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Conversations on the Dynamics, Context, and Consequences of Strategy: Introduction to the Special Issue

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INTRODUCTION

The field of strategic management is characterized more by the eclecticism of its research approach than by any single paradigm. It draws on standard microeconomic theory, but has an even greater affinity for non-mainstream approaches to economic theory, such as evolutionary theory (Nelson and Winter, 1982) and Austrian economics (Kirzner, 1973). It draws nearly as much from other social science disciplines as it does from economics and attracts contributors from a variety of related management fields, such as marketing and finance.

This follows naturally from the breadth of this field and the complexity of the issues involved. Strategic management concerns not just strategy formulation, but implementation and execution issues as well. While economics has much to contribute regarding strategy formulation, other disciplines provide more of the theoretical bases for the latter set of issues. Even within strategy topic areas that are the natural preserve of economics, such as competitive strategy, other disciplines offer perspective and richness that can markedly improve both management practice and scholarly understanding.

This degree of eclecticism presents a unique set of challenges to those working in the field. How can researchers working from so many different disciplines and research perspectives communicate meaningfully? How can they bridge the interfaces of the disciplines to make progress on those topics that require a joint perspective? How can they avoid becoming involved in paradigm wars? How can they have the kind of breadth of knowledge to see the big picture in terms of how the many types of contributions fit together? How can they communicate with managers and influence practice fruitfully when the big picture may be clouded by the degree of diversity in perspective and approach?

While these challenges are not new to the strategic management field, they are becoming of greater concern as more researchers with discipline-based training migrate to the field and as the field itself expands. With their increased salience has come a greater realization that these challenges are not merely problematic. Importantly, they present a set of opportunities to break new ground by increasing the level of discourse across disciplines and fields, by providing new inspiration, and by encouraging the cross fertilization of ideas. They present rich opportunities, as well, to explore and develop research territory that spans the interfaces across fields and disciplines.

The field has begun to respond to these opportunities and challenges in a variety of ways. PhD programs in strategy have been redesigned to expose students to multiple disciplinary foundations. Boundary spanning research is being encouraged. Journals are becoming more inclusive of different approaches to strategic management issues. New journals are being introduced with a greater orientation toward discipline-based research and multidisciplinary approaches.

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One way to respond to this challenge is to encourage more direct interaction among scholars with common topical research interests but different methodological and theoretical orientations. With this in mind, a series of 'Conversations in Strategic Management' workshops was initiated by Javier Gimeno (INSEAD), the chairperson of the Professional Development Workshops sponsored by the Business Policy and Strategy Division at the 2001 Academy of Management Annual Meeting held in Washington, DC. The 'Conversations' were organized as interactive sessions designed to encourage an exchange of ideas among a distinguished panel of scholars, providing multiple perspectives on a central topic, and a participative audience. The 'Conversations' included short sessions of 90 min, as well as longer sessions spanning an entire afternoon or, in 1 case, an entire weekend. The topics ranged from 'Conversations on Knowledge Management' to 'Conversations on Cooperative Strategy' to 'Conversations on Corporate Leadership and Governance'.

This 'Special Issue' is a product of the session entitled 'Conversations on Business and Competitive Strategy' organized by Rich Makadok (Emory University) and Wally Ferrier (University of Kentucky). It includes papers submitted by many of the panelists from this session, as well as several from members of the audience. It represents the first tangible collaborative effort resulting from this series of interactive sessions. We, the editors of this special issue, are hopeful that it will provoke deeper thought and stimulate further conversation and integrative research within this topical domain.

RESEARCH THEMES

Although these papers vary greatly in terms of theoretical perspective, research approach, and level of analysis, they nevertheless address a common set of themes. These themes are of central importance to the topic of competitive strategy and can be summarized by the following questions:

- What are the cognitive, behavioral, organizational, and environmental antecedents of competitive behavior? Can an understanding of these improve managerial decision-making?
- Are there recognizable patterns of action and behavior that can help us to interpret the ways that firms compete and the associated outcomes?
- How can strategic tools and frameworks help managers compete more effectively in fast-changing, turbulent competitive environments?
- What are the linkages between managerial decision-making, competitive behavior, and various types of firm performance?

