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THE 'MISSING' PERSPECTIVE IN STRATEGIC MANAGEMENT

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Abstract

The firm is not an independent entity striving for survival in a hostile environment. Instead, the firm is embedded in intricate business networks while operating in competitive markets. The firm is strongly connected to several counterparts via lasting cooperative relationships and engaged in purely arm's-length relations with some of its suppliers and customers. Since all firms are interdependent, their strategy cannot be a tool deployed at will in zero-sum games. A new, essentially relational conception of strategy is in demand.

This conceptual paper aims to consolidate the so-called 'missing' perspective in the Strategic Management field. By building upon the realistic premise of a 'co-opetitive' business world wherein inter-firm competition and cooperation coexist, that missing perspective ought to depict strategy as a pattern of decisions and actions with a twofold purpose: firstly, the firm's (reactive) adaptation to a largely anonymous and unresponsive environment; and secondly, the (proactive) interrelation of the firm with and the shaping of a full-faced and changing business context.



1. Introduction

Many scholars have challenged the perspective of firms operating in atomistic markets for at least five decades. Richardson (1972, pp. 883, 884) alerted to the ‘highly misleading account’ or ‘distorted view’ of the standard theories of the firm and markets concerning how each industry is de facto organized. Richardson (1972, p. 883) alluded to “(...) the dense network of cooperation and affiliation by which firms are interrelated”, arguing that firms, markets, and inter-firm cooperation carry out the division of labour. There are three alternative modes of coordinating economic activities or governance structures. Having business cooperation in mind, Richardson (1972, p. 883) claimed that firms should no longer be seen either as “(...) islands of planned coordination in a sea of market relations (...)” or as “(...) autonomous units buying and selling at arm’s-length in markets (...)”. The view that firms are “(...) islands of conscious power in an ocean of unconscious cooperation like lumps of butter coagulating in a pail of buttermilk (...)” (Henderson, 1932, p. 73) is stylized.

Richardson’s (1972) conceptual analysis provided the thrust for many theoretical and empirical studies that have demonstrated that the firm is not an isolated entity exchanging only at arm’s-length distance (see, e.g., Blois, 1972; Ford, 1980; Monthoux, 1975). The firm is semi-autonomous and deeply enmeshed in economic, social, and technological interdependences (Hakansson, 1982; Granovetter, 1985).

This paper tries to contribute to the ‘missing’ perspective in the Strategic Management field (Axelsson, 1992). This perspective builds upon the pervasiveness of inter-firm cooperation and the (strategic) relevance of cooperative arrangements in terms of the enhanced corporate performance.

The structure of the paper is as follows. The next section presents the interdependent nature and blurred boundaries of the (networked) firm. The third and fourth sections briefly describe the basic premises of the ‘dominant’ perspective of strategy and set out a ‘new’ conceptualization of strategy, respectively. The final section includes some concluding remarks and implications.



2. The networked firm

No business is an island, as Hakansson and Snehota (1989) put it. The firm is involved in multiple relationships with multiple counterparts: vertically connected, upstream with suppliers and downstream with customers (via cooperation or exchange) and horizontally linked, mostly with competitors but also third parties (through competition or cooperative arrangements). Inter-firm linkages can be labelled business relationships (i.e., vertical cooperation), arm's-length relations (i.e., exchange), or inter-organizational relationships (i.e., horizontal cooperation).

2.1. Business exchange and cooperation

In theory, the firm can either engage in arm's-length relations or develop long-lived and resource-intensive relationships with its suppliers and customers. Price and quantity are the only distinguishing features of discrete, one-off transactions in business markets governed by the price mechanism alone. Business relationships, on the other hand, are vertical cooperative arrangements that display some notorious attributes: long duration, informality (i.e., are governed by implicit or incomplete contracts), complexity (as entail inter-personal contact patterns and possibly aim at several business objectives), and symmetry (in terms of both parties' interest to nurture and sustain the relationship) (Hakansson and Snehota, 1995).

Some purely transactional relations give way to the manifold interaction between buying and selling firms in business networks. High levels of mutual trust and commitment built over time and shared by both interacting parties influence those interaction episodes. Reciprocity and interdependence are key characteristics of business networks (Turnbull et al. 1996).

The business world also features other less frequent cooperative inter-firm relationships. The firm occasionally initiates and maintains cooperation with competitors and third parties (e.g., complementors, universities, and research institutes). Inter-organizational relationships can take various forms (e.g., strategic alliances, consortia, interlocking directorates, joint ventures, strategic networks, and trade associations) (Barringer and Harrison, 2000). Horizontal cooperation is usually established for particular and unambiguous purposes and hence is formal (i.e., ruled by written, legally enforcing contracts) and rather short-termed.



