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The value, responsiveness and responsibility dimensions of strategic management

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The 4CR framework has been designed to integrate the various strands of corporate responsibility and to support stakeholder oriented strategic management and the staged development of strategic capabilities enabling companies to reach optimised performance.

This paper constitutes Part C1 of the 4CR framework. It provides an analysis of the main strategic management theories with reference to value, responsiveness and responsibility factors.

The 4CR strategic framework is being developed by Athens University of Economics and Business in collaboration with K-NET SA and INLECOM Ltd utilising their initial research work in the CSRQuest project.

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Introduction

This paper presents an analysis of strategic management theories against *Value, Responsiveness and Responsibility* criteria. The objective is to establish an integrative view of strategic management incorporating corporate responsibility issues.

In the first part of the paper a cursory review of the evolution of strategic management theories indicates that the key strategic issues for business managers are value, responsiveness and responsibility. Strategic management theories are therefore analysed with respect to value, responsiveness and responsibility criteria and the output is summarised in the 4CR strategic management classification.

The main theories examined are:

a. Industrial organisation / environmental approaches;
b. Resource Based View (RBV) and related theories on core competencies and dynamic capabilities;
c. Business networking;
d. Knowledge view of the firm;
e. Corporate responsibility and sustainability
f. Stakeholder oriented approaches.

1. Strategic management theory roots

The primary objective of every company is to consistently make profits in excess of its cost of capital (economic rent) by outperforming its rivals in specific markets. For this, companies seek to establish a competitive advantage and then maintain it for as long as possible. Strategic management theory explores how firms create and sustain competitive advantage which is regarded as the purpose of the firm on the assumption that it represents the main interest of the firm's shareholders.

Sustainable competitive advantage is the result of a firm's positions and value creating processes both producing above normal rents and prohibiting imitation by other firms. In other words to secure sustainable competitive advantage a company must ensure that all imitation efforts from rival firms do not succeeded to create the same economic value (perceived customer benefits and cost position).

Strategic management originated as a discipline in the 1950s and 60s through contributors including Alfred Chandler, Philip Selznick, Igor Ansoff and Peter Drucker.
Chandler[1] defined corporate strategy as "the determination of the basic long-term goals and objectives of an enterprise and the adoption of courses of action and the allocation of resources necessary to achieve these goals."
The initial emphasis in strategic management theory was on how market structure, the number of competitors and the degree of rivalry between them, influence a company's behaviour. Market structure was determined partly by external conditions of supply and demand and partly by the attempts of firms to influence the intensity of competition which over the years became controlled by anti-trust regulations.

The classic model for developing strategy, known as the SWOT analysis (assessing the Strengths and Weaknesses of the firm in light of the Opportunities and Threats from the business environment) emerged from the early work of Alfred Chandler, Philip Selznick (1957)[2], and a group at the Harvard Business School (Learned et al. 1965)[3].

Igor Ansoff[4], the father of the planning strategy school (see Annex1), built on Chandler's work by adding a range of strategic concepts supporting a formalised process for the elaboration of strategic plans. He developed a strategy grid that compared market penetration, product development, market development and diversification strategies. The basic SWOT model was divided into steps and

[1] A.D. Chandler, 1962, Strategy and Structure: Chapters in the History of Industrial Enterprise, Cambridge, MA: The MIT Press.
[2] P. Selznick, 1957. Leadership in Administration: A Sociological Interpretation. Evanston, IL: Row & Peterson.
[3] E. P. Learned, P. Edmund, C. R Christensen, K. R. Andrews, and W. D. Gut, 1965, Business policy: Text and cases. Homewood, IL: Irwin.
[4] H. I. Ansoff, Corporate Strategy (New York: McGraw-Hill, 1965).

for each step checklists and techniques were defined to support goal setting linked to budgeting and operating plans at all levels within the organisation.

Drucker[5] in the 'Age of Discontinuity' highlighted the impact of rapid change in business strategy arising from the following four sources:

- rapid emergence of new technologies and resulting new industries;
- globalization - emergence of a world economy with increasing interdependence and integration between people and companies in disparate locations resulting in complex economic, social, technological, cultural and political changes;
- emergence of new pluralism of institutions that obsoletes traditional theories of government and society;
- emergence of knowledge capital as the central resource in a modern economy.

Drucker highlighted that extrapolating from the past in a highly dynamic business environment is ineffective. The limitations of strategic planning became widely accepted from the 80s and stimulated research into understanding better how industry change affects strategy. This led to the more recent approaches to strategic management promoting adaptability and flexibility.

2. Evolution of strategic management theory

In general, a firm's profitability depends jointly on the attractiveness of its industry/markets and its success in creating superior economic **value** (perceived customer benefits and cost) than its competitors.
The traditional focus of strategic management to position the company where it can leverage best its resources to deliver superior economic value is addressed in a complementary way by environmental and resource based theories:

- Environmental based theories focus on market characteristics and examine how best a company can configure its value chain to obtain a competitive advantage;
- Resource based theories address how companies can perform activities within the value chain more efficiently utilising firm-specific resources.

In recent years the spotlight has moved to "dynamic strategies" associated with enhanced organisational **responsiveness**. Dynamic strategies can be subdivided into:

- those associated with *flexibility and agility* (reconfigurable processes and products, integration technologies, shareable services, resource pools) addressed by core competencies and business networking theories;
- those associated with *detection and reaction speed* addressed by dynamic capabilities and associated learning / innovation theories.

[5] Peter Drucker (1969) Age of Discontinuity Harper & Row NY

Resource and learning based strategies have been increasingly used synergistically with innovative business networking to address key areas such as relation-specific assets, complementary assets, transactional cost minimisation and effective governance. These areas highlight the interdependence of economic agents - the *relational view of the firm*.

The need for changing the relations between corporations and society and the related **responsibility** issues are highlighted by Ansoff's proposal of an "enterprise strategy" to enhance a company's *societal legitimacy*[6] and Post's redefined corporation[7] seen as an institution engaged in mobilising resources to create wealth and benefits for all its stakeholders.

Today, it is widely recognised that development centred only on economic growth paradigms is unsustainable and therefore there is a need for a more pro-active role by states, companies and communities in a development process aimed at balancing economic growth with environmental sustainability and social cohesion.

Two critical influence factors are globalisation and climate change. Globalisation has set in motion a process of growing interdependence in economic relations (trade, investment and global production) and in social and political interactions among organisations and individuals across the world. However, globalisation challenges the traditional model of global governance controlled by individual states as multinational corporations have increased their power and influence but their accountability to national governments has become increasingly blurred. Fair globalisation[8] requires *productive and equitable markets* and *fair rules* supporting equitable opportunity and access for all countries recognising the diversity in national capacities and developmental needs. A shared responsibility therefore emerges between countries and corporations to assist countries and people excluded from or disadvantaged by globalisation.

The second factor compelling corporations to change attitude towards the way they manage their production and operations is climate change. Climate change and the associated global warming is largely the result of emissions of carbon dioxide and other greenhouse gases and changes in land cover mainly due to deforestation. The projected consequences of global warming are sea-level rise, increased risk of droughts and floods, threats to biodiversity and to public health and a shrinking global economy. Addressing climate change means changing the way global economy is powered, shifting away from fossil fuel use in pursuit of renewable sources of energy.