To develop an organizing framework that illustrates how the papers in this issue form a pluralistic, yet identifiable research fabric, we draw on Chen's (1996) framework describing the drivers of competitive behavior. This framework is based on the literatures on organizational change, organizational learning, and managerial decision-making (Allison, 1971; Dutton and Jackson, 1987; Huber, 1991; Kiesler and Sproull, 1982; Levitt and March, 1988; Miller and Friesen, 1984; Schelling, 1960). The basic drivers include: factors (endogenous or exogenous) that influence the *awareness* of the context and challenges stemming from competitive interdependence, factors which induce or impede the *motivation* to take action, and factors (whether cognitive, organizational, or resource-based) that influence the firm's *capability* to take action (Chen, 1996; Miller and Chen, 1994).

Using this framework, we identify the most important theoretical, conceptual, phenomenological, or empirical commonalities among the papers. Table 1 presents a matrix of these commonalities, in terms of their relationship to the basic drivers of competitive behavior and firm performance.

Looking across the set of papers, we find a common interest in the behavioral and cognitive phenomena driving strategy, competitive actions, and outcomes. Many of the papers take an integrative approach, drawing on behavioral as well as economic theories. Others focus attention on the underlying organizational processes that shape the competitive context and drive the competitive outcomes.

The papers are all directly or indirectly concerned with patterns of firm activity and with competitive dynamics, broadly defined. They are concerned with strategic change. This reflects, in part, a common perception among strategy scholars and managers that the world they face is one of rapid change that calls for constant

Table 1. Correspondence of Theory, Concepts, Phenomena, and/or Findings Among Papers

	Antecedents and context of strategy			Consequences of strategy
	Awareness	Motivation	Capability	Performance
Bergen and Peteraf (1)	Framework for expanded managerial awareness of current and potential rivals, as well as market opportunities and threats; Hierarchy of competiton awareness as basis for competitor analysis	Motivation for action/response dependent on assessment of likelihood of success; Assessment based on competitive balance and indicators of rivals' level of awareness	Resource similarity, resource equivalence—bases for classifying and assessing the competition; competitive balance—indicator of relative capabilities	Reduces competitive blindspots; Improves strategy making and performance
Bromiley, Papenhausen and Borchert (2)	Managerial perception of direct rivals limited to customers' awareness of: product similarity, alternative products serving the same needs; competitive proximity, geographic boundaries in which customers search for alternatives	Characteristics of micro-competitive markets influence the rate of entry by rivals into the market		
Chen, Venkataraman, Black and MacMillan (3)	Public commitment, visible competitive actions; increases rivals' awareness; impacts responses by rivals	Public commitment, forces in the social context that bind a firm to course of action; impact responses by rivals	Internal commitment, irreversible economic, political, and structural investments in competitive actions; signals attacker's capabilities; impacts responses by rivals	
Gimeno, Kim and Mahoney (4)		Realized multimarket contact, competition resulting from intended and chance encounters among competitors pursuing uncoordinated strategies Absence of property rights reduces incentive for the coordination in appropriating value from jointly owned or controlled resources; creates prisoner's dilemma-type tension among joint owners; sustains gap between potential and realized value	Links to resource-based theory	Irrespective of intentionality, realized multimarket contact is related to better performance Implications for sustainable competitive advantage

Table 1 (*continued*)

