

**INTERNATIONAL RESEARCH
IN THE BUSINESS DISCIPLINES**

VOLUME 3

**STRATEGIES AND
ORGANIZATIONS IN
TRANSITION**

CRAIG S. GALBRAITH
Editor

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EDITED BY

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PREFACE

This series grew out as a unique collaboration between the late Carl L. Swanson and myself. It was the result of a discussion we had about the need to create an outlet for good work that was not always appropriate for other, more traditional, outlets. Although others have participated along the way, I have always viewed this series as his effort. I will continue to do so until it becomes time for me to pass the “project” on. My friend Carl was fond of the unusual and had a special place in his heart for the “interesting.” I suspect that is why he and I got along so well during the production of the first two volumes in this series and remained close friends until his untimely passing in the spring of 1999. It is with some sadness that I attempt to take on his role. However, I think he would have found it more than a bit ironic that I now have to wear a more traditional editor’s hat. Although, I will try and probably fail to match his editorial excellence, I hope to maintain the unique character of our series. Regardless, I will greatly miss the “Hi Mike!” which always greeted me whenever we got together to work. Some things cannot be replaced. But they can be remembered with fondness and serve as touchstones to reflect on why you do what you do. For Carl, the gentleman, the scholar, the teacher, and my friend in Latin: *Integer vitae scelerisque purus non eget mauris iaculis neque arcu* – none better.

I must apologize for not having been able to move ahead with the series as quickly as I would have preferred. Life has a habit of intervening when least expected. Or for those of you who appreciate my more practical orientation: when you are up to your assets in alligators it is hard to remember that your original objective was to drain the swamp. Fortunately, I am back to working on the swamp. During our hiatus Elsevier Science purchased JAI Press and this series is now part of their stable of quality publications. I look forward to working with them. In an effort to streamline the process and to ensure that volumes appear on a regular basis I have arranged for a number of talented individuals to function as editors for separate volumes. Each of these individuals will have the sole responsibility for selecting the focus and general content for their respective volumes. The review process is being expanded to make the production of multiple volumes practical. I will continue to guide the overall process for these volumes as well as contribute a volume myself

periodically. The first of our new volume editors, Craig Galbraith, has done an outstanding effort under trying circumstances with this the third volume. I hope those who follow him as volume editors will be able to do as well with each successive volume. With this new arrangement, we expect to see a better flow of material and to greatly reduce the time between volumes. We have also undertaken several steps that will speed publication and reduce review time. These are things that help contributors and ultimately will improve the quality of the series. Other changes are contemplated to speed up the production cycle and to make article submissions easier and the review process less cumbersome. So if you have an article idea, a piece in progress or a finished paper that has an international flavor please keep us in mind as an outlet for your work.

Mike H. Ryan, senior series editor

INTRODUCTION

The world of business has always been considered quick and unforgiving, but it is certainly getting even quicker and less forgiving as we enter the new “millennium.” Toeffler’s 3rd Wave has indeed exploded in all its fury upon the organizational and strategic landscape. Technological and market changes, such as flexible systems, e-commerce, global market networks, and artificial intelligence, have established new sets of organizational and governmental imperatives. As a result, businesses have responded with creative competitive strategies and innovative management paradigms. At the same time, our empirical and theoretical understanding of the complex nature of organizations and markets has matured tremendously, with the development of new, sophisticated, diverse, and often hotly debated, ways of mapping and explaining the business world around us. This is the theme of this volume – strategies and organizations in transition. By its very nature, it is a broad and ambitious effort. We have attempted, however, to select papers by leading scholars that address this issue of “transition” in various contexts. In particular, this volume is divided into five main groups: evolving strategies – transactional economics and contract theory; evolving strategies – structural approaches; entrepreneurship – new developments and classical theory; success and failure of system implementation, and new arenas and old problems. The papers in this volume investigate a variety of emerging issues in the spirit of changing dynamics of the business world around us.

PART I: EVOLVING STRATEGIES: TRANSACTIONAL ECONOMICS AND CONTRACT THEORY

The three articles that comprise Part I have a common thread – the authors examine important elements of corporate strategies of contemporary firms from a transaction economic theoretical position; expanding, incorporating and integrating relevant modern issues such as evolving cooperative strategic alliances, incomplete contracts, and flexible manufacturing systems.