2.2. The firm's environment and context

The firm's surrounding is not only an uncontrollable environment ('somewhere out there') of intractable forces (e.g., political, economic, sociocultural, technological, and legal ones) that strongly influence its survival and growth prospects. In addition to this broad set of environmental conditions (which exists and endures independently of the firm's will or even existence), one should also consider the (business) context of the firm (Hakansson and Snehota, 1989).

The firm operates inside a context comprising a finite number of distinct counterparts with which it interacts directly and indirectly via exchanges, cooperation and competitive relationships. That context includes, for one, suppliers, customers, competitors, suppliers' suppliers, and customers' customers and is co-created and shaped to some extent by the firm itself.

2.3. The resource and capability dependence of the firm

The firm has only limited (internal) resources and capabilities, thus needing external (complementary) resources and capabilities to survive and grow (Pfeffer and Salancik, 1978). The heterogeneous nature of the firm is both a motive for and the result of its embeddedness (Nelson, 1991).

Whereas some resources and capabilities are available in markets, others can only be accessed and exploited in business networks (i.e., through exchange or cooperation with resourceful or competent counterparts, respectively). In other words, the resource and capability base of the firm can be extended (or reduced) by establishing (or terminating) transactional relations or business relationships with suppliers, customers, and third parties. A firm is interaction-oriented rather than a mere production function (Ford et al. 1986).

2.4. The fuzzy boundaries of the firm

The firm's boundaries are frequently 'drawn' by considering its hierarchical ownership and control of resources and capabilities (Holmstrom and Roberts, 1998). Ownership and control are defined by property rights and set limits to the firm's (vertical and horizontal) boundaries (Hart and Moore, 1990).

So, a clear-cut (cooperation-competition) dividing line separates the firm from its surrounding environment: there is a high level of cooperative arrangements within the firm, and, alternatively, fierce competition only prevails 'outside' it (i.e., in markets). However, two arguments may counter this standard view on corporate boundaries. First, though one encounters many cooperative efforts inside the firm (e.g., between individual members,



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groups, and departments), it is not the case that intra-firm 'political' disputes are not very frequent and even 'noisy' (e.g., Mintzberg, 1985; Pettigrew, 1973). Plus, cooperation necessarily thrives outside the firm's boundaries (check, for instance, the cooperative relationships that competitors maintain with significant suppliers and customers) (Wilkinson and Young, 2002).

If this is the case, it does not make sense to depict the firm as a fully autonomous and bounded unit surrounded by a wider environment over which it has very little (if any) influence. On the contrary, the (networked) firm has no rigid boundaries: it also contains (some of) the resources and capabilities owned and controlled by all counterparts existing in its context (and with which the firm has any relationship).

The firm's boundaries (primarily the vertical ones) are not fixed once and for all. Boundaries are changeable and continually modified as the firm interacts with counterparts and manages its degree of involvement in different relationships over time. Moreover, boundaries become increasingly fuzzy, owing to the varying importance of external resources and capabilities for the firm. In a way, the firm is 'boundaryless' (Hakansson and Snehota, 1989).



3. The strategy field doctrine

Mainstream theories of Strategic Management – for example, the Resource-based View of the Firm (RBV) (e.g., Barney, 1991; Wernerfelt, 1984) or the Industry and Competitive Analysis (ICA) (Porter, 1980, 1985) – depict strategy as an essential part of the general manager’s (or chief executive officer’s) toolkit, to deploy at will with the primary aim of improving the financial performance of the firm (or of its businesses), and consequently enhance the likelihood of corporate survival or growth.

“As the outcome of the decision process (...), corporate strategy is the pattern of decisions in a company that (1) shapes and reveals its [long-term] objectives, purposes, or goals, (2) produces the principal policies and plans for achieving these goals, and (3) defines the business the company intends to be in and the kind of economic and human organization it intends to be.” (Learned et al. 1965, p. 125).

A strategy thus revolves around the ‘most important’ decisions regarding “(...) the nature of the business in which a company is to engage and the kind of company it is to be” (Learned et al. 1965, p. 9).

Since strategy is explicit, it conveys “(...) both what the company is trying to achieve and how it hopes to achieve it” (Christensen et al. 1951, p. 20). Strategy is rooted in means-ends relations, with the ends being a cutthroat competition of chosen products in selected markets (Ansoff, 1965).

3.1. Strategy as plan

Of course, strategy (as an articulated, detailed plan) results from a long-range or strategic planning endeavour, that is, a time-consuming and carefully devised analysis that typically includes market research, competitive intelligence, and environmental surveillance. Top management devises a plan (or a plot) capable of dealing with the expected trends in customers, competitors, and environmental forces and, more importantly, with the potential impact of those entities’ behaviour on the firm.