The World Economic Forum has repeatedly emphasised in recent years that poverty, climate change, education, equitable globalisation and good global governance is the responsibility of all society. In the 2005 closing session, the business, government, academic and civil society leaders urged adoption of technology to reduce the emission of greenhouse gases, the creation of a fund to

[6] H. Igor Ansoff, "The Changing Shape of the Strategic Problem" in Schendel and Hofer: Strategic Management.

[7] James E. Post, Lee E. Preston, and Sybille Sachs, 2002, Redefining the Corporation - Stakeholder Management and Organisational Wealth, Stanford University Press

[8] WSCDG Report of the Working Party on the Social Dimension of Globalisation

accelerate financial aid to the poorest nations and the removal of trade barriers that deprive developing countries of the dividends of global economic growth.

The way corporations can contribute to world wide efforts on sustainable development is by:

1. accelerating the pace of improving corporate sustainability performance;
2. participating in partnerships and networks that can create the capacity for sustainable development.

3 Review of strategic management theories

In this section strategic management theories are examined with specific reference to value, responsiveness and responsibility considerations.

3.1 Industry organisation theories and environment based approaches

Background

The industry organisation theories and environment based approaches have concentrated on market analysis to identify how best a company can organise its value chain to obtain a competitive advantage.

In the 1980s Michael Porter[9] adapted industry organisation models to business strategy creating a framework which essentially combines SWOT with Ansoff's strategy planning concepts and has provided an enduring framework for business strategy. He suggested replacing 'strategic planning' by 'strategic thinking' a perspective known as the 'positioning school'.

According to Porter, strategy should position the company to leverage its strengths and defend against the adverse effects of *five industry forces*: bargaining power of suppliers and customers, potential new entrants, substitute products and the number and degree of competitive rivalry. These five competitive forces determine the profitability of the industry in which a company operates and the likely evolution of that industry. National influences as well as the impact of globalisation (economic, regulation, technological, political and cultural dimensions) could be accounted for by their influence on the industry structure. It follows that the determinant of a company's profitability is the attractiveness of the industry in which it operates and the competitive position it attains in that industry. Firms try to find a niche market where the five forces are not so strong and then concentrate in developing a *cost or differentiation advantage*.

An alternative to the five forces framework for determining industry or market attractiveness is the Value Net described by A Brandenberger and B Nalebuff in their book *coopetition* which highlights the positive aspects of co-operation between suppliers, distributors and competitors[10]. Examples of positive interactions include:

- collaboration of competitors to set technology standards that facilitate industry growth;

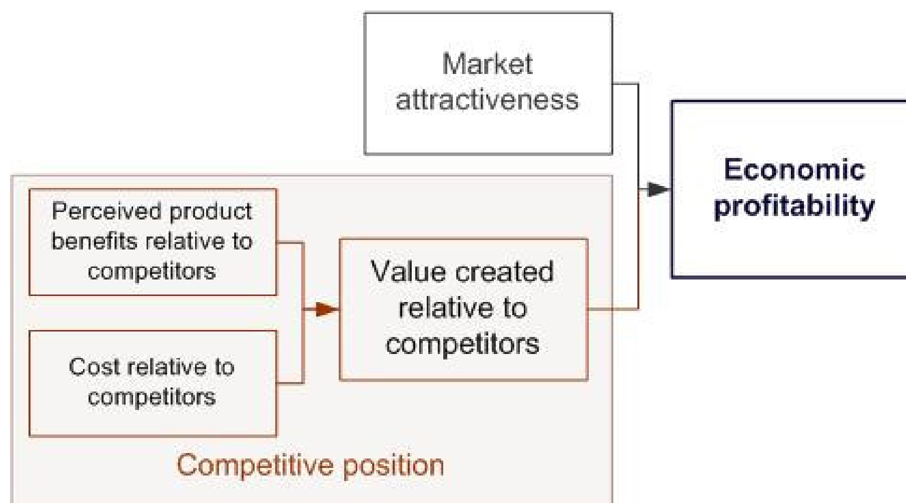
[9] Michael Porter (1980) *Competitive Strategy* Free Press
[10] A M Brandenberger, and B J Nalebuff, (1996), *Co-opetition*, (London, Harper Collins).

- common promotion of favourable regulations or legislation;
- cooperation and incentives among firms with their suppliers to improve product quality in order to boost demand.

Value creation

In general, a firm's profitability depends jointly on the attractiveness of its markets (as determined by the five forces, the Value Net, etc) and its success in creating better customer value than its competitors as shown in the following diagram.

Empirical research suggests that performance differences exist between different companies across industries, within the same industry[11] and also within the narrower confines of strategic groups within industries[12]. A number of empirical studies indicate that industry structure explains 6-30% of the observed performance variance[13] and that the remaining variations are primarily due to internal factors[14]. A survey by McGahan and Porter (1997) indicates that industry accounts for 19% of profit variations while the competitive position accounts for 32 %; a large component of 43% representing variations that cannot be accounted for.



Value created is a function of the product benefits *perceived* by customers relative to competitor products and product cost relative to competitors. In this context it is important to highlight that strategy formulation and implementation should create a favourable ranking of the product value in the minds of the target customers. For this, perceptual maps displaying consumer's ideal points or

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[11] G. S. Hansen, B. Wernerfelt, 1989, "Determinants of firm performance: The relative importance of economic and organisational factors", Strategic Management Journal, 10.

[12] K Cool and D Schendel, 1988, "Performance differences among strategic group members" Strategic Management Journal, 9.

[13] A. J. Mauri, M. P. Michaels, (1998), Firm and industry effects within strategic management: An empirical examination, *Strategic Management Review* 19(2).

[14] R. P. Rumelt, D. Schendel and D. J. Teece, 1991, 'Strategic management and economics, Strategic Management Journal, 12 (Winter Special Issue)

ideal vectors (combinations of key characteristics) and competitor positions are used in positioning theory to guide the marketing strategy.

There are two ways for companies to outperform their rivals in creating economic value. One way is configuring the vertical chain (from acquisition of raw materials to marketing and distribution of products or services) differently from competitors in terms of which part of the chain they concentrate on and which parts they outsource. In other words the competitive position is firstly dependents on decision on what the company buys and what it makes. Secondly, activities within the part of the chain selected must be performed more efficiently utilising firm-specific resources (see resource based theory).

The costs and benefits of relying on the market (buy rather than make) relate to how good a company is in terms of its *technical efficiency and its agency efficiency*. Technical efficiency concerns the process of production where agency efficiency concerns the process of exchange. Technical efficiency represents the degree to which a firm can maximise output for a given combination of inputs[15] or indicates the firm's ability to use the least cost production process. Agency efficiency refers to the extent to which the exchange of goods and services in the vertical chain has been organised to minimise the co-ordination, agency and transaction costs. The web and advances in communication technologies are causing transaction costs to be lower than the costs of carrying out transactions within the firm thus reducing the traditional advantages of vertical integration. However, vertical integration remains a strategic option particularly under the following conditions:

- when a firm has a significant market share;
- when the ability of outside companies is limited in achieving scale or scope economies;
- when assets involved in production are relation specific.

Porter[16] developed the concept of the *value chain* depicting the firm as a collection of value creating activities which should maximise value (perceived quality / price) for the customers while minimising costs. Porter distinguishes between five primary activities (inbound logistics, production, and outbound logistics, marketing / sales and services) and four support activities (infrastructure including finance- accounting- legal aspects, human resources, technology and procurement).

