

A Subjectivist Approach to Strategic Management

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Acknowledging the shortcomings of contemporary research on the economics of strategy, this paper proposes a subjectivist approach to strategic management. This subjectivist perspective is originated in German economics and found its base in the Austrian school of economics. Based largely on the works on Max Weber, Alfred Schutz and Ludwig von Mises, this paper develops a subjective interpretation framework which is applied to various fields of strategic management: entrepreneurship, organisation, vertical integration, innovation, marketing and advertising. Copyright © 2003 John Wiley & Sons, Ltd.

INTRODUCTION: WEAKNESSES OF CONTEMPORARY STRATEGIC MANAGEMENT APPROACHES

Three approaches are dominant in contemporary research on the economics of strategy. These are (1) the industry analysis approach associated with Michael Porter, (2) approaches based on the new industrial organisation and game-theoretic reasoning, and (3) the resource-based view. In 1980s, a 'strong wind from economics' (Mintzberg, 1994) buffeted the strategic management discipline, represented by the publication of Porter's *Competitive Strategy* (Porter, 1980). Foss and Mahnke (2000) rightly point out that many of the shortcomings of old industrial organisation concepts, such as homogeneous firms and decision makers, static and equilibrium analysis, with perfect competition as the yardstick for efficiency comparison, did in fact carry over to Porter's works. Moreover, the neglect of the resource and cap-

ability side of firms was the major weakness of Porter's analysis.

Despite a distinct advance compared with Porter's industry analysis, the approach based on the new industrial organisation utilising game theories still suffers from certain weaknesses, most notably neglect of the concept of entrepreneurial discovery. In the game theory-strategic management paradigm, managers are not supposed to discover and act on new opportunities in the market. Everything, such as the number of competing firms, option strategies and the value of pay-offs, is essentially given from the beginning and specified by the analyst. Hence, strategy management in this approach becomes largely a matter of utilizing given resources to a product market, and deploying them in sophisticated games. The analysis becomes a matter of reaping maximum monopoly rents out of fixed factors over the planning horizon (Foss and Mahnke 2000, p. 122). This also means that failed strategies and erroneous conjectures are impossible and that there is no need for creative strategies, learning or organisational restructuring despite new competition from innovating firms.

In recent decades, the resource-based perspective has emerged as the dominant approach in

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contemporary strategy research. It counters the weakness of the assumption of homogeneous firms. It contends that firm strategy is to create, maintain and renew competitive advantage with respect to the resources side of firms (Foss and Mahnke 2000, p. 123). As Foss and Mahnke (2000) point out, the resource-based perspective explicitly draws on economics, more precisely on equilibrium price theory. Thus, it has not provided insight into the more dynamic and managerial aspects of competitive advantage. The concept of competitive advantage in the resource-based perspective has no meaning outside equilibrium. By using an equilibrium notion to define the concept of sustained competitive advantage, the resource-based perspective becomes unrealistic (Foss and Mahnke 2000, pp. 124–125). In other words, the strategy process in this approach can be separated from the content of a strategy, and the implementation of strategy is trivial.

Furthermore, the contemporary strategy approach in general and resource-based theories in particular regard firms as unitary actors. In the equilibrium-based strategy research, as Foss and Mahnke (2000, p. 126) note, 'the whole process of internal jockeying, aligning incentives, etc., which is a crucial aspect of strategy formation and implementation is suppressed'. If we recognise the fact that firms are composed of a group of asymmetrically informed actors who interpret the external world subjectively, and that subjective knowledge and learning processes need somehow to be coordinated for successful strategy formation, then these approaches fail to tell us about the process of creation and coordination of knowledge both within the firm and within the market.

Although neoclassical industrial economics is unable to satisfactorily analyse corporate strategies, this does not mean that economics as a discipline comes to a dead-end in handling strategic issues. There is a paradigm in economics which have been largely overlooked by scholars in both economics and management. This alternative paradigm is the subjectivist school that originated in German economics, later found its base in the Austrian school of economics through the publication of Carl Menger's *Principle of Economics* in 1871, and was further developed by Mises, Hayek and Lachmann (Oakley, 1999).¹ I believe that if this subjectivist perspective is developed, it can contribute fruitfully to strategic management. So far, only a few scholars have applied Austrian

economics to analyse strategic problems (for instance, see Jacobson, 1992; Foss, 1997; Foss and Mahnke, 2000). The subjectivist approach to strategic management remains to be explored.

