Toward a Theory of Business Level Strategy Research

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TOWARD A THEORY OF BUSINESS LEVEL STRATEGY RESEARCH

Working Paper 85-119*

by

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The purpose of this paper is to call for sensitivity about what the nature of theory is (or could be) in the field of strategic management. The author presents the view that strategy is part orderly and therefore is amenable to stipulating causal mechanisms and it is also part "art" which will demand different thinking and methods. One example is given of a theory of business level strategy and research that could blend both views. A larger purpose is to make a call for having authors state clearly what the key features of their theories are so that open debate about them can be accomplished.
TOWARD A THEORY OF BUSINESS LEVEL STRATEGY RESEARCH

The term theory from the title above stems from the Greek word (theoria) which means enlightened reflection from a ground of a set of first premises. To the more modern thinker, the term theory usually suggests a structure of first premises, coupled with a set of causal laws or mechanisms such that if initial conditions are known, a conclusion can be made. For example, if we have

1. Newton's Laws (Premise and Causal Laws)
2. Position of the Seven Planets and the Relation to the Sun (Initial Conditions)

Therefore, posit another planet - Neptune (Kuhn, 1957:261)

The term strategy stems from the Greek word (strategos) meaning the art of the general.

The three main terms presented in the definitions above - theory, strategy and art - portray an underlying tension in the modern academic study of business strategy. The science in academic research ought to, if not, does strive for theories. Here, premises are laid open for inspection, causal laws are hypothesized from previous theory or hunches and then tested, so that reasoned, calculated and probability constrained conclusions can be drawn. The art in the definition of strategy, on the other hand, drives us to consider surprise, crisis, novelty, uniqueness, disorder and chaos - sort of an effervescence which is ever in the process of becoming (May, 1975; Arieti, 1976).

Therein is the tension: if theory drives us to consider what is orderly and art drives us to consider what is chaotic or disorderly, can there ever be a reconcilement? Does one necessarily preclude the other? In fact, if we are
to study that which is held to be the essence of strategy — uniqueness as it relates to comparative advantage and distinctive image (Andrews, 1980; Henderson, 1983; South, 1980), then perhaps we need to be studying the renegades or outliers, (the "art"), and not the firms that will allow significant correlations between two variables to be had. The writer feels that there are the pieces to begin to build a world view for strategy and strategy research that will ask us to develop theories — premises and causal laws — but will also allow us to consider the art within. In explicating these pieces certain notions from the philosophy of science literature will be addressed. These concerns follow naturally from considering the pieces.

A. A Scheme for Strategy Research

To hold that the study of strategy is one of art, is to hold, in the extreme case, that no order or structure exists on which to build premises and causal laws. Subscribers to this position hold that surprise, crisis, etc. characterize reality better than an orderly state of affairs. However, the very notions of surprise, etc. presuppose some notion of order or regularity. Otherwise, "chaotic" (or "artistic") conditions would be the order or the norm. So, the most fundamental premise that some order exists (or is thought to exist) that has a chance to be known seems inescapable, at least for Western thinking. (Bourgeois, 1980; see Churchman, 1971 for a catalog of modes of rationality.) If this is true, then perhaps we can construe part of a theory of strategy (and strategy itself) to be lawlike and part as that which is random, chaotic and ever in the process of becoming — a sort of effervescence. This can be seen as a derivative of Thompson's argument (1967) for the protection of the technical core. Figure 1 shows this notion graphically. Here, we have a nucleus of strategy that is thought to be lawlike — a dominant thrust that exists by virtue of the firm having successfully come to terms with the
FIGURE 1
A STRATEGIC SYSTEM
contingencies posed by the environment. A snapshot picture of this dominant thrust at any point in time for the successful firm would appear to respect tradition ("rules of the game," Porter, 1980) and the particular laws of the marketplace and environment that are germane to the firm's particular situation. Secondly, we have what the writer calls the diversionary scree. This notion and construct accommodates the art in strategy by being the apparatus that responds to newer, random, chaotic perhaps bizarre demands posed by the environment (Porter, 1980: Chapter 4). The topics of the dominant thrust and the diversionary scree will be taken up in greater detail in the next section, but what is proposed here is a dual structure of strategy formulation and perhaps even implementation. The concerns of the dominant thrust point to a notion that there needs to be a rather natural fit between strategy and the contingencies posed by the environment. To use a natural analogy, the taproot and lifeblood of the firm's strategy (its dominant thrust) cannot be tampered with indiscriminately and must be cultivated through time. On the other hand, the concerns of the diversionary scree demand ephemeral, transitory sort of activity. This would respect the very nature of diversion and perhaps the term "art" if we understand it in its uniqueness and novelty meaning.

