

Chapter 8

Using Holistic Strategy to Govern Today's Extended Enterprise

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ABSTRACT

Governing extended networks is often associated with having the latest collaborative technology and business processes. However, current studies suggest that both are only part of the answer. This chapter argues that a holistic governing strategy needs to be adopted to achieve peak network performance. That strategy requires four conditions: 1) that each organization is ready to work with fellow business partners; 2) that network orchestrators recognize that all business relationships are not created equal and therefore need to be governed differently; 3) that a holistic governing strategy has to be adopted in order to integrate the people, technology, and processes in place; and 4) that people engagement hinges upon six factors (trust, beliefs, communications, culture, reward systems/metrics, and synergy). This chapter is a modification of an earlier work published by IGI Global.

INTRODUCTION

The development of the personal computer and the Internet has dramatically changed the way customers and businesses interact. Armed with more knowledge about the pricing of products,

customers are demanding more value-laden solutions. If a business does not meet these demands, customers can quickly search for alternatives at a touch of a button.

In order to compete under these conditions, executives are revamping their business models. The conventional business model was to have all capabilities housed under one roof. While this

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centrally controlled model worked well in the early-to-mid part of the 20th century, executives are now seeking more flexible structures that resemble networks rather than traditional pyramids.

Miles and Snow (1992) describe the evolution taking place. The earliest model was the Stable Network which was designed to serve a predictable market by linking together independently owned assets along a given product or service value chain. Nike employed this network to quickly introduce new shoe models. The next model was the Internal Network which was developed to allow corporations to gain competitive advantage through shared utilization of scarce assets and know-how. ABB (Asea Brown Bovari) used this model to give it unmatched global synergy in the electrical systems/equipment market. The latest model is the Extended Network or Extended Enterprise which incorporates a large number of partners who - at a moment's notice - can be asked to help deliver a new product or service. A good example of which is Li & Fung Limited who is a global trading group that supplies high-volume, time-sensitive consumer goods. When an order arrives, management selects the best of its 8,300 suppliers located in 40 countries for filling the order at the right quality, time and price (Fung, Fung and Wind 2007).

A Global Outsourcing Study conducted by Deloitte Consulting LLP (2012) underscores the magnitude of the transformation that has and will take place. For example: 76 percent of information technology services were currently outsourced trending to 81 percent; 42 percent of operations were currently outsourced trending to 53 percent; 30 percent of human resource functions were currently outsourced trending to 46 percent; 24 percent of procurement functions were currently outsourced trending to 36 percent; and 11 percent of marketing/sales functions were currently outsourced trending to 24 percent.

While firms like Toyota, Dell Computer and Li & Fung Limited have successfully made this transformation, many firms are still struggling

with the process. A study conducted by Dunn and Bradstreet found that 20 to 25 percent of all outsourcing relationships fail within two years and 50 percent fail within five years (McKinsey Quarterly, 2001). Another study conducted by Deloitte consulting LLP (2007) found that "39% of the 300 respondents reported that they had terminated at least one outsourcing contract and transferred it to a different vendor in their careers and...61% reported that they had escalated problems to senior management in their contract's first year, with 15% reporting five or more such escalations." A recent example is Boeing who has experienced a myriad of problems with its 787 Dreamliner jet which is made from parts coming from Canada, Italy, United Kingdom, France, Japan, Korea, Australia and the U.S. Most recently, smoldering batteries - including one fire on the ground - prompted air safety authorities to ground the world's 787s in January 2013.

One reason companies have failed can be linked to the governance structure employed with their extended enterprises. Given this observation, the question this paper seeks to answer is what is the best way to govern extended enterprises? To answer this question, this paper will explore the dynamics of the extended enterprise, the various governing strategies, and the factors that facilitate human collaboration in order to improve network performance.

EXTENDED ENTERPRISE

Davis and Spekman (2004) define the extended enterprise as a "set of collaborating companies, both upstream and downstream, from raw materials to end-use consumption, that work together to bring value to the marketplace." Bititci, Mendibill, Martinez and Albores (2005) view the extended enterprise as "a knowledge based organization which uses the distributed capabilities, competencies and intellectual strengths of its members to gain competitive advantage to maximize the

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