The concept of the value chain has been extended beyond individual organisations to supply chains. A supply chain is a network of facilities and distribution options that performs the functions of procurement of materials, transformation of these materials into intermediate and finished products and distribution of these finished products to customers. A supply chain will mobilise and synchronise different economic actors, each managing its own value chain, to deliver a mix of products and

[15] R. Caves and D. Barton "Efficiency in US manufacturing Industries, 1990, MIT press, Cambridge, MA
[16] Michael Porter (1985) Competitive Advantage: Creating and Sustaining Superior Performance; NY The Free Press

services to the end customer. By exploiting the upstream and downstream information flowing along the value chain firms may try to bypass intermediaries creating new business models.

Industry change trajectories

Recently research growing out of the industrial organization tradition has focused on the interactions between the firm's micro and macro environment during industry change. Attention has been paid to both evolutionary changes and rapid changes in market boundaries resulting from converging forces from new technologies and market dynamics.

A M McGahan[17] argues that many companies fail to profit from investments in innovation when they break their industry's rules for how change can take hold. To deal with this problem she proposed four trajectories of industry change (progressive, creative, radical, and intermediating) together with recommended choices for each trajectory about R&D, alliances, internal venturing, leadership style, compensation, modularisation and time-to-market.

Developing capabilities to analyse potential industry change trajectories and to define related strategy options is an essential element of responsiveness strategy.

Responsibility issues

Industry analysis could be extended to include responsibility issues. Increasingly the attractiveness of a sector or industry is affected by environmental sustainability characteristics which determine national policy and regulatory measures. For example within the transport industry the various modes such as road, train, air and sea are characterised by congestion, noise and pollution performance indicators which drive policy on taxation and on promotion of modes with superior sustainability performance. In this context the Value Net concepts are becoming more relevant to establishing collaborations that can produce environmental improvements/ innovations and can promote favourable regulation and policy developments.

Further fair globalisation issues should be factored into the industry analysis particularly in supporting preparedness for potential changes arising from the fair globalisation agenda.

3.2 Resource based View

Background

As mentioned already a firm's ability to create a superior competitive position depends partly on its stock of resources. According to the *Resource Based View* of the firm[18], a company's competitive advantage derives primarily from its ability to assemble and exploit an appropriate combination of resources. The focus is therefore on the supply side (the accumulation of organisational resources and capabilities) rather than the demand side (the nature of the industry) and in value creation rather than value appropriation. The importance of industry structure is accepted, but the emphasis is on resources as the source of a successful competitive strategy.

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[17] Anita M. McGahan, 2004, How Industries Evolve: Principles for Achieving and Sustaining Superior Performance Harvard Business School Press, Boston, Massachusetts.

[18] B. Wernerfelt, 1984, A Resource-Based View of the Firm, Strategic Management Journal 5.
B. Wernerfelt, 1995, The Resource-Based View of the Firm - 10 Years After, Strategic Management Journal 16(3).

Firms adopting a resource based approach begin the strategy development process by identifying their core resources and how they can be leveraged and developed further to deliver sustainable competitive advantage. In this context the sustainability of competitive advantage is linked to the characteristics of resources and to how these characteristics are expected to change over time.

Resources represent "anything tangible or intangible that would be both useful and available to an organisation in carrying out its value-creating activities"[19]. Resources therefore include products, processes, patents, reputation, customer relations, human capital, etc.

Advantage-creating resources

According to the Resource Based View (RBV), company success is based on advantage-creating resources which should be Valuable, Rare, Inimitable and Non-substitutable. These so-called VRIN criteria[20] are described as follows:

1. Valuable (enabling a firm to create and/or implement strategies that improve its efficiency or effectiveness);
2. Rare (valuable firm resources possessed by only few of competing firms);
3. Imperfectly Imitable (characterised by a combination of unique historical conditions, causal ambiguity, social complexity, etc, which prevents imitation by competitors);
4. Non-Substitutable (there must not be strategically equivalent valuable resources that are themselves either not rare or imitable).

Core competencies and distinctive capabilities

From the beginning of the 90's resource related strategies were elaborated through the concepts of *core competencies or distinct capabilities* representing what a company does better than any of its competitors. Both core competencies and distinct capabilities can be thought as advance-creating resources based on the synergistic combination of knowledge and other resources which create barriers to both imitation and mobility. Companies leverage *core competencies and distinctive capabilities* to exploit *economies of scope* providing savings and flexibility by increasing the variety of goods and services to a wide variety of markets. Examples of core competencies are safety for Volvo, engines for Honda, online selling for Amazon, 'miniaturisation' at Sony, design and merchandising at NIKE.

Core competencies are based on the concept of resource recombination as originally defined by Schumpeter[21] and Penrose[22]. Schumpeter described the 'entrepreneurial role' as consisting of recognising the value in the underlying parts of diverse systems and recognising that these parts could be recombined in a novel fashion. C. K. Prahalad and G. Hamel[23] suggested that sustainable

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[19] R Sanchez and A Heene (2004). The New Strategic Management: Organisation, Competition and Competence (textbook), New York and Chichester: John Wiley & Sons.

[20] J. Barney, 1991, Firm resources and sustained competitive advantage; Journal of Management, 17.

[21] J. A. Schumpeter, 1934, The Theory of Economic Development: An Inquiry into Profits, Capital, Credit, Interest, and the Business Cycle, Harvard University Press, Cambridge, MA

[22] E. G Penrose, 1959, The Theory of the Growth of the Firm, Wiley, New York.

[23] C. K. Prahalad and G. Hamel, 1990, "The Core Competence of the Corporation", Harvard Business Review, 1990

advantage is based on core competencies representing the collective knowledge and learning capacity in the organisation utilised to coordinate diverse production skills and to integrate multiple streams of technologies.

In the "Foundations of Corporate Success"[24], John Kay argues that outstanding businesses derive their strength from three types of distinct capabilities:

- architecture representing a network of relationships or implicit contracts within or around the firm, which adds value by helping to create organisational knowledge and routines enabling the company to respond flexibly to changing circumstances;
- reputation representing the main commercial mechanism for conveying information to consumers;
- innovation protection and exploitation enabling a company to derive competitive advantage and to appropriate the gains associated with it.

In summary, core competencies implement differentiation and focus strategies aimed at delivering superior economic value with in-built flexibility. The guiding principles are:

1. Competitiveness is a function of the company's ability to *exploit and leverage* their resources in adding value to products and services more efficiently and effectively than competitors;
2. Core competencies build on complementary resources combining easily in new and mutually reinforcing ways to multiply the competitive value of specialised resources and to create barriers to imitation and mobility;
3. Special organisational structures, processes and culture are needed to judiciously concentrate organisational attention on a few core competencies;
4. Organisations need to fundamentally disrupt the status quo at strategically chosen times in order to capitalise on the new resources and capabilities they have developed and which can be used to establish a new and durable basis for sustainable competitive advantage.

Dynamic capabilities

To prolong the competitive advantage arising from core competencies, organisations need to adapt them to changing business influence factors using their *dynamic capabilities*.

Dynamic capabilities are defined as "the firm's ability to integrate, build and reconfigure competences to address rapidly changing environments". Dynamic capabilities are therefore used to manage resources and competences which need to be constantly renewed and developed. The ability to scan and interpret effectively new technological fields, new markets and internal change triggers, what is often termed business intelligence, is a crucial part of the company's dynamic capabilities.

Teece[25] characterised dynamic capabilities as trajectories of competence development providing flexibility constrained by the firm's history which makes them tacit and idiosyncratic.