	Antecedents and context of strategy			Consequences of strategy
	Awareness	Motivation	Capability	Performance
Schulze, Lubatkin and Dino (5)		Family ownership governance structure and altruism gives rise to non-economic motives for action.	Family ownership governance structure and altruism reduces agency costs associated with entrepreneurship and market entry; impacts decision making; impacts strategy	
Banaszak-Boll, Berta, Bowman, Baum and Mitchell (6)		*Ex ante* performance of acquisition target and impacts likelihood of acquisition.		Characteristics of acquirers impact *ex post* performance of acquired firms
Furman and McGahan (7)				Poor performance signals high likelihood of turnaround within financial community; impacts share price premiums; yet, turnarounds are rare
Ferrier, MacFhionnlaoich, Smith and Grimm (8)	Performance distress, decline in financial and/or market share relative standing; triggers crisis; impacts competitive aggressiveness	Competition-buffered industry context, perceptions of favorable industry structure; impacts competitive aggressivenes	Performance distress impacts decision making; reduces competitive aggressiveness.	
Mascarenhas, Kumaraswamy, Day and Baveja (9)	Strategy characterized by alertness to innovations; sense future demand; identification of broad vs. narrow customer segments	Strategy reflects structural characteristics of industry	Strategy reflects scale and scope of manufacturing, marketing and distributional resources	

adaptation. It reflects, as well, the influence of a school of thought, known as competitive dynamics (Smith *et al.*, 1992; Hoskisson *et al.*, 1999), which has been gaining ground in the strategy field. This school of thought is concerned with patterns of competitive activity within and across markets. It is distinguished by its attention to the microstructures affecting competition within markets and by its fined grained levels of analysis.

In line with this general orientation, the papers as a group are concerned with disequilibrium phenomena. Many of them draw from areas of economic thought, such as Austrian economics (Kirzner, 1973), that challenge mainstream thinking. All of them are concerned, explicitly or implicitly, with market imperfections in various forms. Most assume that there are constraints limiting the ability of managers to optimize.

Finally, and perhaps most importantly, the papers are all, directly or indirectly concerned with the links between strategy and performance. They view strategy as the product of managerial choice, which is influenced by cognitive, behavioral, and resource-based enablers and constraints, as Table 1 suggests. This kind of orientation provides one reason why the field of strategic management has such normative significance for managers.

THE PAPERS AND THE CONVERSATIONS

The first two papers in this issue are concerned with the fundamental issue of how managers define competitors and the locus of competition. They approach these issues from radically different directions and come, not surprisingly, to different conclusions that have different normative implications. What unites these papers, besides their domain, is their common view that managers' awareness of competitors is confined to a narrowly defined set of close competitors. What differentiates them is their interpretation of the origins and implications of this phenomenon.

Bergen and Peteraf (1) characterize this phenomenon as a form of managerial myopia, leading to competitive blindspots, with consequences that can be particularly dire for firms in dynamic competitive environments. To address this problem, they map the competitive terrain and develop a set of analytic propositions designed to provide managers with some practical tools for overcoming these tendencies. Drawing on Peteraf and Bergen (2001), they develop a hierarchy of competitive awareness, based on recognizable commonalities among rivals with respect to customer needs served and resource endowments. They employ this hierarchy, in conjunction with the construct of "resource equivalence", to link the competitor analysis process more closely to a less myopic process of competitor identification. Their framework is designed to enhance the practice of competitor analysis by bringing a marketing perspective, as well as a resource-based perspective (Wernerfelt, 1984; Peteraf, 1993) from the strategy field, to bear on these issues.

Bromiley, Papenhausen and Borchert (2) take more of a descriptive approach to this phenomenon than a normative approach. Thus, their emphasis is not so much on improving practice as it is on understanding the nature of competitive behavior. These researchers employ a behavioral perspective, emphasizing the limitations on managers' ability to acquire and process information. They argue that, as a result, competition occurs largely at the level of microstructures, which consist of localized pockets of competitors that are keenly aware of one another. In contrast to the previous paper, they suggest that businesses inhabiting such pockets are protected from broader forces of competition by the simple fact that the search for new opportunities is a constrained search. In their view, there is no lack of profitable opportunities available to managers. Rather, the constraints are on the availability of managers to exploit the abundance of opportunities. Moreover, their satisficing view of managerial behavior suggests that the motivation to search out new opportunities is limited as well. The implication of this is that managers are likely to be misled by broad-based approaches to competitor identification.