In what follows, I shall propose a 'a first person perspective' (Addleson, 1995) to strategic management. To implement this objective, this paper develops a subjective interpretation framework based largely on Max Weber, Alfred Schutz² and Ludwig von Mises. This framework is then applied to various fields of strategic management: entrepreneurship, organisation, vertical integration, innovation, marketing and advertising. This paper concludes that the subjectivist perspective, if further developed and applied, can shed significant light on business management.

FOUNDATIONS OF THE SUBJECTIVIST APPROACH: EXPERIENCE, KNOWLEDGE AND THE INTERPRETATION FRAMEWORK

Cognitive studies have provided us with some profound models explaining how human agents handle problems under uncertainty. For example, Earl (1983, p. 140) argues that under genuine uncertainty, human agents attempt to cope with the external world by constructing, in their minds, templates of features of the world and then seeing whether these templates actually fit. Similarly, Choi (1993, 1999) argues that under uncertain environments, human agents endeavour to derive a set of usable paradigms, through a mental experimentation of their own, based on their past experiences. Likewise, Lane (*et al.* (1996, p. 53) argues that, when confronted with a new situation requiring action, our mental system,

categorises the situation according to patterns motivated by previously experienced situations. The categories are associated with particular actions: the association depends upon the valuations of the effects of the actions taken in past situations that were characterised similarly to the present situation. The categorisation-action system then generates an action on the basis of this association.

While cognitive studies focus on agents' reaction to the external environment, my argument in this paper is more deeply rooted in the Schutzian theory of human agency and emphasises the point

that a human agent's stock of knowledge has a particular history. It has been constituted in and by previous experience activities of an agent's consciousness (Schutz, 1970, p. 74; Berger and Berger, 1976). Although this stock of knowledge, accumulated from experiences, can be modified over time; it cannot be 'sought' or 'searched' for as a paradigm, as argued by Choi (1993).

Starting from the contributions of Max Weber and Alfred Schutz, I argue that action has meaning attached to it as human agents make sense of their everyday life (Weick, 1969; 1995). Making sense of the external world means interpretation. Coordination involves an understanding of actions and interpretation of the meaning of other actors. Everyday life builds on the category of the 'other' (Weigert, 1981, p. 55). It is essentially intersubjective. Individuals find themselves related to the surrounding world in order to create a meaningful life and share it with others. People are taken to be 'other I's' just as I am experienced as an 'another you'. Only in this way, can 'we' make sense. In other words, it is only in the common-sense world that we can communicate. As Weigert (1981, p. 74) nicely puts it, 'interpretation is a process of perceiving the other and his or her interaction within symbolic frameworks so that we can make some sense out of what the other is doing. . . . If we cannot make any sense out of the other's interaction, it may be that there is no sense in it, or worse, it may be that there is no sense in me'.

Experiences from everyday life are accumulated into a stock of knowledge that can be used to interpret incoming events. Human agents find, at any given point of time, a stock of knowledge at hand that serves them as a scheme of interpretation of their past and present experiences, and determines their anticipation of things to come (Schutz, 1970, p. 74). When we experience, our knowledge grows.³ Experiences enter the individual's consciousness via everyday life learning, such as daily contact with our parents, face-to-face interaction with friends and our neighbourhood, watching television and movies, etc. This means that the framework is largely biographically determined (Berger and Berger, 1976). These lived experiences are then typified and crystallised into routines or rules of thumb which can be used as a skill or problem solving technique in everyday life. As soon as we spot something, we can follow the established interpretative channel and have access