Given these premises and arguments, what would be a way of thinking about building a theory of strategy? The cumulative implications of the above analysis would suggest that we consider the following:

1. A definition of what is strategic. This should be couched in generic attribute terms so as to allow for guidance and the testing of causal mechanisms.

2. Presentation of a relatively open and systemic model of strategy. This would, among other things, increase the probability of encompassing the requisite causal mechanisms. (See Bigler, 1983 for an
argument for construing strategy in more systemic terms and Henderson, 1983 for support of this argument.)

3. The definition of what is strategic (1 above) and the specification of an open model for strategy (2 above) must also allow a statement of what theory of the firm is implied or posited. For example, does a particular definition of what is strategic and its appropriate open model reflect a theory of the firm that says that management should maximize shareholder value (Copeland and Weston, 1983), or maximize presence in the marketplace (BCG) or minimize cost curves in terms of the factors of production (Coase, 1937). This up front construal of which theory of the firm a particular theory of strategy reflects could add to clarifying the ground or base of the theorist's endeavor.

4. Isolate key causal mechanisms within this system that reflect the generic definition of what is strategic, then rigorously test for these causal mechanisms. This more "basic" research, as opposed to "applied" research could form the building blocks to a more general theory of strategy. This will be relatively more detached and circumscribed research but it could be very foundational for our field.

5. To be able to actually test the causal mechanisms, a way must be made to operationalize the key constructs in the systemic model. The constructs should be operationalized in terms of more abstract attributes that will allow interval level measurement. For example, some way needs to be advanced to adequately measure such things as environmental diversity, munificence and dynamism (Dess, 1980; Bigler, 1982) and strategic diversity. For example, a frequency count of problematic environmental components could be done, but this would be
cumbersome and would not allow the testing of causal or correlational relationships. The relatively abstract attributes of environmental diversity, dynamism and abundance could, if properly operationalized, serve as proxies for actual environmental contingencies. This procedure (for all parts of the model) could allow for interval (as opposed to nominal) level measurement and relational analysis.

Figure 2 shows in schematic form what one theory of strategy would look like given the explication above. As one can see, this is a rather "naturalist" construal of a theory of strategy. No doubt other theories can be presented. What is intended here is to show a rather lean form in which theorists can present in a clear and parsimonious manner what the underlying key features of their theories are.

The above presentation may indicate a stable picture for strategy and strategy research. However, there exists a tradeoff in this presentation that needs to be respected in doing research (as indeed in actually doing strategy). It is the omnipresence of risk that makes any theory of strategy at best dynamic and at worst unstable. There are two types of risk that are always borne in this strategic system. There is a risk that is borne in the dominant thrust. If the dominant thrust is a maximization construct and respects historic tradition, then it sets itself up for the risk of catastrophic loss. There is a risk that a sudden shift in the environment may completely nullify a previously successful, internally consistent dominant thrust (see the HBS Case Service for examples of Winnebago or Vermont Tubbs). There is also risk that is borne by the diversionary scree. If this component of our system seeks optimal diversity, there is the risk that the firm may spread itself too thinly, even though conventional portfolio considerations have been designed appropriately. That is, the portfolio may be structured so that risk (here
AN EXAMPLE OF A THEORY OF STRATEGY

GENERIC DEFINITION OF WHAT IS STRATEGIC:

That which relates the firm to the contingencies posed by the environment.

OPEN AND SYSTEMIC MODEL OF STRATEGY:

Environment ----> Strategy ----> Performance

KEY CAUSAL MECHANISMS: (Examples Only)

1. Internal Strategic Diversity should match environmental diversity for high performance and effectiveness. (Ashby, 1956.)