This paper develops a continuous measure of the level of competitive interaction between firms, based on cross elasticities with respect to price and quality. As in the previous paper, this calls for a greater consideration of customers' behaviors. In contrast to the previous paper, however, their approach calls for a comparison of firms' products on the basis of their similarity and local availability.

The next two papers explore competitive interaction among identified rivals, albeit at different levels of analysis. Drawing from social, behavioral, and resource-based theories, the paper by Chen, Venkataraman, Black and MacMillan (3) extends previous work in dyadic competitive interaction by developing a fine-grained conceptualization of strategic commitment and irreversibility. Building on the general premise within competitive dynamics research that the characteristics of competitive action are related to the characteristics of competitive response, these authors argue that exogenous (public) and endogenous (internal) commitment to a given competitive action differentially impact a rival's response to the focal firm's competitive actions. More specifically, internal commitment signals the attacker's irreversible investments in capabilities to carry out the action, whereas public commitment impacts the visibility and social factors that make the action irreversible.

Gimeno's paper (4) explores the role of strategic choice on performance in the context of multimarket contact between competitors. Based on Mintzberg and Water's (1985) framework of intended, emergent, and realized strategy, Gimeno develops a set of competing hypotheses and tests whether rivalrous contact initiated by managerial motivation and intention yields superior performance outcomes relative to rivalrous contact initiated by happenstance alone. His findings indicate that performance is as much a result of *realized* multimarket contact as it the result of *purposeful* contact. Gimeno reasons that contact with rivals, regardless of whether it is strategically motivated, can affect rivals' behavior, reducing competitive aggressiveness and improving the focal firm's performance. His study suggests that managerial intention and choice may be less significant drivers of strategic outcomes than is commonly believed.

The next two papers have a common concern with issues of ownership, control, and performance of firms. Kim and Mahoney (5) employ a property rights perspective to explain why issues over ownership and control can prevent firms from reaping the potential value from joint production. They present a case study of oil field unitization —a process that requires designating a single actor to manage the optimal development of a common oil reservoir beneath contiguous land plots not under common ownership. The case illustrates the types of market frictions that arise when property rights cannot be delineated clearly, resulting in incentive problems that interfere with the coordination of economic activity. More specifically, owing to the development of a prisoner's dilemma-type conflict, they find that the absence of well defined property rights and lack of centralized control over jointly owned resources yield suboptimal appropriation outcomes.

The authors extend insights generated from this case to the realm of resource-based theory (Wernerfelt, 1984; Barney, 1991). They advocate incorporating an explicit consideration of property rights into Peteraf's (1993) 'cornerstones' framework of sustainable competitive advantage. They suggest that doing so will enrich the model and enable it to accommodate and address a wider range of concerns.

Schulze, Lubatkin and Dino (6) argue that similar incentive problems can arise even in family firms where there is a closer connection between ownership and control. They challenge the prevailing view that such firms exemplify efficient governance structures, free of agency problems. Instead, they point to several sources of agency problems, unique to owner-manager governance structures, that may be severe enough at times to paralyze decision-making and threaten the firm's survival. One type is due to the fact that external controls within family firms tend to be compromised, as they are when firms are privately held. A second type is due to distortions resulting from a prevalence of behaviors not primarily motivated by economic incentives. A third is due to complications arising from altruism among family members, that over time diminish the ability of the firm to compete effectively.

The paper by Banaszak-Holl, Berta, Bowman, Baum, and Mitchell (7) is a natural complement to the concerns of the preceding paper, but links directly to the following two papers as well. It empirically explores the relationship between the likelihood of acquisition (by large service chains) and the level of ex ante performance of the acquisition target (small nursing homes). The results suggest that the acquisition of target firms is motivated primarily by a turnaround logic, as opposed to a 'cream-skimming' logic. In addition, the results suggest that successful turnarounds of under-performing target firms are driven largely by the ex ante performance of the acquirer. This in turn suggests that the capabilities and routines of successful chains, as well as their more efficient systems of formal governance, may explain their ability to produce successful turnarounds.