[24] John Kay, 95, Foundations of Corporate Success, Oxford Scholarship Online Monographs.

[25] D. J., Teece, G Pisano & A Shuen, 1997, Dynamic capabilities and strategic management, in Strategic Management Journal, Volume 18:7.

Granstrand et al (1997) demonstrated the importance of "Distributed" core competencies in creating dynamic capabilities and that in the most successful companies competencies are absorbed from other competent companies[26].

Eisenhardt and Martin (2000)[27] extended the concept of dynamic capabilities to include "the organisational and strategic routines by which firms achieve new resource configurations". Such routines include product development, resource-transferring processes, knowledge creation, strategic decision making and alliance formation. They pointed out that some dynamic capabilities integrate and reconfigure resources, while others allow the firm to acquire and release resources. They stressed the importance of "alliance and acquisition routines that bring new resources into the firm from external sources". According to Eisenhardt and Martin dynamic capabilities have many common features across organisations and can therefore be viewed as best practices.

Responsibility related competencies and capabilities

Sustainable development requirements and investor and consumer demands makes responsibility a strategic necessity. From a resource perspective the crucial factor is to create core competencies incorporating responsibility related resources according to the overall strategic positioning decisions made by the company (competitive and responsibility positioning).

Key responsibility related competencies include ways for the accurate and consistent estimation of the social and environmental impact of the company's operations and the associated improvement capabilities. Strategic and tactical decisions should be automatically evaluated for their impact on the firm's stakeholders.

At present many companies' advertising focus is on green products and the company's responsible attitudes. However, as more and more companies adopt responsibility strategies there will be a need for companies to establish a *responsibility advantage* meaning superior responsibility performance that the competitors. In this context, the development and integration of responsibility related competencies into the company's core competencies (mainstreaming) will become increasingly important.

3.3 Business networking

In dynamic markets, many firms create competitive advantage by combining their internal resources with complementary assets from strategic partners, encouraging division of labour and specialisation. A firm's business network (with idiosyncratic inter-organisational relationships which are difficult for competitors to imitate and to substitute) enable firms to adapt to new opportunities and challenges by tapping into the network's broad and diverse base of resources[28].

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[26] O. Granstrand, P. Patel and K. Pavitt, (1997) Multi-technology Corporations: Why They Have "Distributed" Rather Than "Distinctive" Core Competencies, California Management Review 39 (4).

[27] K. M Eisenhardt and J. A. Martin, 2000, Dynamic capabilities: What are they?, Strategic Management J. 21.

[28] Ranjay Gulati, [1998]: Alliances and networks, in: Strategic Management Journal, Vol.19.
Ranjay Gulati, Nitin Nohria, Akbar Zaheer, 2000, Strategic networks, Strategic Management Journal, Vol.21..

Within the industrial network approach, a business network is built up by three variables: actors, activities and resources. Actors, which can be individuals, groups or companies perform activities in the network and control the resources (Håkansson & Johanson, 1992)[29].

Types of business networks

Networks can be subdivided into *corporate networks* controlled by one company (e.g. acquisitions), *business networks* representing any group of interconnected organisations (e.g. strategic alliances, supply chain networks, joined ventures, clusters, industry associations, etc)[30] and *trading networks* or electronic markets managed by brokers facilitating exchange of services.

An important subset of business networks is the "strategic alliance" referring to any long-term, formal collaboration between organisations that offers actual or potential strategic advantage to both[31]. Strategic alliances are particularly prevalent in the technology-intensive industries focused on joint R&D, knowledge exchange and technology transfer[32] with researchers attempting to contrast and synthesise diverse views in specific areas of technology application[33].

Another notable type of network is the cluster (geographical/regional concentrations of interconnected companies and institutions) aimed at raising productivity (efficiency), the speed of innovations (effectiveness) and faster formation of new companies or business units (flexibility) [34].

The boundaries of networking interests for a company are not clear, as the whole global industrial system is a large complex network and according to industrial network theory any market can be described as a kind of macro network[35]. The concept of the *focal net* is therefore used to denote the network of direct and indirect inter-organisational relationships that a firm perceives as affecting its business in a specific market. The focal net is usually subdivided according to criteria such as products, processes, technology or geography.

Business networking principles

Business networking is closely linked with the resource based perspective; whereas the traditional, resource-based view deals with competitive advantages resulting from resources controlled by a single firm, the more recent relational view deals with resources embedded in inter-organisational relations. Dyer and Singh 1998[36] shed light on the relationship between the firm's competitive

[29] H Håkansson, , J. Johanson, (1992), "A model of industrial networks", Industrial Networks – A New View of Reality, Routledge, London

[30] H Håkansson, I Snehota, (1995), Developing Relationships in Business Networks, Routledge, London

[31] J. Jarillo, (1988), On strategic networks, Strategic Management Journal, 12

[32] D. C. Mowery, J. E. Oxley, et al; (1996); "Strategic Alliances and Interfirm Knowledge Transfer"; Strategic Management Journal 17(Winter Special Issue).

[33] B. S. Silverman, (1999). "Technological Resources and the Direction of Corporate Diversification: Toward and Integration of the Resource-Based View and Transaction Cost Economics." Management Science 45(8)

[34] Porter, M.E. (1998). "Clusters and the New Economics of Competition," *Harvard Business Review*," 76(6)

[35] B. Axelsson, G. Easton, (1992), Industrial Networks: A New View of Reality, Routledge, London B. Axelsson, , G. Easton, (1992), Industrial Networks: A New View of Reality, Routledge, London

[36] J H Dyer and H Singh, 1998, The relational view: cooperative strategy and sources of inter-organisational competitive advantage, in: Academy of Management Review, Vol.23, No.4

position and the network of relationships in which the firm is embedded identifying four sources of competitive advantage:

- relation-specific assets;
- knowledge-sharing routines;
- complementary resources/capabilities;
- effective governance.

Business networking theories have been focusing on the *formation, durability, learning characteristics* and governance of inter-organisational networks. Networks vary in terms of the structure and relational characteristics (e.g. pattern of ties, nodal diversity or variation in the mix of relationships)[37]. Achrol (1997)[38] suggested that a network organisation is characterised "by the density, multiplicity, and reciprocity of ties and a shared value system defining membership roles and responsibilities". Williamson (1999)[39] argued that networking strategies should combine a 'competence' perspective for the acquisition and development of knowledge and capabilities with a perspective of 'governance', for the management of 'relational risks'. The integration of the learning and governance perspectives should yield a more complete understanding of inter-organisational relations (Nooteboom, 2004)[40].

Business networks essentially represent a company's *social capital.* In fact the principles outlined above can be mapped to the following three dimensions[41] of social capital:

- *structural*: network ties, density, configuration and appropriateness;
- *relational*: trust, norms and obligations and the extent to which such qualities are shared among the parties;
- *cognitive*: knowledge absorptive capacity denoting the ability of the firm to identify and value, assimilate and exploit information.

Generic networking strategies

We can identify two distinct categories of networks reflecting the theory of mechanistic and organic management systems of Burns & Stalker (1961)[42]. Mechanistic networks are characterised by rules, stability, formal standardisation, specialisation differentiation and loyalty. Organic networks are

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[37] B. McEvily, and A. Zaheer, 1999, Bridging ties: A source of firm heterogeneity in competitive capabilities, Strategic Management Journal, 20; Galaskiewicz, J. and A. Zaheer (1999). "Networks of Competitive Advantage" in Research in the Sociology of Organisations, S. Andrews and D. Knoke, (eds.) Greenwich, CT: JAI Press.