In the first paper, “Patterns and triggers in the evolution of cooperative activity,” Neil Kay, from the University of Strathclyde, Scotland examines the

patterns of cooperative strategies from a transaction cost theoretical basis. Kay argues that modern inter-firm relations, such as collaborative arrangements, alliances and networks are significantly influenced by the nature of intra-firm relations, particularly patterns of diversification; and that to understand any stage of corporate cooperative activity requires understanding the various economic triggers that precede it. Kay analyzes several different stages or patterns of cooperative activities in different industries. Always a creative thinker, Kay approaches the problem of explaining the evolution of such strategies in an innovative way, through the use of analogies from molecular chemistry. As Kay points out in his article, drawing on scientific metaphors from physics, chemistry, and biology has a long and honorable tradition in economics.

The second paper, "Advanced manufacturing technology, flexibility and the strategic scope of high technology firms: theoretical thoughts and empirical evidence from Scottish technology products firms," by Craig Galbraith and Alex De Noble, is both theoretical and empirical in nature; and addresses the impact of modern flexible manufacturing systems on high technology corporate strategy. They theoretically argue that historically the traditional product-specific, inflexible manufacturing systems, even in high technology firms, placed important constraints on the strategic scope and options of these firms. However, introducing modern flexible systems, just like a corporate "genie's magic lamp" theoretically releases a firm from many of these constraints and provides an opportunity to develop new optimal strategies. According to the authors, it should encourage the internalization of scope economies, provide an incentive for non product-specific R&D investment, and allow for interplant substitution and multi-plant strategies. Analyses of data from Scottish high technology firms provide empirical support for the theoretical arguments.

Raji Srinivasan and Tom Brush, in the third paper titled, "Towards a theory of supplier performance in vertical exchange relationships," examine several important issues related to modern vertical relationships between industrial buyers and suppliers. They note that while current research to date indicates that vertical exchange programs, such as "Just-in-Time," has explicitly benefited buyers in terms of better end-product performance and lower costs, it is not clear if the suppliers of such relationships have also gained; or perhaps "the buyers' success has come at the expense of their suppliers." Have these efforts simply shifted the burden of risk and cost to another stage in the vertical production chain? To this end, their paper theoretically discusses the effect of the structural attributes of long term vertical relations on supplier performance drawing upon two related fields of study: transaction cost economics and

theories of incomplete contracts. Srinivasan and Brush then offer various propositions from the supplier's perspective to explain the benefits of certain vertical relationships.

PART II: EVOLVING STRATEGIES: STRUCTURAL APPROACHES

The second collection of papers also examines fundamental relationships between modern economic strategies and various market, technological, and regulatory imperatives. The articles in this section, however, take a more industrial organization and industry structural approach in their theoretical foundations; and offer empirical analysis that can expand our understanding of various industry-wide developments.

The contribution of technology to improving the quality and span of life can be clearly seen in the advances of the medical sciences. However, while technology advances may improve health delivery, it can also have a dramatic impact upon the foundations of strategic behavior. Joel Ryman and Gerald Fryxell, in the paper titled, "Competition and medical technology: effects on health care costs in major U.S. markets," examine the impact of technology on the health care system. They note that much of the growth in health care expenditures over the last three decades can be attributed to the increasing usage of expensive technological approaches to the diagnosis and treatment of disease. Efforts to control this growth in the United States, and other countries, have centered on market-based approaches to health care cost containment. Ryman and Fryxell empirically explore the effects of competition on the level of technology intensity in various health care markets; and draw important conclusions regarding the relationship between cost containment, technology, and modern health delivery organizations.

The nature and evolution of diversification strategies continues to be a popular and important topic for scholars. Not only is our theoretical understanding of diversification strategies increasing, but also the nature of diversification in the modern world is undergoing continuous evolution. In the paper, "Industry specialization trends: impacts of corporate choice and economic structure," Curt Stiles empirically addresses the issues of product diversity and specialization at the industry level. Has the level of specialization of industries increased over time? If so, then which industries, and what was the timing of the changes? Are changes in industry specialization better explained by the changes in corporate diversification or by industry structural

factors, and is there an interaction between the two? Stiles empirically tests a variety of hypothesis related to these questions.