to all knowledge (meaning) about that thing (deBono, 1980, p. 14). It is like driving a car. When we are on a familiar road, we do not need to use a map, ask a passer-by, or read road signs for directions. Similarly, our interpretation frameworks continue to search for familiar roads that render thinking unnecessary. Furthermore, unlike the environmental or behavioural school which emphasises the agents' adaptive response to external factors, scholars in the action frame of reference believe that human agents 'enact' rather than 'react' to their environment (Weick, 1969, p. 27; Jehenson, 1973, p. 235; Jones, 1987, p. 24). In this framework, human action is not seen as a given response to some external stimuli, but arises out of the meaning and significance people construct in events. Bringing to bear personal frameworks of beliefs and values that actors have developed over their lives, they subjectively and selectively define situations (Jones 1987, p. 24). As Weick (1969, p. 27) argues, 'instead of adapting to a ready-made environment... actors themselves create the environment to which they adapt'. Shackle (1958, p. 21) takes a radical subjectivist view and argues that the entrepreneur can 'create imagined results'. By acting differently, he or she can make a difference (White 1977, p. 67). In other words, human agents define their future and their reality (Berger and Luckmann, 1966). Hence, the stock of knowledge that actors possess is by no means homogeneous (Schutz 1970, p. 74). Because of diverse experiences, human agents will respond differently to the same objectively defined stimulus⁴ (O'Driscoll and Rizzo, 1985, pp. 38-39; Yu, 1999). In Lachmann's words (Lachmann, 1970, p. 36), 'different men in identical situations may act differently because of their different expectations of the future.' Interpretations provide the basis for expectations concerning the other's next move. Hence, expectations are more than prediction or anticipation; they are social realities.

In conclusion, the interpretation framework developed in our mind allows us to make sense of the world and to solve problems. Without such a system, strategic management would be impossible.

ON ENTREPRENEURSHIP

We are now in a position to apply these concepts to various aspects of strategic management.

Entrepreneurship in the Kirznerian sense (Kirzner, 1973) means alertness to opportunity and discovery. There are two types of discovery: ordinary and extraordinary. Imitation, pattern duplication or regional arbitrageurship belong to ordinary discovery while Schumpeterian innovation belongs to extraordinary discovery. In either case, entrepreneurial discovery is a mental process. As mentioned, the interpretative framework, originating from the actor's lived experiences, is a device for receiving external information. It is able to organize information into patterns. Once the patterns are formed, the framework will be used as a broad catchment area for interpreting incoming events which involves a sorting of new experiences into existing categories, sometimes adding to or modifying the structure as a result. The framework helps an individual to solve problems, discover opportunities and formulate strategic plans. However, the patterns are not symmetric. The lack of symmetry gives rise to new ideas and creativity (deBono, 1992, p. 15).

The opportunity discovery process can be analysed in terms of real (or subjective) time. Actors continually experience new events. As actors receive external information, their interpretation framework will make the best use of what has become available. The interpretation process is described as follows. Assume at moment 1, John experiences an event A.⁵ The next moment, he experiences an event T, then his interpreting system organises the two events into an idea called 'AT' with a social meaning (the product of social construction) attached to it. Next, he experiences an event R, and then his system interprets all three events together as 'RAT' with the meaning of an animal. If he continues to experience incoming events, say, R and G, then ideas 'RATE' and 'GRATE' will form. So far, John has no difficulty in interpreting the incoming events. Suppose, however, that a new event T is experienced which does not fit onto either end of the idea 'GRATE.' What will happen? A person lacking discovery capability will have difficulty interpreting this extra event. Given that the interpretation framework is disrupted, some people will reject this new event as a deviance or obstacle. Others, seeing that the incoming event does not make sense, may simply ignore it. However, entrepreneurs see things differently and are able to move out of the routine track and create. Modifying the categories of their

framework (Lane 1996), or in some cases even adding a new category, entrepreneurs are able to give others a different sense of the meaning through recreating. Simply put, they are 'sense-givers' (Thayer, 1988, pp. 250, 254). Creative activity thus involves the bringing together of different sets of reference frames that would usually be ordered differently and seen as incompatible—until something clicks into place as a new way of looking at how things fit together. Such discovery means that the actor escapes from the existing patterns of interpretation and reorganises ideas into new sequences (de Bono 1992, p. 15). The entrepreneur always 'embodies the possibilities of escape from what might otherwise appear to us to be incomprehensible, or from what might otherwise appear to us to be a chaotic, indifferent, or incorrigible world' (Thayer, 1988, pp. 250, 254). In our example, being alert to alternatives, entrepreneurs re-shuffle the events, which they had experienced in the order of A, T, R, G and T, into a new idea called 'TARGET.' Such re-arrangement of information is a discovery or creativity. Most people are unaware of the possible alternatives—say, re-arranging the ideas—but entrepreneurs are always able to do so (de Bono, 1992, p. 16).