[38] R. S Achrol, (1997), "Changes in the theory of inter-organisational relations in marketing: toward a network paradigm", Journal of the Academy of Marketing Science, Vol. 25 No.1.

[39] O. E. Williamson, (1999), Strategy research: Governance and competence perspectives, Strategic Management Journal, 20

[40] B. Nooteboom, (2004a) 'Competence and governance: How can they be combined?', Cambridge Journal of Economics; 2004b Inter-firm collaboration, learning and networks: An integrated approach, London: Routledge.

[41] J Nahapiet & Ghoshal, (1998), Social capital, intellectual capital and the organisational advantage, Academy of Management Review, 23(2),

[42] T Burns, & G M Stalker, 1961, The Management of Innovation, London: Tavistock Publications

characterised by loose and adaptive links governed by mutual adjustment, participative knowledge and commitment to rapid progress.

Generally, mechanistic networks are more suitable for cost leadership strategies where organic networks are best suited for differentiation and responsiveness strategies.

Granovetter (1973)[43] in his article on "the strength of weak ties" turned the spotlight on the importance of organic networks with loose connections. Organic networks are suitable for 'new organisational forms' such as virtual companies and the real-time organisation designed to compete flexibly in global markets. The virtual organisation[44] is based on the principle of buying everything from the market using loose relations and relying on information and communications technologies to address agency efficiency. The real time organisation relies on electronic services to adapt in real time to required changes.

Objectives and value alignment

The success of business networks is dependent on complementarities between resources and between strategies. More recently, emphasis has been given to *strategic convergence* of network partners and their competitive divergence. Lack of alignment between the overall company strategy and the role of an alliance in that strategy is shown to be the most common reason for alliances to fail[45]. Strategic convergence principles can be extended with values convergence denoting the compatibility of network partners on responsibility principles. Thus, *objectives alignment can be defined in terms of convergence on business and responsibility objective.* Such approach will provide a better basis for establishing effective 'competence' and 'governance' network perspectives.

The importance of 'resource strength' or 'objectives alignment' criteria in selecting partners is likely to change over time particularly in relation to industry life cycle phases (early exploratory stage, intermediate development stage and maturity stage)[46]. At the early stages of a new market network strategy should focus on selecting partners with convergent objectives. In the development stage, objectives alignment and resource issues attain similar importance and at the maturity stage the dominant consideration is resources.

3.4 The knowledge view of the organisation

A knowledge view of the organisation focuses on knowledge resources as the key source of competitive advantage. In this context knowledge resources can be viewed as the central component of the company's core competencies and dynamic capabilities. In the resource-based theory, Wernerfelt did consider knowledge as a resource required to obtain and transform other resources, where Barney (1991) included knowledge as a separate resource on equal footing with other resources.

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[43] M.S. Granovetter, 1973, 'The strength of weak ties', American Journal of Sociology, 78
[44] D H Davidow and M S Malone 1992 'The Virtual Corporation' Harper Business, NewYork
[45] M Koza & A Lewin, 2000, Managing Partnerships and Strategic Alliances, European Management Journal, 18(2)
[46] O. E. Williamson, 1975, Markets and Hierarchies, New York: Free Press.

Spender (1993)[47] asserted that the resource-based view may be too narrow by concentrating on the acquisition and protection of critical resources. He suggested that *knowledge of how resources are brought together, coordinated, integrated, and put into use* is the essence of the successful firm.
Williams (1992)[48], examining the sustainability of competitive advantage, found that all industries undergo substantial change, whether driven by customers, competitors or technology. This change creates continuous pressure for businesses to improve their products and services which ultimately makes learning 'the only sustainable source of competitive advantage'[49]. The learning approaches are supported by empirical evidence suggesting that firms survive longer depending on learning capacities[50] and on the rate of learning[51] which intrinsically support innovation[52].
Grant[53] asserts that firms exist to create *conditions* (learning capacity) in which multiple individuals can integrate their specialist knowledge thus providing advantage-creating resources.
In economics the *learning curve* or experience curve refers to benefits that result from accumulating experience and know-how such as lower costs, higher quality and improved marketing. The magnitude of learning benefits for a given process is often expressed in terms of the *slope* denoting average cost reduction as cumulative production output doubles. Slopes have been estimated for hundreds of products and show variations ranging from 0.6 (40 % reduction in cost) to 1 which means no cost reductions and no learning capacity. In practical terms some companies are good in learning from their mistakes and experiences others are not and repeat the same mistakes and rediscover the wheel every time they are called to solve a problem.

Knowledge management

Knowledge management determines the company's knowledge requirements and the knowledge acquisition and learning processes the company uses to meet the requirements. Knowledge management strategies determine in operational terms the learning and innovation capacity of the firm.
Knowledge is often categorised as explicit or tacit. Explicit knowledge consists of anything that can be documented, archived and codified (e.g. knowledge held by designs, manuals, etc.) and therefore can be easily communicated and shared. Much harder to manage is tacit knowledge, or implicit knowledge representing the personal knowledge which cannot be described and is primarily manifested through the results of actions. Tacit knowledge resides with *individuals and their relationships* and is affected by the organisational structure including the business network and the organisational culture which in turn reflects the value traits of the company.

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[47] J C Spender, 1993, "Competitive advantage from tacit knowledge? Unpacking the concept and its strategic implications", Proceedings of the Academy of Management Meeting, Miami;
J C Spender, 1996, Making knowledge the basis of a dynamic theory of the firm, Strategic Management Journal, 17.
[48] Williams, J. (1992), "How sustainable is your competitive advantage?" California Management Review, Vol. 34.
[49] A. De Geus, 1988, "Planning as learning", Harvard Business Review, March-April, Vol. 66
[50] B. Jovanovic, 1982,"Selection and the evolution of industry," Econometrica, vol. 50.
[51] B. Jovanovic and S. Lach, 1989, "Entry, exit, and diffusion with learning by doing," The American Econometric Review, vol. 79.
[52] B. Jovanovic and G. M. MacDonald, 1994, "The life cycle of a competitive industry," The Journal of Political Economy, vol. 102.
[53] Grant, R. M. 1996. Toward a knowledge-based theory of the firm. *Strategic Management J.* 17 109–122.

The transfer of tacit knowledge to knowledge that can be shared within the organisation has been an important branch of knowledge management[54]. According to Nonaka there are four basic patterns for knowledge creation in an organisation:

1. Socialisation: sharing of tacit knowledge between individuals that increases tacit knowledge but does not increase explicit knowledge to be used by the organisation as a whole.
2. Articulation: making tacit knowledge explicit allowing sharing within the organisation through individuals succeeding in formulating the fundaments of their own tacit knowledge in a way that can be communicated to others.
3. Synthesis: combining several pieces of explicit knowledge into a new one, but not extending the 'total' knowledge of the organisation.
4. Externalisation: using explicit knowledge to broaden, extend and reframe tacit knowledge.

