

Foxconn, Avestin, and Organizational Boundaries

The news last week included two stories that present dilemmas for the companies involved, and are good illustrations of how the boundaries of organizations are becoming difficult to draw in the modern economy.

First Foxconn: In two perhaps unrelated actions, this Taiwanese firm that makes iPads in China is undergoing labor condition inspections by Fair Labor Association at the behest of Apple, and it has increased its base salaries of workers. You may recall that Foxconn had a string of worker suicides recently. Its initial response was to install safety nets outside the worker dormitories from which the workers jumped to their death, but Apple and others have pushed it to do more.

Next Avastin: This is a pharmaceutical drug that is in the news because counterfeits have been discovered in some places, including in stocks handled by Danish Wholesaler CareMed and apparently supplied by Swiss wholesaler Hadicon. A search is on for the manufacturer that made the fakes and placed them into the delivery stream. The exact chain of events is complicated because CareMed reports that Hadicon passed the product on to them and were informed of the problem as soon as it was discovered, while Hadicon claims not to have been made aware of a problem with products they had delivered to CareMed. Neither CareMed nor Hadicon makes Avastin, and it appears that they do not inspect it either. The problem was found by CareMed customer River East, a UK wholesaler.

In both cases the problems were avoidable. Although the Avastin syringes were well made fakes with plausible looking labels, they had batch numbers that did not exist. One might expect pharmaceutical wholesalers to inspect batch numbers, but they did not. The Foxconn factories were huge operations that might have deserved some Apple inspection.

In both cases, we are seeing goods moving among firms that are so tightly connected that they could in principle work as one seamless production system involving multiple legal entities working together. That is the theory, but in practice organizations are more than legal entities that create and trade stuff in some machine-like way. Supervision, control, and

coordination are central parts of what organizations do, which is why they are called organizations and not contractizations. Contracts are still valuable for dealing with the fallout when there are problems, but prevention and repair of problems requires more than contracting.

When failures such as these occur inside a single organization, the lines of responsibility are clear. Actions to fix the problems suggest themselves immediately or can be found with some inspection. When they occur somewhere in a system composed of organizations that interact closely, as in the Foxconn case and Avastin case, multiple organizations end up looking confused and negligent. It is still possible to create complex multi-organization production and trade systems, but they require more of the classical organizational tasks of supervision, control, and coordination than a single organization does.

References

“Egypt Eyed as Possible Source of Fake Avastin”
Jeanne Whalen, Wall Street Journal, Feb 18.
“Apple Partner Foxconn Raises Salaries.” Lorraine Luk. Wall Street Journal, Feb 18.

Find article at

<https://knowledge.insead.edu/blog/insead-blog/foxconn-avestin-and-organizational-boundaries-2801>

Download the Knowledge app for free



Visit **INSEAD Knowledge**
<http://knowledge.insead.edu>