After strategy formulation, strategy implementation follows suit. The strategist aims at a successful implementation, a task affected by the current leadership, the firm’s organizational structure and its (information and performance evaluation and reward) systems, and resource allocation processes (Ackoff, 1970).

Strategy as a plan results from matching what the firm might do with what it can do. Furthermore, it is influenced or constrained by both what the firm wants to do and what it should do. In short, (external) opportunities and threats, (internal) strengths and weaknesses, managerial values and ideals, and ethical or moral standards and societal obligations impose to varying extents restrictions upon the strategy to develop and adopt by the firm.



3.2. Strategy as fit

Managers devise a strategy that suits the firm's uniqueness, particularly its environment, internal resources, managerial preferences and beliefs, and corporate social responsibility (Uyterhoeven et al. 1973). That is to say, the strategy ought to:

1. Be tailored to the predicted evolution of opportunities and threats (e.g., posed by political, economic, social, technological, and other environmental forces as well as by the moves of competitors);
2. Take advantage of the firm's strengths and mitigate its weaknesses vis-à-vis those of rivals;
3. Account for the individual idiosyncrasies (e.g., education, risk-taking propensity, ethical standards, religious and political orthodoxies) shaping the firm's purposes, decision-making, and conduct; and
4. Provide what society expects from the firm beyond pursuing economic targets (e.g., profit maximization within the law).

A strategy is a tool at the firm's disposal that enables it to adapt to a faceless, fully competitive, and uncontrollable environment. It allows the continuous match of the firm to the set of changing environmental forces that affect it primarily and over which it has no or little control or influence (e.g., economic recession or technological development).

The firm searches for the (never-ending) alignment between the surrounding environmental opportunities and threats and its strengths and weaknesses (Andrews, 1971). There is an environment-led fit, and the firm only reacts to (or stands still when facing) external changes.



4. Reconceptualizing strategy: a relational perspective

Axelsson (1992) argues that any theoretical model or framework in the Strategic Management field can fall into three primary perspectives: 'dominant', 'emerging', or 'missing'. The dominant perspective depicts the firm as atomistic, struggling for survival in a hostile environment (Grant, 2005; Hill and Jones, 2008), whereas the emerging perspective recognizes that some firms, at some point in time, may engage in cooperation with one another (e.g., short-term alliances) (Galaskiewicz, 1985; Schermerhorn, 1975).

The mainstream theories of Strategic Management suggest that strategy is fundamentally about 'winning' (e.g., Porter, 1980). Taking the self-centred firm as a point of departure, these theories (over)stress inter-firm competition and presume a business landscape full of zero-sum games.

Strategy scholars and researchers often consider the firm as self-sufficient and primarily focused on obtaining and renewing (sustained) competitive advantages (Christensen, 2001; Porter, 1987). The firm is determined to outmanoeuvre fierce competitors (e.g., by adopting cost leadership or product differentiation strategies). The firm necessarily operates in an industry characterized by a (varyingly intensive) rivalry, wherein even suppliers and customers are threatening 'competitive forces' that deserve its careful attention (Porter, 1979).

The dominant view of strategy builds upon the theme of the firm-environment fit (or match, alignment or adaptation). Firms must match, align or adapt their internal attributes to its surrounding. In short, the firm capitalizes on its strengths and minimizes weaknesses while taking advantage of environmental opportunities and avoiding or reducing (the impact of) any threats.

The firm's fit to the environment is achieved by continually and reactively adapting to the environment in which it operates through the effective and efficient (re)deployment of proprietary resources and capabilities.

Understandably, the ownership and control of rare, imperfectly mobile and difficult-to-imitate resources and capabilities is the unique route to competitive advantages (e.g., Barney, 1996; Grant, 1991; Mahoney and Pandian, 1992; Peteraf, 1993). In this respect, the firm can either develop those resources and capabilities internally or acquire them in factor markets (Barney, 1986), as the 'make-or-buy' decision implies (Barney, 1999).

Despite the wide endorsement of the dominant perspective in the Strategic Management field, many research studies demonstrate that a firm is an interdependent unit of a full-faced and 'co-opetitive' business context (Nalebuff and Brandenburger, 1996; Bengtsson and Kock, 2000). Such a 'missing' perspective makes a case for extensive business cooperation and interdependence. The 'co-evolution' of resources, capabilities and activities is the norm rather than the exception (Volberda and Lewin, 2003).



4.1. Strategizing in networks

As the firm operates inside business networks, its strategy is much less competitive, shifting from pursuing 'victory over rivals' to somehow making it together with suppliers, customers, and other relevant counterparts. "Strategy in business markets is not just about the company acting against others, but also often acting with, or through them." (Ford et al. 1998, p. 274).