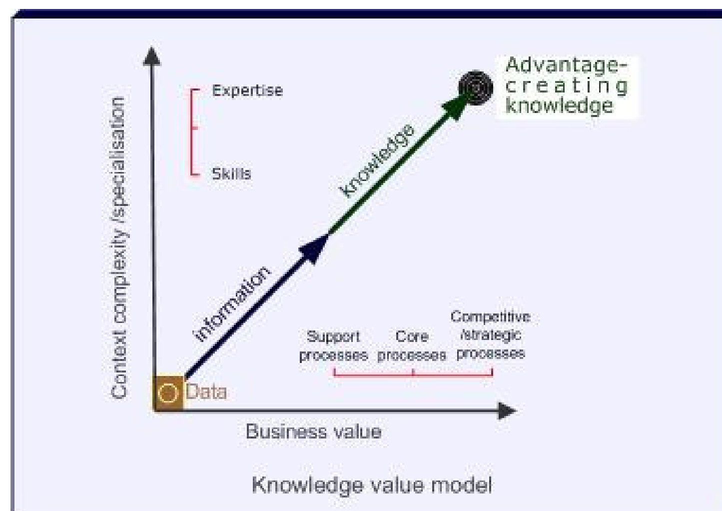
In a knowledge-based organisation, these four patterns are assumed to exist in dynamic interaction, a kind of spiral of knowledge, moving into higher and higher levels at a rate and manner dependent on knowledge networking characteristics.

Advantage-creating knowledge

Advantage-creating knowledge resources can be linked to the VRIN criteria as follows:

1. Valuable: knowledge value increases according to the importance of the processes it supports (i.e. support processes, core, competitive/strategic processes)
2. Rare: knowledge normally becomes rare with increased levels of specialisation and expertise
3. Inimitability and Immobility: increases with context complexity.

Advantage-creating knowledge is the result of specialisation in competitive processes with high levels of context complexity that ensures inimitability and immobility as illustrated in the following diagram. Context complexity represents essentially the interactions between external and internal factors affecting the company which can be represented by a variety of business models.



Knowledge value model

[54] I. Nonaka, 1991, The Knowledge Creating Company, Harvard Business Review ;
I. Nonaka, 1994, A dynamic theory of organisational knowledge creation, Organisation Science 5(1).

Change support knowledge and business intelligence

Business Intelligence (BI) should enable business managers to monitor and analyse Key Performance Indicators (KPIs) and possibly Key Risk Indicators (KRIs) and to take decisions that ensure progress towards reaching the organisational objectives. Commonly BI solutions connect strategy and goals to metrics and analytical tools.

Business Intelligence is about providing organisations with better, faster and easier access to information either embedded in their existing legacy systems or external sources in order to create insights in every area of the business.

Business Intelligence should be an integral part of knowledge management supporting organisations to be responsive to their customers and to changing market conditions by providing:

a. analysis of performance variations across the organisation, of changes in customer needs and of changes in competitor products and strategies;
b. support for understanding the reasons behind performance deviations or competitive changes and for identifying or designing innovative strategic actions;
c. support for efficient change implementation.

The above represent the company's dynamic knowledge based capabilities.

The responsibility dimension of knowledge management

Corporate training is becoming increasingly important in business strategies, sometimes as part of an overall knowledge management strategy, but often as a separate activity for developing core competencies, continuous professional development and life-long learning.

Corporate responsibility training is essential, both for the team responsible for setting policy/strategy and supervising communications and implementation, as well as for the team assigned to the different responsibility implementation activities. An area often neglected is training for stakeholders and particularly external stakeholders to enable their effective participation in the tasks assigned to them. The training programme should be designed to support all the different stakeholders involved in corporate responsibility related processes.

When developing a corporate responsibility training programme reference could be made to the CSR Competency Framework developed by the UK DTI to help managers integrate CSR into decision-making and operations. The Framework consists of a set of six core characteristics that describe the way all managers need to think about responsible business decision-making.

- *understanding society*: understanding the role of each player in society – government, business, trade unions, non-governmental organisations and civil society;
- *Building capacity:* participating in partnerships and creating strategic networks and alliances;
- *Questioning business as usual:* challenging the status quo and being open to new ideas;
- *Stakeholder relations:* identifying stakeholders, building relations, engaging in dialogue and balancing demands;
- *Strategic view*: taking a strategic view of the business environment;
- *Harnessing diversity:* respecting diversity and adapting to different situations.

3.5 The Corporate responsibility perspective

A multidimensional view of corporate responsibility

Since the early 1990's, corporate responsibility issues including the social obligations of corporations have attained prominence in political and business debate. This debate has motivated the following three *interlinked movements*:

- World wide reforms on corporate governance;
- CSR (Corporate Social Responsibility);
- Corporate sustainability.

Corporate governance reflects the way companies address legal responsibilities and therefore provides the foundations upon which CSR and corporate sustainability practices can be built to enhance responsible business operations.

CSR and Corporate Sustainability management involves assessment of the company's economic, social and environmental impact, taking steps to improve it in line with stakeholder requirements and reporting on relevant measurements.

CSR is specifically associated with ethical issues – doing what's right and fair, and avoiding harm. Related concepts are business ethics, corporate citizenship and social accountability. More specifically, CSR represents commitments and activities that extend applicable laws and regulations on trading, health and safety, human rights, consumer and environmental protection and reporting. This creates a continuation from corporate governance responsibilities and facilitates harmonisation across these two areas of corporate responsibility.

Corporate Sustainability is specifically associated with support for sustainable development and the long term performance stability and survival of the corporation. It addresses the needs of present stakeholders while seeking to protect, support and enhance the human and natural resources that will be needed by stakeholders in the future.

Corporate sustainability performance is measured by a company's economic, social and environmental impact and associated stakeholder satisfaction. Sustainability impact is defined as follows:

- *Economic impact:* sustainability of the businesses and its 'human capital' and engagement in sustainable wealth creation processes at global national and local levels.
- *Social impact:* the impact of products or operations on human rights, labour, education, health, safety, regional development and other community concerns.
- *Environmental impact:* the impact of products or operations on environmental degradation including the company's related emissions and waste.

In general corporate responsibility issues are closely related to the concept of *accountability* meaning that organisations should be accountable for the actions to their stakeholders. Accountability implies

companies being open and frank about their actions, communicating them in a clear and unambiguous manner and generally displaying high levels of transparency.

CSR and corporate sustainability drivers

Important drivers for corporate responsibility include:

1. **Self regulation.** Since the 1990s, the Corporate Social Responsibility is seen as a way for *corporate self-regulation* involving, codes of conduct, improvements in occupational health and safety, environmental protection and social and environmental reporting. According to the UN Research Institute on Social Development, the CSR approach to regulation is nowadays evolving to public-private partnerships and multi-stakeholder initiatives for standard setting, reporting, monitoring, auditing and certification.
2. **National sustainability strategies.** Commitment by the majority of nations to implement sustainability strategies which are likely to result in financial penalties for sectors and companies with poor sustainability performance.
3. **Socially Responsible Investment (SRI).** Support for CSR and corporate sustainability from an increasing number of investors as evident by the growth of Socially Responsible Investment (SRI) and associated corporate sustainability indexes.
4. **Risk management.** Boards responsible for risk management under Sarbanes-Oxley and similar legislation face a challenging time ahead, both in establishing a good understanding of the risks affecting their companies and in setting policies and controls for their management. Part of the challenge is dealing with reputation risks that are becoming a critical threat to the performance and even survival of many companies.
5. **Consumer preferences.** Consumers are increasingly exercising their green buying power exerting pressure on companies to address their environment impact and to invest in ‘environmentally friendly products’.

