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POINT

COUNTERPOINT

Do we Need a ‘New Strategy Paradigm’? No

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ABSTRACT Bansal et al. ’s Point piece, "Strategy’s Ecological Fallacy: How strategy scholars have contributed to the ecological crisis and what we can do about it," call for reforming the strategy field to focus on the natural environment, ecological cycles, and interconnections across natural and social levels, in service of value creation for ‘a defined ecosystem that comprises respect for the natural environment’. We doubt that such new foundations are necessary or useful. We argue that Bansal et al. misconstrue the evolution and content of strategy thinking; downplay the usefulness of existing tools for dealing with their issues of concern; overlook problems of measurement, collective action, government failure, and cronyism encouraged by their preferred policies; embrace an unnecessarily alarmist worldview; and underappreciate the social benefits of the market-based institutions they criticize. We suggest instead that a market system based on clearly delineated property rights, prices that freely adjust to reflect scarcities, and an institutional environment that encourages entrepreneurship and innovation remains an underappreciated instrument for protection of the natural environment, one that is superior to centralized and regulatory alternatives.

Keywords: strategy, sustainability, public policy, comparative economic systems

INTRODUCTION

In their provocative *Point* essay, Bansal et al. (2024) call for fundamental reform of the strategy field. ‘New conceptual foundations’ (p. 15) are needed, they argue, to place the natural environment at the centre of strategic management thinking. In their view, conventional strategic management analysis has contributed to environmental harm. In response, they suggest that strategy researchers ‘now face an opportunity to pursue a complementary direction of modelling that incorporates natural constraints into a multi-level and multi-stakeholder representation of firm-level decision making’ (Bansal et al., 2024, p. 28).

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They see conventional strategy thinking as myopic, focusing on maximizing firm-level performance in an exogenously given environment without considering spillover effects or externalities that reduce societal wellbeing. Building on the premise that, contrary to Adam Smith, companies' pursuit of self-interest is frequently harmful to society, they call for a major overhaul of the foundations of the strategic management field. Even treating the natural environment as one of the firm's key stakeholders or otherwise making environmental protection a firm-level objective does not address their concern; rather, Bansal et al. (2024) suggest that strategy's key tenets – organizational performance as the object of study, prices as indicators of relative resource scarcities and product values, and competition as a means of allocating resources to higher-valued uses – must be rethought. In their alternative conceptualization, strategy should (1) start with societal-level considerations and a primary focus on the natural environment, (2) reconceptualize the role of time and process to take into account natural ecological cycles, and (3) emphasize interconnections across levels (individual, corporate, societal, and global). The new kind of strategic management they envisage will 'elevate the relevance of our profession to new generations of scholars who harbour intense concerns about the implications of firm behaviour for the natural environment' (p. 28).

We applaud Bansal et al. for calling for thinking deeply about strategy's foundations and addressing the challenges in applying 'conventional' strategy to a range of broader social, political, and environmental issues. Nonetheless, we think the call for new foundations for strategy is misplaced. First, we take issue with their portrayal of 'traditional' strategy thinking and their reasoning about the ecological fallacy allegedly built into this thinking. Second, and perhaps our most fundamental point, we think their specific concerns about how we understand and address environmental issues can be addressed using conventional tools derived from economics, political science, sociology, and other social sciences that form the basis of traditional strategy thinking.

Third, we also worry that their call for a holistic, non-economics-based new strategy paradigm introduces new problems of measurement and collective action that render their ambitious proposals infeasible while also producing harms from the increased politicization of resource allocation that encourages waste, inefficiency, rent-seeking, and cronyism. Finally, we worry that Bansal et al. embrace a level of climate alarmism that is not supported by the scientific consensus (e.g., Pörtner et al., 2022, Chapters 17 and 18) and runs contrary to the basic insights of social science on the nature of resources, scarcity, and production.

We worry that Bansal et al.'s new paradigm will produce undesirable changes to a rich body of strategic management thinking that has served companies, consultants, students, and policymakers well. 'Conventional' strategy frameworks, theories, and tools direct our attention to the critical problems of allocating scarce resources to high-valued ends, building and sustaining organizations and institutions that coordinate tasks, jobs, and complex interactions, and encourage entrepreneurship and innovation that drives economic growth and improvements in the standard of living. Their call to rebuild strategy from the ground up is likely to distract strategy scholars from theoretical and empirical work on value creation and capture that create substantial societal benefit, such as the improvements in productivity that have massively reduced global poverty over the last 30 years, even in the face of massive population growth (Kharas and Dooley, 2022).

STRATEGY THINKING AND THE ECOLOGICAL FALLACY

The Evolution of Strategy Thinking

Bansal et al. motivate their call for overhauling strategy thinking with a Manichean narrative about the field's evolution, featuring clearly identified good characters and more opaque bad ones. Pioneering contributors to strategy such as Alfred Chandler, Edith Penrose, Roland Christensen, Kenneth Andrews, Joan Woodward, and Henry Mintzberg are Good Guys who anticipated Bansal et al.'s ecological agenda for strategy. These scholars allegedly broke with a view of the 'firm as a comprehensive, isolated institution' and instead 'viewed the firm as interconnected with the natural environment, social needs, historical processes, and a wide range of other human, organizational, systemic, and planetary limitations' (Bansal et al., 2024, p. 5). This is an idiosyncratic reconstruction; while Chandler, for example, strongly emphasized 'historical processes' and saw firms are deeply embedded in their social environments, we are not aware of any particular emphasis in his work on the 'natural environment' or 'planetary limitations'. We surmise that the same is true for most of the other authors mentioned by Bansal et al.