How do we know the opportunity is valuable? The answer is that every valuable insight must always be logical in hindsight (deBono, 1992, p. 15). Suppose we were to abandon the routine track in order to create a new idea. We have no way of fitting that idea into our existing interpretation system. We have no way of telling whether the idea is truly crazy or simply unrecognisable in our present state of knowledge. So, we can only recognise ideas that do have a logical link-back. In other words, we formulate our arguments and conclusions in logical terms after we have constructed them in an alternative way (Minsky, 1986, p. 186; see also Klein, 1999, pp. 47–76). It therefore follows that all valuable creative ideas must be logical in hindsight.

Bergson (1910) argues that a discovery involves solving a problem or seeing a solution in a single leap. After such insight is gained, the solution is reconstructed in a series of steps that others are capable of following. In this view, creative activity is the condensation of the past preliminary stages into the present final stages, i.e., the problem solution. O'Driscoll and Rizzo (1985, p. 67)

elaborate that this is precisely the concept of entrepreneurial innovation. In their own words, 'entrepreneurial success depends on the capacity of seeing things in a way which afterwards proves to be true, even though it cannot be established at the moment'. A creative leap cannot, by definition, be conclusively established because it literally leaps over the requisite logical steps'.

ON ORGANIZATION AND COORDINATION

A basic function of an organisation is to coordinate economic activities. Langlois and Foss (1999, pp. 201–218) argue that 'the fundamental role of institutions (including the firm) is to coordinate, in helping cooperating parties to align their knowledge and expectations'. An organisation can coordinate activities at a lower cost of communication than otherwise. This requires an environment of shared knowledge. As Lachmann (1970, pp. 49–50) puts it, organisation 'enables ... coordinating the actions of millions whom they relieve of the need to acquire and digest detailed knowledge about others and form detailed expectations about their future action'. In Lachmann's insight (Lachmann, 1970), an organisation provides a means of orientation to a large number of actors. It enables actors to coordinate their actions by means of an orientation towards a common goal. For every organization such as a post office, a school or a manufacturing firm, there exists an internal working-order (which is termed 'routines' by Nelson and Winter, 1982). Members within the institution work according to a certain set of routines but the details of their operations are irrelevant to the general public. Organisation coordinates the actions of its team members at lower cost because it reduces the volatility in the plans of others.⁶

The primary function of an organization is to increase the understanding of another person's action and thus increase the chances of success in economic interactions. The founder(s) of the organisation provides a set of rules which generally lays down clear lines of authority and communication with the intention of ensuring that the entrepreneurial goal may be attained (Silverman, 1970, p. 14). The newly established organisation is initially characterised by a pattern of relationships which is less taken for granted by the participants who seek to coordinate and to

control. The founder of the organisation creates a 'communicative common environment' (Schutz, 1970, pp. 31, 165). It is a situational environment shared by a group of people who are able to communicate with one another. Treating the organisation as an entity that supports shared mental constructs, Foss (1997) rightly remarks that 'an important part of the rationale of organisations is that it makes sense out of the world for a subset of the economy's input-owners by cultivating a shared knowledge-base that promotes the coordination of the plans of these input-owners in the face of change'. By establishing an organisation, the founder is in fact building a coherent world of knowledge⁷ and a cultural community (Schutz 1970, p. 81).⁸ Employing labour and other resources to work under one roof (common environment) by the entrepreneur, the organisation facilitates mutual understanding and consent. Events are experienced simultaneously and in common.⁹ In Schutz's terms, the entrepreneurs expand the 'I' in the organisation they establish, so that the common environment becomes a 'we' relationship (Schutz, 1970, p. 32). The members of the organisation now work as if they were at 'home'. In Schutz's argument, the entrepreneur is creating an ingroup (organisation) out of the outgroup (market). This argument forms the base for the vertical integration strategy discussed below.