PART III: ENTREPRENEURSHIP: NEW DEVELOPMENTS AND CLASSICAL THEORY

There is little disagreement that entrepreneurship is one of the most perplexing topics for scholars. While the economic importance of entrepreneurial behaviors and activities are widely recognized, the theoretical foundations of entrepreneurship remain hotly debated and discussed in the literature. In “Searching for entrepreneurship theory: economic disequilibrium models as a conceptual foundation for entrepreneurship research,” Thomas Dean and Charles Bamford present an essay suggesting that as the field of entrepreneurship moves toward an expanded theoretical grounding, economic theories of market disequilibrium appear to offer unique insights that need to be better incorporated by entrepreneurial researchers. Dean and Bamford provide a conceptual examination and interpretation of various economic disequilibrium theories of classical economists as a foundation for extending entrepreneurial research. They discuss the important theoretical contributions of different theorists, particularly from the “Austrian” school of economics; then offer a number of fundamental propositions for entrepreneurial research. This paper provides a nice foundation for scholars to reflect upon some of the basic economic traditions of the field of entrepreneurship.

How entrepreneurial enterprises succeed when confronted by the competitive power and financial might of corporate giants, is of great concern for entrepreneurs and scholars alike. One strategy for success may lie in explicit cooperative behaviors by small companies. Sherrie Human explores one type of cooperative behavior in her paper, “Lessons learned among U.S. entrepreneurs: a longitudinal examination of strategic “purposeful” network structures & outcomes.” She notes that in recent years, small companies have begun banding together to achieve certain economic and social outcomes, such as joint marketing and sharing common problems. These ongoing alliances, among both competitors and non-competitors, have come to be known as networks. This paper is part of an ongoing study of two U.S. manufacturing networks, one which discontinued after a couple of years, and one network which continued to grow and prosper. Hunan discusses the various benefits and costs from network participation; and explores the various structural characteristics of these networks. Overall, the findings produced a number of specific

lessons that network firms and network organizers must learn if they are to improve the likelihood of network success.

The relationship between business owners and children who are the day to day managers of the family business can often become a source of friction within the family unit. Family firms by definition involve an overlap between family and business. Yan Ling, Michael Lubatkin, and William Schulze explore several important theoretical considerations in their paper, "Altruism, utility functions and agency problems at family firms." In this paper the authors argue that altruism is a prevalent trait in family relations, but its impact on the governance of family firms has been largely overlooked. Ling, Lubatkin and Schulze hypothesize that the founder's altruism engenders family agents' opportunistic behaviors. Drawing from recent contributions in behavioral economics, they then argue that the time horizon associated with the founder's altruistic preference represents an important moderator, and that by incorporating this aspect of altruism a more balanced view in governing transactions in both the family firm and the household can be developed. Several different propositions are then offered.

PART IV. SUCCESSES AND FAILURES OF SYSTEM IMPLEMENTATION

This section offers several papers with a common theme – system design and implementation success must incorporate multidimensional and broad organizational and social components; and that the failures of many modern systems, regardless of type, reflect organizations' or governments inability to understand this broader approach.

Attaining system success has been problematical for information system developers since the inception of computers. Gary Klein, James Jiang, and Marion Sobol, in the paper "Consonance in information systems," argue that one of the problems related to system "design" lies in the measurement of system "success". They suggest that traditional measures are usually aligned at the end of the development process and serve little purpose in helping to assure success from the start of the project. The authors then propose a new concept for systems, that is, consonance, that incorporates important considerations from received management theory and system measures to move the determination of system success to a point earlier in the life of the system.

The successes and failures of another type of "system" is the focus of the second paper. In the essay, "New program failure: a look at TQM and scientific management," Richard Churchman argues that value incongruence between

major groups of stakeholders is one of the major reasons for failure to successfully implement TQM, reengineering, or other programs at many firms. Links are made to early failures of scientific management to show that reasons for failure may not be new but may be consistent across not only firms but also across time. A model is presented that if utilized may increase the chances for successful implementation of TQM.