Goals and principles for responsible corporate behaviour

The corporate responsibility and sustainability movement is backed by UN initiatives such as the Global Compact and the Millennium Goals which have defined goals and principles for responsible corporate behaviour in the following areas:

1. Human Rights
2. Labour Standards
3. Environment
4. Health
5. Anti-Corruption
6. Economic responsibility.

Business trends

The CSR and corporate sustainability movements are building an impressive momentum and it is generally accepted that businesses are doing far more than ever before in guarding against ethical

compromises, recognising their social and environmental responsibilities, creating enhanced governance transparency and becoming more accountable to their stakeholders.

However today, despite the progress achieved, corporate responsibility and sustainability is primarily about a small number of companies that have made corporate sustainability their business philosophy, some following the principles of their founders established centuries ago, others in response to crises that threatened their survival and some simply because they recognise the long-term value of integrating responsibility issues in their mainstream strategy.

There are also many companies that have adopted in name only corporate responsibility strategies either because they feel obliged to follow their peers or because they see some marketing related benefits.

The large majority of SMEs have not adopted CSR or related approaches and view such programmes as costly exercises only affordable by large companies. Consequently despite various attempts to clarify the business benefits and the business case, CSR remains a low priority for the vast majority of SMEs.

For the large companies that have adopted CSR we can distinguish a number of common objectives:

- to increase transparency and improve governance aimed at rebuilding public trust and investor confidence;
- to deliver wider societal value including support for health and human rights improvements, and environmental protection;
- to contribute to regional development and global partnerships for sustainable development;
- to balance the concerns of their key stakeholders.

KPMG's 2005 Survey of corporate responsibility reporting highlights the diverse motivations for corporate responsibility (74% economic and 53% ethical) and the following important business drivers:

a) to have a good brand and reputation;
b) to be an employer of choice;
c) to have and maintain a strong market position;
d) to have the trust of the financial markets and increase shareholder value;
e) to be innovative in developing new products and services and creating new markets.

Strategic positioning incorporating responsibility options

Positioning strategy development makes use of perceptual maps to display consumer’s ideal points or ideal vectors (combinations of key characteristics) [55]. Already social appeal is often depicted as a

[55] Jack Trout, Al Ries 1981 Positioning: The Battle for Your Mind, McGraw-Hill, New York.

key dimension in perceptual maps as shown in the following diagram. The diagram illustrates three clusters of ideal points (A, B, C) with social appeal factors. Cluster B would provide an opportunity for companies specialising in high performance goods, where cluster C may provide an opportunity for companies addressing middle of the road markets.

High Performance / High Price
Social Appeal
Individuality
Low Performance / Low Price
B
D
A
C
Customers ideal points
Competitors
A...C Clusters

Positioning theory in the context of corporate responsibility can help companies obtain:

- clusters of ideal points of consumers and other stakeholder groups and competitor positions for their industries;
- a better understanding of their stakeholders' perceptions of their responsibility strategies and performance in relation to competition.

3.6 Stakeholder approaches to strategic management

In market economies, companies normally pursue maximisation of shareholder value (profit, share price, etc). According to the agency theory of the firm, directors of an organisation are agents of the owners and are duty bound to act to maximise the interests of those owners. In contrast, the corporate responsibility and sustainability movement represents companies that voluntarily recognise and address their responsibilities to all their stakeholders for mutual benefit or even purely on ethical/moral grounds.

Stakeholder approaches to strategic management, established by R Freeman through his book "Strategic management: A stakeholder approach" [56], focus on the roles and interaction of individuals, groups, and organisations within and around the firm, who can impact the firm or be impacted by its activities. The controlling element of sustainable competitive advantage is enhanced relations with the company's key stakeholders. Freeman's definition of stakeholder—'any group or individual who can affect or who is affected by the achievement of the company's objectives' provides the baseline

[56] E. R Freeman, 1984, Strategic management: A stakeholder approach, Pitman, Boston.

position of who are stakeholders. Clarkson (1995)[57] defined stakeholders more narrowly as risk-bearers, arguing that a stakeholder has some form of capital at risk (either financial or human) and therefore has something to lose or gain depending on a company's behaviour.

Mitchell et al. (1997)[58] suggested that stakeholders can be classified according to whether they have, or perceived to have one, two, or all three of the following attributes: *power* to influence, *legitimacy* of their claim and *urgency* of their claim.

Donaldson and Preston[59] suggested that stakeholder theory encompasses descriptive, instrumental and normative aspects which are in reality intertwined and mutually supportive. However, they argued that "the fundamental basis" of stakeholder theory is normative on the basis that the justifications for favouring stakeholder theory over other management theories ultimately rely upon normative arguments.

The descriptive aspect of stakeholder approaches is illustrated by the conclusion drawn by Clarkson from fifty case studies that *corporate social responsibilities, responsiveness and performance are best understood by analysing and evaluating the way in which corporations actually manage their relationships* with employees, customers, shareholders, suppliers, governments, and the communities in which they operate. The descriptive power of stakeholder approaches can therefore provide a means to enhanced understanding of responsiveness and performance issues. As such it is argued here that *the descriptive dimension of stakeholder approaches provides an important tool for strategic management* not just in explaining why a company behaves in certain way but also in reasoning about performance deviations and in the identification of corrective actions.

Instrumental stakeholder approaches

Instrumental approaches are aimed at maximising shareholder value paying attention to stakeholder relationships. The basic assumption in this model is that stakeholders control resources that can facilitate or slow down the implementation of strategies and therefore must be managed to create competitive advantage to maximise profits and ultimately returns to shareholders. Clearly, in all cases, instrumental stakeholder management is a means to an end which may have nothing to do with the welfare of stakeholders.

Instrumental approaches are often associated with stakeholder analysis used to improve strategic decision making. Examples include the work by Mason and Mitroff on SAST (Strategic Assumption Surfacing and Testing), which primarily aims at assisting decision makers in the problem formulation stage of the planning[60] and the 'unbounded systems thinking' approach of Mitroff and Linstone[61] that recognizes and seeks to manage the complexity and interconnections of business problems.

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[57] Clarkson, M. B. E., 1995, A stakeholder framework for analyzing and evaluating corporate social performance, Academy of Management Review, 20(1).

[58] R Mitchell, B Agle and D Wood, 1997, Towards a theory of stakeholder identification: defining the principle of who and what really counts. Academy of Management Review, 22(4)

[59] Donaldson, T., & Preston, L. E., 1995, The stakeholder theory of the corporation: Concepts, evidence, and implication, Academy of Management Review, 20

[60] Mason, R. O., & Mitroff, I. I. (1981). Challenging Strategic Planning Assumptions; New York: John Wiley & Sons

[61] I. I Mitroff & H. Linstone, (1993), The unbounded mind: breaking the chains of traditional business thinking, Oxford University Press

Key target for instrumental approaches are optimisation of benefits arising from:

1. *preservation of the social licence* to operate through enhanced reputation and social capital;
2. *improved risk control* attainable from transparency and broader awareness of financial, environmental and social risks;
3. *Increased efficiency* from:
   a. investment in technology to control environmental risks which often produces additionally cost-cutting benefits;
   b. eco-efficiency which means making more from less by reducing ecological impacts and resource intensity throughout the life cycle of products;
   c. continuous improvement in supply chain processes;
   d. improved human capital through talent attraction and retention and a motivated and participative work force;
   e. lower health costs from healthier employees that become more productive and more effective
4. Improved investment opportunities from SRI funds and from investors that take into account sustainability performance criteria;
5. New market opportunities arise from *social innovation* and green products and services.