ON STRATEGIES OF VERTICAL EXPANSION

Our subjectivist perspective also sheds light on strategies of vertical integration. In a stable environment, human behaviour displays little variation. Events are typical and so actions are anticipated. Agents can use their stocks of knowledge to interpret familiar events and therefore solve economic problems they encounter. However, if another person deliberately violates our expectation, such as in the case of Schumpeterian innovation,¹⁰ then a sense of reality at the centre of the human self is also violated (Weigert, 1981, p. 75). In other words, such a violation threatens people's sense of what is real. In Schutz's argument (Schutz, 1970), the stocks of knowledge of market participants are now insufficient to tackle new problems. Knowledge hitherto taken for granted now becomes problematic. Routine

expectations are disrupted by radical technological breakthrough. Since the success of an innovation requires the adaptation of complementary activities, the problem for the innovator is to call forth these complementary activities. In the economy where people interpret external events in a routine manner, it is very difficult for the innovator to make the suppliers understand a novel and idiosyncratic idea. Accordingly, it is very costly to inform and persuade the contracting parties to invest in specialised assets that involve irreversible investment. In many cases, suppliers may refuse to comply with the innovator's vision.¹¹ Consequently, coordination fails. Owing to this difficulty, it may be better for the entrepreneur to integrate the co-specialised activities and to employ those parties with the relevant skills rather than to contract them out (Silver, 1984; see also Langlois and Robertson, 1995, p. 38).

Within the integrated firm, the entrepreneur provides a set of rules, which generally lay down clear lines of authority, and communication with the intention of ensuring that the entrepreneurial goal may be attained (Silverman, 1970, p. 14). By asking the members to subordinate their in-order-to motives¹² to the officially defined goals, the firm 'attempts *de facto* to substitute an objective context of meaning for the subjective configuration in which the individual actor discovers the meaning of his or her action' (Jehenson, 1973, p. 227). The world taken for granted inside one organisation is thus composed of actors following typical courses of action prompted by a set of invariant, typical motives. In other words, employees are given expectations about appropriate acts for themselves and others when in various status positions. As a result, they are then able to apprehend the meanings associated with the economic actions of other people and to make a judgement on the responses of others. Members will meet the expectations of others because these expectations are part of the definitions of themselves (i.e. they have been internalised). Such a system would remain unhindered in its function if the members could retain their reciprocal anonymity and interact only at the level of 'they' relationships (Jehenson, 1973, p. 229). In essence, they conform to a set of shared value (Silverman, 1970, p. 131). Vertical integration facilitates mutual understanding and consent (Yu, 1999).

ON THE MANAGEMENT OF INNOVATION

Innovation, whether involving a novel product or a new way of doing things, is not a homogeneous concept (Foxall, 1984, p. 65). In the subjectivist perspective, no two individuals will learn the same thing even if they encounter the same problem (O'Driscoll and Rizzo, 1985, pp. 38–39). Kirzner (1979, p. 137) contends that 'the things are what the acting people think they are'. This view implies that as long as an idea is perceived as new by an adopter, it is an innovation. The newness of a product can only be perceived in agents' minds. The Austrian school of economics maintains that it is the actor that subjectively evaluates a unit of a good, whether such a good is used for further processing or for final consumption. As Menger (1871, p. 128) argues, 'the varying importance that satisfaction of separate concrete needs has for men is not foreign to the consciousness of any economising man'. Even though two goods may appear to be physically identical in an objective sense, from an individual's standpoint they are not the same.¹³ Consumers assess the newness of a good with their stock of knowledge, and make decisions based on their personal experiences (Langlois and Cosgel, 1993). In addition, over the course of the product life cycle, purchasers of the new product differ from one another in terms of social, psychological and economic characteristics.

Similarly in the case of process innovation, newness from a subjectivist standpoint is not just a matter of changes in technology. For instance, a producer may have known about a new process for some time but not yet have adopted or rejected it, or even developed a favourable or unfavourable attitude towards it. Therefore, the 'newness' aspect of a process innovation may be expressed in terms of knowledge, persuasion, or a decision to adopt. The degree of difficulty of introducing new ideas depends on the nature of the newness in the technology as adopters assess the bundle of attributes they perceive. It is these perceptions that affect the rate of adoption.