2. Performance as measured by return on assets is inversely related to the amount of competition posed by the industry. (Porter, 1980.)

3. Expected returns should be commensurate with risk.

HOW TO OPERATIONALIZE STRATEGY:

Strategy Content Should Maximize the Actuality or Presentation of:

Distinctive Competence

and/or

Comparative Advantage

Subject to:

Synergy and

Resources

This maximization construct would suggest some sort of dominant thrust notion for strategy (Yavitz and Newman, 1982). One way to think about it would be in terms of a "fit" of the key sub-system components that go to make up the dominant thrust. This could be a fundamental clustering of the strategic inputs of each of the traditional functional areas (marketing, finance, production, etc.).
measured as variance and covariance of historic returns) is appropriate for
the level of return or that the overall sensitivity of the portfolio to the
market is appropriate for the desired or expected return, but it may leave the
portfolio too sparsely structured to be managed properly. Figure 3 shows this
tradeoff. It reiterates the fact that some risk is always borne by the stra-
tegic system: in a dynamic environment, the solution probably lies in some
sort of equilibrium through time. How this equilibrium is brought about is
beyond the scope of this paper but it probably is a result of how well the
management knows the actuality and intent of its own system and what the sen-
sitivity of that system is to changes in the environment. For example, do
perceived strategy and structure coincide usefully with actual strategy and
structure? Secondly, what has been the intent and actuality of management to
change strategy and structure as the environment changes? This "reflexivity"
requirement charges management with knowing their organizations in terms of
not only the actuality of strategy and structure but also the intent of the
thrust to align strategy and structure with the dictates of the environment.
If this prescription is valid, then it brings choice (the ability to apper-
ceive usefully can be thought of as one of the inputs to choice [Nisbett and
Ross, 1980]) squarely into our model and theory of strategic management. (See
Aldrich, 1978 for a contrary argument.) Information systems, organizational
culture, leadership style and the imposition of a super-ordinate goal are de-
sign variables that can be thought to enhance "reflexivity."

*The writer is working on a paper that will delve into the construct of
reflexivity in more detail.
FIGURE 3

DIFFERENTIATION (VIA DIVERSIFICATION \(\leftarrow\) INTEGRATION STRATEGY)

\&

DIVISIONALIZATION (STRUCTURE)

\[\downarrow\]

DIVERSITY

(SYNERGY

\&

ECONOMIC RATIONALIZATION)

\[\downarrow\]

RISK=THE SPREADING OF UNITS TOO THINLY SO AS TO PRECLUDE PROPER MANAGEMENT AND CONTROL

RISK=THE RISK OF CATASTROPHIC LOSS

(WITH COVARIANCE OF RETURNS WHICH GIVES "DAMPENING" & THE PROPER SENSITIVITY TO THE MARKET (BETA ANALYSIS))
What does all of this mean for a theory of strategy research? The position has been made here that any strategic apparatus is composed of dominant thrust and diversionary scree activity to help the firm protect itself from the contingencies posed by the environment. No matter what the tradeoff between the two modes of activity are, strategy content (by this "naturalist" account; Andrews, 1980) should maximize the actuality or the presentation of comparative advantage and distinctive image. Secondly, there is always some risk that is borne by this system; the risk of catastrophic loss and the risk of maximal diversity straining the administrative capability of management.

If we necessarily need to understand this entire strategy apparatus as an open system, we have, as yet, no developed frameworks and techniques to help us in this regard. Henderson (1983) has sketched a program of what this would entail, (industrial dynamics, Forester, 1963; biological evolutionary theory, Hirshleifer, 1978) but his is a first excursion and thereby rather sketchy.

