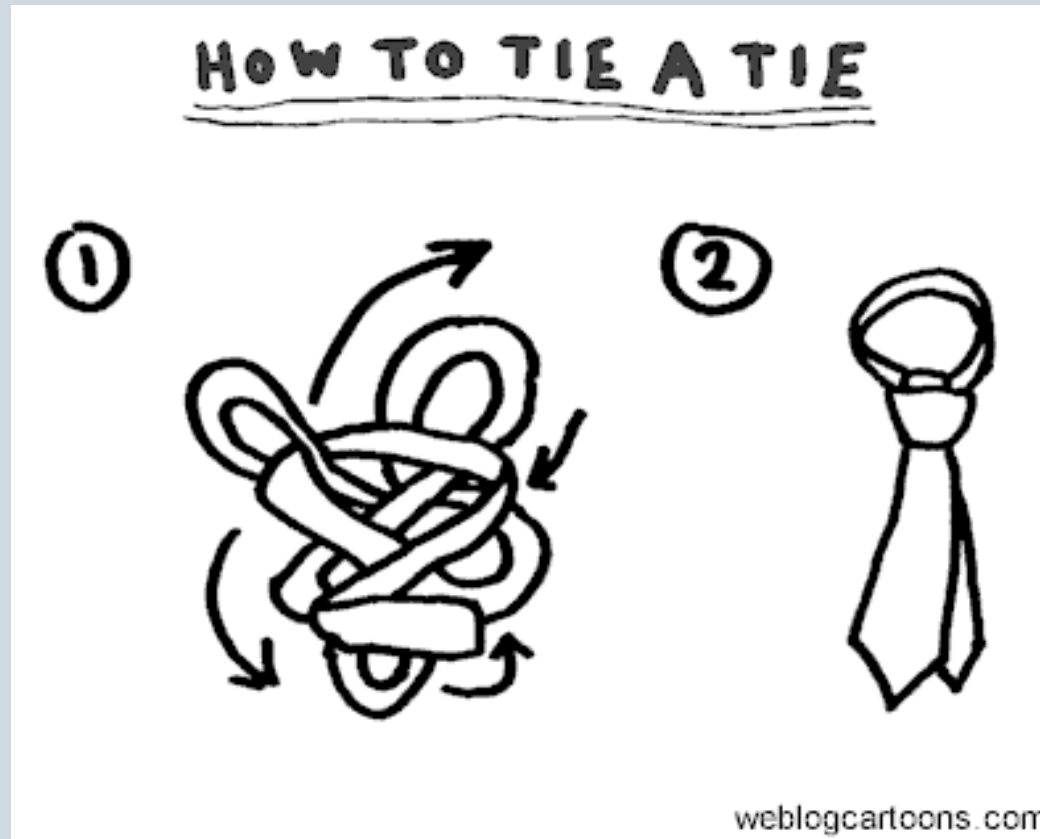


- **Not the technology mudslide hypothesis.**
- **Rather, disruptive technologies &**
- **Organizational lock in by key customers, as well as,**
- **The lack of a downwardly mobile vision**

What is a Structural Approach?



How Does the Structure of an Organization Affect Innovation?

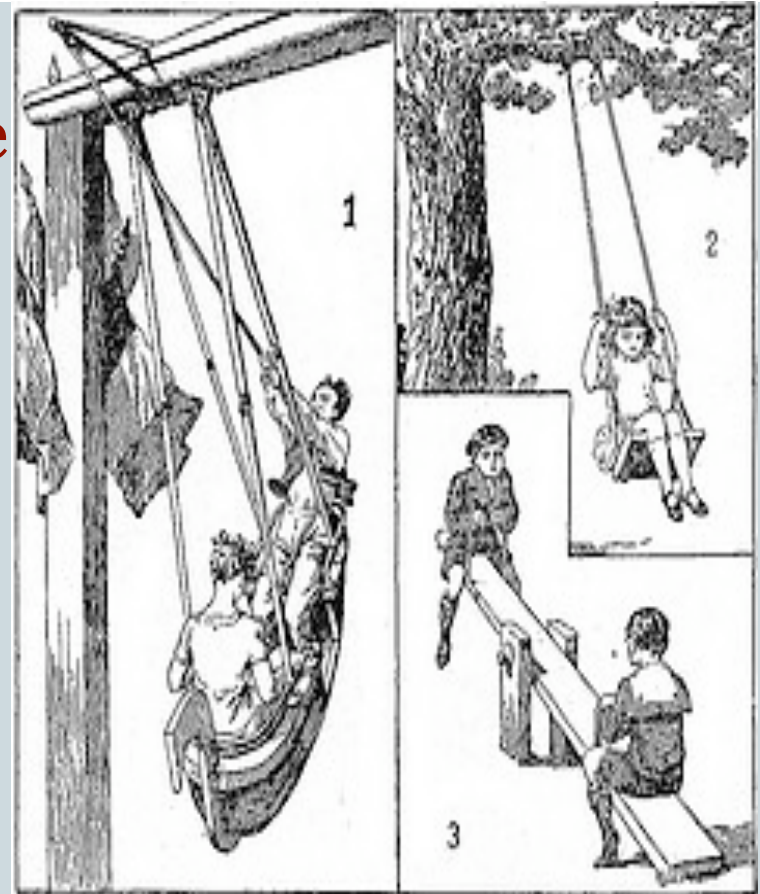


Organizations As Open Systems



Blogging Questions

Are the strategies we have discussed necessarily at odds? Can they be balanced? How would you apply these lessons, given the product of your choice?



Seesaws / Balancés
from [CGoulao](#)