Although this subjectivist perspective has been overlooked in mainstream industrial economics, it has been applied in other social science disciplines. In a sociological study of the diffusion of innovations, for example, Rogers (1983, p. 11) defines innovation as 'an idea or object that is *perceived* as new by an individual or an agency. It matters little,

so far as human behaviour is concerned, whether or not an idea is 'objectively' new as measured by the lapse of time since its first use or discovery' (*italics added*). The perceived newness of the idea for the individual determines his or her reaction to it. Furthermore, knowledge of a new idea is not determined exogenously. Rather, it is a complicated process involving an actor's learning and his or her subjective interpretation of the external world. These, in turn, depend on actor's experience. As Cohen and Levinthal (1990) remark, the ability to recognise the value of new ideas, assimilate them and apply them to commercial ends depends in part on prior knowledge of the would-be user of those or similar ideas.

In the capabilities view, the innovation strategies of firms can be explained in terms of knowledge creation and exploitation. Knowledge can be classified into tacit and articulable (Nonaka, 1994; Cohen and Levinthal, 1990). On the one hand, tacit knowledge is personal, not easily formalised and communicable, and it is rooted in a specific context. On the other hand, articulable knowledge is explicit, codifiable, canonical and transmittable with a formal or systematic language. Knowledge creation is a social process that transforms tacit into articulable knowledge (Cohen and Levinthal, 1990). This process requires direct and continual dialogues between people who are grounded in the same situation (Nonaka, 1994, pp. 14–37; Dougherty, 1992, p. 79). From a Schutzian perspective, Berger and Luckmann (1966) argue that knowledge arises from the social construction of shared understandings, within a context of previously constructed understandings. In other words, transmission of an innovative idea can be facilitated if the parties involved share the same social construction.

Thus, different groups of potential customers may need to be communicated with using different terminology or through different media. As Schutz (1970, p. 80) rightly argues, the world of knowledge is incoherent, only partially clear and not free from contradiction. One difficulty that arises in the innovative process is that customers may not be able to articulate their needs clearly. Moreover, those needs may change as they learn to use the product. This implies that product's attributes cannot be easily specified and could change over time (Dougherty, 1992, p. 78). At the same time, the product and/or technology may be new, which means that technical problems may appear un-

expectedly. This explains why producers must experiment with sets of attributes, work closely with customers, pursue multiple paths, and make discontinuous leaps in imagination as they attempt to craft the comprehensive package of market and technology issues into a viable product. Often, producers have to imagine the product in use, develop a sense for the problem that the product will solve for customer, see how customers perceive value, appreciate customers' preferences and decision-making process and understand how to specify customer needs (Dougherty, 1992, pp. 78–81). Producers in this case are like explorers. They are engaged in an expedition with the aim of transferring tacit knowledge into articulated knowledge. In doing so, they immerse themselves in the community of their potential customers. They often use field work to help them to conceive the ways in which they can create value for potential customers by synthesising the firm's technologies and capabilities into a variety of performance possibilities or other product features. Face-to-face interaction (Schutz, 1970) with customers is an effective way of visceralisation of the product (Dougherty, 1992, p. 82).

ON MARKETING AND ADVERTISING STRATEGY¹⁴

The 1960s and 1970s witnessed the rise of strategic marketing.¹⁵ In contrast to the supply side orientation of the planning advocates, strategic marketing scholars have emphasised the need to produce goods or services for which there is substantial effective demand. Strategic marketing analysis depends heavily on traditional marketing tools designed to detect what the public demands. The information collected then forms the basis of strategy formulation as firms design products and processes to the dictates of their marketing experts (Robertson and Yu, 2001).

In contrast to 'Bain-type' or resource-based theories of strategy, marketing focuses explicitly on demand-side issues as the central factors in strategy formulation. Kotler (1994, pp. 6–7) defines marketing as 'a social and managerial process by which individuals and groups obtain what they need and want through creating, offering and exchanging products of value with others', with 'needs, wants and demands' as the starting point of the marketing process. Similarly,

Guiltnan and Paul (1994, pp. 5–6) list the essential elements of the marketing concept as ‘1. Carefully analyzing markets to understand needs; 2. selecting target groups of customers whose needs match up with the firm’s capabilities, and 3. tailoring the product offering to achieve customer satisfaction.’ Finally, Piercy says that the ‘role [of the marketing department of a firm] must be recognised as the management of the *demand* side of the business equation ...’ (quoted in Foxall, 1984, p. 252; italics in original).