Personal values and attitudes of the modern generation will frame much of how the U.S. competes in the world. Michael Luthy, in "Consumer ethnocentrism and international trade agreements: the view from generation X," examines the issue of "consumer ethnocentrism" as it relates to the ethnocentric tendencies and attitudes toward global trade agreements. Luthy explores the role that selected personal life experiences, political affiliation, and avowed patriotism play in the development or diffusion of those tendencies. Results, using the CETSCALE, generally support the hypothesis that ethnocentric tendencies are manifested in attitudes toward international trade agreements and that other measurable characteristics, most notably political affiliation and significant exposure to other cultures gained from living abroad, are related to ethnocentric tendencies.

The next essay, "Risk assessment of the business environment in the Czech and Slovak Republics, by Jacob Chacko and Michael Deis, compares and contrasts the background of economic development in the two former socialistic countries, and examines the potential future of their efforts for economic recovery. According to the authors, the Czech Republic, has "been able to transform its economy to a level that is highly attractive for foreign investors, whereas "Slovakia's image abroad has deteriorated to the point where adherence to the EU, OECD and NATO is seriously compromised. The authors examine, using a risk assessment paradigm, the similarities and differences that set these two republics on different paths.

The final paper in this section "Corporate citizenship and deviancy: a study of discretionary work behavior" by Rebecca Bennett and Christina Stamper explores the complex area of discretionary workplace behavior. The majority of this research conducted to date has focused on only positive (OCB), negative (Employee Deviance), or on organizational dissent behaviors as discrete events. Bennett and Stamper explore the idea that these are important behaviors that are part of one overarching construct that they describe as *discretionary workplace behavior*. Their analysis using Multi-dimensional scaling (MDS) and Q-sort analyses support their conceptual framework. The increasing number of workplace concerns that discretionary behavior evokes suggests that their preliminary work will increase in its importance over time.

PART V: NEW ARENAS AND OLD PROBLEMS: SPACE-BASED BUSINESS

The two papers in this section deal with an industrial environment that has many of the characteristics of new industry even though it is not really new. However, as an industrial sector of some importance it clearly reemphasizes the constant nature of organizational and strategic issues. Quoting from one of the authors, "After a decade of economic prosperity and available financial resources unmatched in modern times, generalized commercial space opportunities appear to be no closer to reality than they were thirty years ago." The relatively slow development that this industry has seen when compared to other high technology sectors is both intriguing and disturbing. Space activity was viewed as the first of the truly high technology arenas. The first paper by James Vedda, "The U.S. Congress and the post-Apollo civilian space program, the first twenty-five years," is an empirical assessment of the role that the United States Congress has played in affecting the civilian space program. The role that governments play, particularly the U.S. government, is always an important consideration in understanding why firms and industries operate as they do. Vedda's paper illustrates both the problems and consequences that Congressional political activity places upon the space sector. "Entrepreneurial Imperatives for the Twenty-first Century: Strategic and Operational Challenges Facing Space-Based Business" by Mike Ryan explores the practical implications which basic business constraints place upon those wishing to engage in space related entrepreneurial activity. As Ryan suggests quite clearly, the rules of business have not changed nor are they likely to do so. Those wishing to take advantage of space as a place to do business might make note of the observations and guidance provided by this paper. Many of the insights and parallels drawn from these two papers have clear application to other industrial sectors such as biotechnology, the Internet and telecommunications. These papers also provide a more applied perspective on many of the issues brought up in Parts III and IV of this volume.

PART VI: THINKING FOR FUTURE VOLUMES

In the final essay of this volume, Robert Goodman reflects on the legacy of U.S. Federal regulation in "A Note on Managerial Decision Making in Regulated Environments." This short article is intended to generate interest in new topics

dealing with regulation both in the United States and around the world. The issue of regulation in a world increasingly becoming one trading and operating environment is an important one. A future volume is expected to pursue this topic and potential authors with an interest in this area are encouraged to contact the series editors.

Craig S. Galbraith, volume editor

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