An enmeshed network of cooperative relationships with several counterparts embeds the firm. Accordingly, its strategy cannot be merely an environmental fit or match. The firm proactively interrelates with (and possibly shapes to its advantage) its nearby business context.

Strategy content changes "(...) from the way the organization allocates and structures its internal resources and processes towards the way it relates its [...] activities and resources to those of the other parties that constitute its context" (Hakansson and Snehota, 1989, p. 159).

Strategy development is an emergent and interactive process rather than independently formulated and implemented (Ford et al. 1998). Strategy is the outcome of the firm's intent and behaviour and the plans and moves of counterparts operating in the same business context.

Understandably, the firm's strategy connects to the strategies of its counterparts. The strategic autonomy of the firm is limited: the strategic moves of counterparts, especially significant suppliers and customers, influence (and are influenced by) the strategic moves of the firm (e.g., build or consolidate a favourable network position, increase network power and reinforce identity in the network). One can even speak of a 'collective' strategy in business networks (Astley, 1984; Astley and Fombrun, 1983).

Owing to the firm's embeddedness, the strategy development process is in-between the strategic choice of Child (1972) and the environmental determinism of Aldrich (1979) and Hannan and Freeman (1977). The firm is neither an autonomous unit with total freedom of choice nor subject to the unmanageable control of exogenous environmental forces. It has some degree of (strategic) discretion.

The firm devises and puts into practice its strategy at large through the business relationships it establishes, develops, maintains, and terminates with counterparts. "[S]trategy development in business markets centres on, is affected by, and is implemented through relationships." (Ford et al. 1998, p. 75).



5. Concluding remarks and implications

Axelsson (1992) identifies three perspectives in the Strategic Management field: a 'dominant', an 'emerging', and the 'missing' perspectives. These three perspectives are easily distinguishable on account of the degree of cooperation that each presumes to exist in the business world. In sharp contrast with the dominant perspective, the emerging and missing perspectives acknowledge the existence of some pockets of inter-firm cooperation (e.g., dyads, triads, and nets) (Evan, 1965) and the ubiquity of cooperative business arrangements respectively (Hakansson et al. 2017).

Given the magnitude and importance of inter-firm cooperation found in the business world (Dubois, 1998) and, therefore, the embeddedness of the firm (Ben-Porath, 1980; Grabher, 1993; Uzzi, 1996), one may challenge the dominant perspective on strategy.

This paper attempts to make a further contribution to the missing perspective, in line with the works of Araujo and Easton (1996), Baraldi et al. (2007), Ford et al. (1998), Ford and Mouzas (2008), Hakansson and Snehota (1989, 2006), Juttner and Schlange (1996), Normann and Ramirez (1993), and Wilkinson and Young (1994), amongst others.

A common argument of the dominant perspective of strategy is that the firm's conduct and strategy are either determined by environmental forces or completely autonomous. The networked firm enjoys considerable but by no means total strategic autonomy.

Strategy emerges not only from the incremental and coherent decisions and actions taken by the firm over time (Mintzberg 1987; Mintzberg and Waters 1985; Quinn, 1980) but also from the decisions and actions of many counterparts with which the firm maintains cooperative relationships.

An interesting corollary to this is that the firm's performance is affected (and affects) the conduct and performance of other firms with which the firm is directly as well as indirectly connected (Araujo et al. 2003).

The embeddedness of the firm impacts its performance. The firm's performance of the firm is traditionally regarded as an internal technical matter (i.e., a function of how effectively and efficiently the firm autonomously exploits a given set of resources and capabilities). In a relational view, however, that performance derives partly from how the firm systematically handles multiple interdependences with diverse business actors in the network.

The firm's performance is not simply the result of its productive (and other activities') efficiency; it also comes about from the firm's capability to interact and manage its high- and low-involvement relationships with different counterparts. Furthermore, the performance of the firm is likely to be strongly affected by (and impact upon) the performance of those same counterparts (Hakansson and Snehota, 1989).

Given the embeddedness of the firm in intricate business networks, strategy necessarily shifts from outperforming rivals to collaborating with partners and obtaining cooperative advantages (Dyer and Singh, 1998). One may discard the conventional view of the strategy of



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pursuing a zero-sum game whereby 'the winner takes it all'. A full-blown relational perspective on strategy is, this paper attempts to argue, urgent and appropriate.

The key message of that relational view of strategy is straightforward: corporate survival and growth are fostered not merely when the firm strives for continuous alignment with the surrounding environment but also when the firm intendedly forges the context in which it operates, together with counterparts and partly to own advantage (e.g., by strengthening the social bonds in a lasting business relationship with an important customer or by dissolving a highly dysfunctional resource-intensive relationship with a supplier) (Moller and Halinen, 1999).



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