B. How the Model Might Relate to Practice

Perhaps a brief overview of how the model might fit together would be in order. This rather "naturalist" strategic system is seen as determining conventional criteria of effectiveness (such as market share), not the mere vehicle by which market share is enhanced. In other words, market share is the outcome of maneuvering this system through time and through the vicissitudes posed by the environment — market share is not the raison d'être of strategy (Abell, 1980). If this naturalist presentation is valid then the dominant thrust of core skills, comparative advantages and distinctive competences remain relatively enduring (for the successful firm) while feints (market signalling), responding to legitimacy attacks, meeting diversity with diversity, etc., can be offered by the diversionary scree. As mentioned before, this diversionary scree can be thought of as all the rather ephemeral tactics
that a firm can employ, whether they be in marketing, finance or production. To illustrate some dynamics, if the dominant thrust would be moving in one direction, the diversionary scree could be made to appear random, or could be thrown one for one against the contingencies posed by the environment or could be made to appear to move in the opposite direction. This would be diversion in the truest sense of the word. Following Thompson's argument then, the diversionary scree is what would take in and respond to most of the contingencies posed by the environment. Following this naturalist line of reasoning, if the dominant thrust of the organization is ever compromised (CEO dying, major technological shift or act of god) the firm should desist and employ its assets elsewhere. In this extreme state the firm could be classified as a "dead dog." But if the shock is absorbed by the diversionary scree, the firm could be taking losses but could be classified as a "living dog" because its taproot of the dominant thrust has not been "cut" or seriously compromised. In other words, the firm could still supply value to some set of stakeholders and if the firm is part of a corporate portfolio it should not be divested (Freeman, 1984).

CONCLUSION

The purpose of this article was to provide a discussion of what a theory of strategy and strategy research could look like. Its intent was to provide input for debate on where strategy research (or at least some part of scholarly endeavor) could begin to move. The position was made that strategy research should begin to move to building middle range theory. The interest is not so much on building theory for theory's sake, but that if theory is construed as a position on:
1. A set of premises
2. A set of causal laws
3. Initial conditions
4. Conclusions or prescriptions

then the field can begin to test for causal laws (at whatever level of generality) and begin to move from anecdotal evidence to evidence that is more in line with making the field a discipline (by conventional standards).

In a skeleton form, the position was made that a theory should begin with a definition of what is strategic, make premises known, present a relatively systemic model and make necessary the testing of causal mechanism and linkages. One example was given that considered strategy and the firm as a living organism that has certain characteristics — a dominant thrust and a diversionary scree in some sort of alignment with its environment. In this view, the system's integrity comes first, that is, its position in the marketplace cannot be ephemeral (although it can be weak in the case of a small or newer firm). Effectiveness measures such as market share, return on investment and perhaps even productivity and morale necessarily follow. If these arguments are valid, the following are suggested for strategy research:

1. The constructs of dominant thrust and diversionary scree should be delved into separately when doing both content and process research. These two constructs may be fundamentally different in terms of long and short term durability (diversionary scree tactics are by their nature ephemeral) and their effects on long run profitability (diversionary scree tactics will certainly decrease short run profits by protecting the dominant thrust).

2. The process by which we come to understand the dynamics within the constructs of the dominant thrust and diversionary scree may be very different. Dominant thrust activity for the older firm will allow, in fact demand, longitudinal research design. Diversionary scree tactics, being transitory, can probably only be approached by cross-sectional designs.
These propositions may serve to untangle some of the problems in some past strategy research. If these constructs are in fact sufficiently different by nature, then mixing the two in the same operationalization of strategy may only produce confusion. In fact, these two constructs may be at cross purposes with one another. We need some appropriate theoretical and operational work to set boundaries on dominant thrust and diversionary scree activity.

This view can certainly be debated, but at least we as a field can begin to have something to debate. Perhaps various schools of thought could emerge that could supply rallying points for good and healthy debate. Two schools were implicitly presented here — a “naturalist” school and a “randomness” school. No doubt other views and schools exist. Perhaps we could start making premises explicit, developing theories and schools of thought, and begin moving our field to discipline status, if this is indeed important.
ENDNOTES

1The term scree is borrowed from Cattell's (1960) usage of the term as it applies to the Scree Test in factor analysis. Scree in actual usage is that rubble that falls down the side of a mountain and collects at its base. This author, like Cattell, is using this term for the visual aspects it conveys.

2An ephemeral position in the marketplace, by this naturalist account, is one that develops from a lack of an internally consistent dominant thrust that does not align with the contingencies posed by the environment. Newer and perhaps smaller firms will not have had the occasion to be as entrenched as older firms, but in order to be viable, a "reflexive" management will be putting into place the dominant thrust capability early in the game.
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