The next two papers deal more concretely with the issue of ex ante performance in the general context of business turnarounds. In contrast to the paper by Banaszak-Boll *et al.* (7), which highlights the motivations and antecedents of *successful* turnarounds, Furman and McGahan (8) investigate whether successful turnarounds are as prevalent as is commonly thought (or attempted). Drawing on data describing the business segment profitability of a broad cross section of publicly traded companies over a span of 20 years, the authors conclude that the occurrence of successful turnarounds is quite rare. More specifically, poor performing firms are far more likely to sustain levels of poor performance than they are to improve. Interestingly, whereas prior research in I/O economics and strategic management on the sustainability of *superior* performance has suggested that leading firms are likely to experience performance *erosion* (i.e., a regression to the mean phenomenon), Furman and McGahan found that poor performing firms do not experience a reciprocal (and opposite) improvement in performance.

Further, given the evidence that most turnarounds are *unsuccessful*, the authors suggest that the escalating share price premiums garnered by turnaround prospects have not been warranted. This casts doubt on the efficiency of capital markets and suggests that financial markets have not been effective at identifying successful turnaround cases ex ante.

The paper by Ferrier, MacFhionnlaoich, Smith and Grimm (9) suggests a set of reasons for the findings of the previous paper regarding the prevalence of successful turnarounds. These authors explore the relationship between ex ante performance and strategy. Drawing from an eclectic set of theoretical perspectives within financial economics, strategy, and organizational learning, they examine the competitive behaviors of leading firms that experience distress in terms of declining market share or financial performance. Similar to the paper by Gimeno (4), Ferrier *et al.* develop a set of competing hypotheses and test whether distressed firms compete more aggressively (perhaps with a turnaround motive), as opposed to less aggressively. The authors find that, consistent with threat-rigidity theory, distressed firms reduce their level of competitive aggressiveness.

To explore why, the authors test whether organizational and/or contextual factors influence the level of competitive aggressiveness. Their results suggest that, among firms experiencing performance distress, the characteristics of the top management team and the industry context impact the firm's decision-making capability and strategic motivations for competing aggressively. This complements Furman and McGahan's (8) findings regarding the infrequency of successful turnarounds. The results suggest that firms in dire need of turnaround are constrained by important cognitive, organizational, and contextual factors.

The final paper by Mascarenhas, Kumaraswamy, Day and Baveja (10) employs case study methodology to examine the question of what supports sustained profitable growth at the business level. Their view is that successful growth depends on choosing strategies to capitalize on opportunities presented by market disequilibria. Using inductive reasoning, these authors develop a typology of five successful growth strategies, each tied to a set of environmental and competitive conditions.

This paper is normative as well as positive in intent. Indeed, understanding the enabling contexts associated with profitable growth may help managers make better choices regarding strategy. By avoiding growth based on incorrect premises, managers may reduce the incidence of the kind of turnaround situations described in the previous papers.

FINAL THOUGHTS

The conversation has begun. But, as cultural anthropologists often note, when interacting with alien cultures, people are quick to perceive and process cultural *differences*, as opposed to similarities. We believe that while the papers in this issue collectively form a pluralistic and diverse cross section of research in business and competitive strategy, there are important commonalities and complementarities as well. We hope that readers will use the organizing framework we present in Table 1 as a mechanism to perceive and process some of these commonalities among the papers—a conversational icebreaker, so to speak.

In closing, we note that it has not been our aim to have the last word about the state of the science in this stream of strategic management research. Rather, we hope that this issue will serve as one of many starting points serving to encourage conversation within the field, across a variety of disciplinary orientations, and among those with varying points of view.

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