Intrinsic stakeholder approaches

Intrinsic stakeholder approaches imply that stakeholder relationships are based on moral commitments accepted as norms. The company adopts certain fundamental principles on how it treats its stakeholders which affect strategy and decision making at all levels of the company's operation.

Stakeholder interests form the foundation of corporate strategy itself representing what the company stands for.

Stakeholders enter into decision making before business considerations and success is measured by the satisfaction among all stakeholders.

The second generation of normative theory emphasise the multilateral view of stakeholders' relations[62] with increasing emphasis on co-operation and collaboration[63].

Stakeholder engagement

Companies interact with their stakeholders every day but commonly do not understand them well and as a result do not even try to encourage their participation in shaping the future of the company. Stakeholder engagement is all about redressing this problem by providing strategies, processes and infrastructure to enable the company to:

- discover what really matters to the key stakeholders;

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[62] Freeman & J Liedtka, (1997), Stakeholder capitalism and the value chain, European Management Journal, 15

[63] Jones, T. M. (1995). Instrumental Stakeholder Theory: A Synthesis of Ethics and Economics. Academy of Management Review, 20 (2)

- involve them in providing feedback on corporate strategies and performance and in identifying what and how things can be changed;
- monitor and manage stakeholder contributions and satisfaction levels.

Quality of stakeholder relations and Social capital

At the Centre for Innovation in Management (CIM), Ann Svendsen and her co-workers have developed a stakeholder oriented management framework based on the quality of stakeholder relationships[64]. The CIM approach, based on the following 3 level model:

- Level 1 Compliant: avoiding harm in the three dimensions of sustainability, for example ensuring safety of products and workers, avoiding economic losses, corruption and (illegal) environmental damage.
- Level 2 Responsive: meeting reasonable individual stakeholder expectations in the three dimensions of sustainability, for example, achieving good levels of customer satisfaction, employee morale, returns to investors and reducing environmental impacts of operations, products and services.
- Level 3 Engaged: maximizing economic, social and environmental value, for example, achieving simultaneous sales and stock value growth, customer and employment growth and eliminating or offsetting environmental impacts.

Relationship quality is measured using Nahapiet and Ghoshal's three dimensions of social capital:

a) The *structural quality of a relationship* referring to the structure of the social network in which the relationship is embedded;
b) The *relational quality of the relationship* associated with the levels of mutual trust and reciprocity;
c) The *cognitive quality of the relationship* reflecting the levels of shared understanding and goals.

According to Don Cohen and Laurence Prusak "Social capital consists of the stock of active connections among people: the trust, mutual understanding, and shared values and behaviours that bind the members of human networks and communities and make cooperative action possible". This definition which reflects the knowledge management background of the authors can be extended to clarify the interrelationship between social capital and intellectual capital.

Intellectual capital is knowledge that can be exploited by organisations in pursuit of their objectives. Intellectual capital include *organisational or structural capital* (the knowledge that is embedded in its organisational design, processes and IT applications), *human capital* (the human resources within the organisation and its suppliers) and *customer capital* (company's ongoing relationships with the people or organisations to which it sells). The later can be extended to *social capital* representing the company's knowledge and relationships with its stakeholders.

[64] A. C., Svendsen, R.G. Boutilier, R.M. Abbott & D. Wheeler (2002), Measuring the Business Value of Stakeholder Relationships: Part One, Vancouver: Centre for Innovation in Management

4 The 4CR strategic management classification

Based on the review presented in the preceding section a classification of strategic management elements along value, responsiveness and responsibility dimensions is summarised in the following table. Each strategic element is linked to the strategic management theory dealing with it.

VRR strategic management classification			
	Value	**Responsiveness**	**Responsibility**
Industry Organisation Environment based theories	Market analysis Strategic positioning and value propositions	Trajectories of industry change and strategic options	Industry level sustainability analysis Fair globalisation
Resource Based View	Advantage-creating resources (Valuable, Rare, Inimitable and Non-substitutable) Core competencies	Core competencies Dynamic capabilities	Responsibility impact and improvement capabilities Responsibility competencies mainstreaming
Business Networking	Relation-specific assets Complementary assets Transactional cost minimisation	Flexible resource accessibility	Sustainable development support networks
Learning perspective	Advantage-creating knowledge Learning curve	Business intelligence Innovation support Change implementation support	Human capital/ Professional development Stakeholder training
Corporate Responsibility and Sustainability	(Self) Regulation SRI related strategies Green products strategies Responsibility positioning	Transparency Risk management Brand and reputation	Ethics Accountability
Stakeholder oriented strategic management	Stakeholder instrumental value related strategies	Stakeholder engagement Social capital	Stakeholder intrinsic approaches

In general, all three dimensions of strategic management must be addressed through an iterative process supporting refinement and convergence between the various elements. Importantly, responsibility and stakeholder strategic elements that impact competitiveness are included in the value and responsiveness dimensions. This allows the responsibility dimension to contain only intrinsic responsibility elements related to ethical issues and accountability, thus differentiating clearly between competitive and responsibility strategies.

Each strategic management theory focuses in one or two dimensions (shaded areas in the above table). In contrast stakeholder approaches address all three dimensions, possibly with equal weight, and could therefore provide the central link to an integrative strategic management framework.

Mintzberg et al.'s Ten Strategy Schools, Exemplars, and Written Works

Strategy School	**Exemplars**	**Base Discipline**	**Champions**
Design	Selznick, (1957) Newman (1951) Andrews (Learnd et al, 1965)	None (architecture as metaphor)	Case studies teachers (especially at or from Harvard University), leadership aficionados- especially in the United States
Planning	Ansoff (1965)	Some links to urban planning, systems theory, and cybernetics	"Professional" managers, MBAs, consultants, and government controllers – especially in France and the United States
Positioning	Hatten & Schendel (1977) Porter (1980, 1985)	Economics (industrial organisation) and military history	As in planning school, particularly analytical staff types, consulting "boutiques," and military writers- especially in the United States
Entrepreneurial	Schumpeter (1934,1950) Cole (1959)	None (although early writings come from economists)	Popular business press, individualists, small business people everywhere, but most decidedly in Latin America and among Chinese
Cognitive	Simon (1947). March & Simon (1958)	Psychology (cognitive)	Those with a psychological bent- pessimists in one wing, optimists in the other
Learning	Braybrooke & Lindblom (1963) Cyert & March (1963) Weick (1969) Quinn (1980) Prahalad & Hamel (1990)	None (some links to learning theory in psychology and education). Chaos theory in mathematics	People inclined to experimentation, ambiguity, adaptability – especially in Japan and Scandinavia
Power	Allison (1971) - (micro) Pfeffer & Salancik (1978) Astley (1984) – (macro)	Political science	People who like power, politics, and conspiracy – especially in France
Cultural	Rhenman, E. (1973) Normann, R. (1977)	Anthropology	People who like the social, the spiritual, the collective, especially in Scandinavia and Japan
Environmental	Hannan & Freeman (1977) Pugh Hickson, Hinings, & Turner (1968)	Biology	Population ecologists, some organisation theorists and positivists in general-especially in the Anglo-Saxon countries
Configuration	Chandler (1962) Mintzberg (1979) Miller & Friesen (1984) Miles & Snow (1978)	History	Integrators in general, as well as change agents. Configuration perhaps most popular in the Netherlands. Transformation most popular in the US.

Source: Mintzberg et al (1998); Mintzberg & Lampel (1999); Mintzberg et al (2003)