There is, of course, a degree of compatibility between marketing and economics-based strategic models, in that both generally recognize that an organization must supply something within its range of competences for which there is enough demand to justify its production. Resource-based strategists, however, are more likely to emphasise the selection of a *product*, rather than of a group of customers. At its most extreme, the marketing approach gives the supply side short shrift indeed. For example, in his important book on *Defining the Business: The Starting Point of Business Strategy* (Abell, 1980), Abell says that

In reality the product should be considered simply as a physical *manifestation* of the application of a particular technology to the satisfaction of a particular function for a particular customer group. The choice is one of technologies, functions and customers to serve, not of products to offer. The product is the result *of* such choices, not an independent decision that results *in* such choices (p. 170; italics in original).

Although resource requirements, cost behaviour and company skills are briefly covered as ‘underlying factors to consider’ (pp. 179–184), Abell explicitly treats supply variables on a *Ceteris paribus* basis. His model

excludes any reference to the economic attractiveness (in terms of growth potential, profitability, etc.) of the segments encompassed by a particular definition of the business, or to the ‘fit’ between company resources and market opportunities. This exclusion is deliberate. We are looking here at the performance impact of business definition as an element of strategy distinct from these other considerations. One way to think of this is to ask the question: If two competitors were in segments of equal

attractiveness in economic terms and had equal capability to take advantage of these segments, what impact would the way they defined their business *overall* have on their relative performance? (p. 21; italics in original).

In short, existing marketing models do not look at the demand and supply sides in a subjectivist way.

The most significant feature of advertising in our modern society is its persuasive power. Hitherto, advertising is widely explained only in terms of information provision. In this approach, economists attempt to find out the right (optimal) amount of information that should be produced and delivered by the advertising industry in response to consumers’ desires. It follows that information can be brought and sold and even packaged. Neoclassical economists then conclude that extensive advertising in order to persuade potential customers during the competition is duplicate and wasteful.¹⁶ This argument ignores the subjective evaluation of a commodity by consumers and therefore fails to explain the persuasive role of advertising.

Whereas the mental activity at the knowledge stage was mainly cognitive (or knowing), the main type of thinking during the persuasion stage is affective (or feeling) (Rogers, 1983, p. 170). Until consumers know about the new product/idea, they cannot begin to form an attitude toward it. In developing an attitude toward the innovation, individuals may mentally apply the new idea to their present or anticipated future situations before deciding whether or not to try it. In Rogers’ words (Rogers, 1983, p. 170), ‘the ability to think hypothetically and counter factually and to project into the future is an important mental capacity at the persuasion stage where forward planning is involved’. The function of an innovating firm is not only to present consumers with a particular buying opportunity, but to present it to them in a way that they cannot fail to ‘notice’ its availability. In other words, the supplier must get consumers to notice and absorb that information. In this regard, it is therefore not surprising to find that a piece of information that might be provided in a small advertisement in a newspaper is instead posted in a giant billboards or repeatedly announced in the TV commercials (Kirzner, 1973). More importantly, through persuasive promotion, consumers’ tastes are altered. Advertising has the power to change the knowledge consumers believe and

possess concerning the factual state of the world. As mentioned, human agents often take their experiences for granted and use their stocks of knowledge to solve everyday life problems they encounter (Schutz, 1970; Berger and Luckmann, 1966). Very often, consumers' perceptions of the external worlds are 'locked in' by their experiences and therefore show no interest in the new consumption opportunities even though they may know their existence. Advertising helps consumers to unlock their pre-occupied knowledge and perceptions. It is a process of unlearning. Furthermore, many products can be furnished with new images through the use of some well-known figures in the society such as superstars. To consumers, the product that has been promoted by the use of a superstar is different from the product that has not been promoted. The former becomes another product with a new value. Advertising, when explained in the subjectivist view, is therefore not a waste. Thus, it is correct to claim that 'all effective communication is persuasive... both information and recommendations must be presented persuasively if they are to have any effect on purchasing decisions' (Rogers, 1983, p. 170).¹⁷

CONCLUSION

Acknowledging the shortcomings of the mainstream neoclassical economics in analysing strategic problems, this paper has proposed to adopt a subjectivist approach to handle strategic issues. Utilizing largely contributions of Schutz and Austrian economists, this paper has formulated a subjective interpretation framework originated in German and Austrian economics. Highlighting the nature of intersubjectivity in human understanding, this framework forms the base for economic coordination and hence a foundation for business policy. This proposed alternative framework, which is deeply rooted in human agency, is shown to be able to shed new lights on various areas of management, namely, entrepreneurship, vertical integration strategy, management of innovation, marketing and consumer demand. I believe that there is a chance that the subjectivist perspective outlined in this paper could be a fruitful basis for management and economic research in the future. This applied work, if it comes, will be the real pay-off of economics.

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NOTES

1. For a history of Austrian subjectivism, see Oakley (1999). For some recent discussions in Austrian subjectivist economics, see Koppl and Mongiovi (1998) and Yu (1999).
2. For some recent advances in the Schutzian perspective on Austrian Economics, see Special Issue on 'Alfred Schütz Centennial,' edited by Peter Boettke and Roger Koppl, *Review of Austrian Economics*, 2001, 14 (2/3).
3. For an exposition concerning entrepreneurial learning and the growth of knowledge in the Popperian perspective, see Harper (1996).
4. Simmel (1918/1980, pp. 57–92) identifies two modes of understanding, namely, historical and immanent. On the one hand, an interpretation may represent an answer to a question about the conditions for the production of the interpretandum. In that case, the question is historical and the interpretans produces a historical interpretation. On the other hand, the interpretation may represent an answer to a question about the intrinsic properties of the interpretation itself. A description of these properties is independent of any description of the genesis of the interpretandum. The question is then immanent. The argument that human agents will respond differently to the same objectively defined stimulus belongs to the former, i.e., the historical question.
5. This example, modified from de Bono (1992, p. 16), is for illustrative purposes only.
6. Langlois (1986, pp. 171–191) further argues that organisations can be pragmatic or organic. Pragmatic organisations comprise rules directed toward specific ends. Conscious intentions play an important role if the organisation is not very complex and is confined to a relatively short time perspective, so that the original intentions of the founder can influence the shape of the organisation. However, organisation can also be an unintended consequence of human action. The rules of thumbs operating inside the firm evolve over time into an institution which no one has expected to emerge, although it is the result of the human economizing effort. Moreover, organisations are hierarchical in their nature. They are systems of rules of conduct, operating at many different levels, each level affecting the operations of the rules at the level below. Highest-level institutions or external institutions such as legal orders, money and price systems coordinate the highest level of plans. Lower levels institutions, or internal institutions, coordinate more specific and concrete plans (Langlois, 1986, p. 185).
7. Schutz (1970, p. 80) argues that the world of knowledge is incoherent, only partially clear and not free from contradiction.

8. This is the concept of organisational culture in management literature.
9. It follows that a family firm exhibits the most common environmental features because its members have been socialised together and shared the same culture (Yu, 2000).
10. Schumpeterian innovation, by nature, is 'creative destruction'. Unlike adaptive or incremental innovation which operates within the existing system, Schumpeterian innovation can practically never be understood *ex ante*; it cannot be predicted by applying the ordinary rules of inference from the pre-existing facts. It creates situations from which there is no bridge to those situations that might have emerged in its absence. Therefore, though some technological breakthroughs, such as the communication breakthroughs of recent decades, can facilitate coordination, they also generate market disruptions at the initial stages of adoption.
11. The role of persuasion in economic life has received attention in recent years. McCloskey (1994, pp. 76–79) shows that, in the United States, about a quarter of the labour force or national income in 1988 devoted to persuasion activities.
12. Schutz (1964/1976, p. 11) classifies two forms of act-motivation: the 'in-order-to motivation' and the 'because motivation'. The former is projected in the future perfect tense and 'is identical with the object or purpose for the realization of which the action itself is a means'. The latter refers 'to the past and may be called the reason or cause'. It is a way of explaining why one did what one did. A because-motive can only be established after the act has taken place, and on the basis of the actual, lived experience of the act.
13. For example, the law of diminishing marginal utility contends that the utility of the first unit of the commodity consumed will be different from the second unit though they may be physically identical.
14. This section draws on Robertson and Yu (2001).
15. Despite the continuing importance of strategic marketing in the general field of Strategic Management, it is not mentioned by either Kay (1993) or Montgomery (1995) in their surveys of the development of strategic thinking.
16. For an entrepreneurial critique of the neo-classical analysis of advertising, see Kirzner (1973, pp. 163–179).
17. For a phenomenological approach to advertising, see Nagel (2000).

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