More generally, this framing device rests on a mischaracterization of the unspecified 'Bad Guys', presumably economists and other scholars who developed the stylized models of firms and markets found in undergraduate textbooks along with such mainstream figures as Milton Friedman or Michael Jensen. None of these theorists or organizational economists, such as Ronald Coase, Oliver Williamson, Armen Alchian, and Harold Demsetz, viewed firms as 'comprehensive, isolated institutions' – far from it! Their work focused on the firm-market boundary, how firms interact with other firms, suppliers, and consumers, and how the institutional environment affects (and is affected by) the firm.

While it is not entirely clear what Bansal et al. mean by 'open', they appear to conflate the uncontroversial view that firms are 'open systems' with a particular desire to engage the kind of ecological considerations that they stress. However, they further attribute to the Good Guys the view that '[r]ather than taking the survival and profitability of the firm as the unquestioned objectives of analysis, the subject of scrutiny in their view was the firm's utility for accomplishing an important social purpose' (Bansal et al., 2024, p. 5). There are two problems with this framing. First, implicit in research on firm performance and survival (such as Coase's pioneering 1937 paper or Porter's early work, which we discuss in more detail below) is the view that the competitive market system itself serves a social purpose – specifically, increasingly societal wealth and welfare through increased specialization, the division of labour, efficiency, technological improvement, and so on. When people say that firms should try to increase their profits, they do not mean, contrary to Bansal et al.'s implicit assumption, 'at the expense of societal wellbeing'. Rather, they see these objectives as going hand-in-hand.

Second, calls for firms to take explicit account of specific social objectives (rather than the wellbeing of society as a whole) are not new. After all, Milton Friedman (1970) penned his famous essay on the firm's social purpose as a response to calls for corporate

social responsibility. Early CSR and stakeholder ideas emerged in the 1950s and 1960s (for example, in the ideas of Harold Bowen). Catholic social thought had long stressed social purpose and Progressive Era organizations such as the National Civic Federation aimed to remake ‘big business’ into a force for progressive social change. In Europe, ideas on ‘co-determination’ and ‘industrial democracy’ enjoyed substantial political and intellectual support. To be sure, these conversations were not central to management research, partly because businesspeople largely held the view articulated by McKinsey in its 1937 statement of its objectives that the social responsibility of business was to advance ‘the profitableness and welfare of American business and hence the welfare of the country as a whole’.^[1] Friedman articulated, in stark form, a commonly held view. But social benefit was always part of the story.

The challenge for Bansal et al. is to show that asking private companies to focus explicitly on advancing societal goals, including Grand Challenges and more mundane objectives related to the environment, inequality, social justice, and so on, generates benefits in excess of the costs including rent-seeking, cronyism, and other consequences of an increased politicization of business as well as reduced productivity and efficiency from asking managers to pursue multiple, hard-to-measure, and often conflicting objectives. Because they do not consider these costs, we find their overall case unconvincing.

Enter Economics (and the ‘Ecological Fallacy’)

In the narrative of Bansal et al., early, emerging attempts to create a coherent view of the firm’s social and ecological purpose were aborted around 1980. The reason is the advent of economics as a force dramatically reshaping the field. While the motive for building more explicitly on economic foundations was to sharpen thinking about the key variables and forces at work in strategy (competitive advantage, rivalry, bargaining, and so on; Rumelt et al., 1991), the increasing reliance on economics had several unintended, negative consequences as

[s]cholars including Milton Friedman, Michael Jensen, and William Meckling sought to improve the tractability and simplicity of the field of Strategy by orienting it around the maximization of firm profitability as the primary goal of corporations. Milton Friedman, in particular, asserted influentially that firms must remain stalwart in their pursuit of profits in order to create economic wealth. Governments, not business, were stewards of social welfare, according to this argument. (Bansal et al., 2024, p. 5)

The most important consequence of the introduction was, allegedly, that strategy succumbed to an ‘ecological fallacy’, deriving from basic economic models of efficient resource allocation: the ‘prevailing Strategy paradigm unwittingly commits the ecological fallacy by applying macro-level considerations, such as economic efficiency and social welfare, to the firm level of analysis, and by assuming that aggregating the effects of firm-level actions contributes to overall economic efficiency and social welfare’ (p. 7).

We strongly question this interpretation. First, as noted above, the view that profit-seeking behaviour can promote societal wellbeing is hardly a glib ‘assumption’ but rather

the result of more than two centuries of thinking on prices, markets, and competition. Second, we think the history of the field is more nuanced and complex. It is true that Porter's (1980) early work built upon the structure-conduct-performance model imported from industrial organization economics (as Porter, 1981, explains). As such, it relied on the basic notion that market power, which may bring superior financial returns, causes distortions of resource allocation relative to a hypothetical 'perfect competition' ideal. However, this assumption and the limits of theories built on it were well understood. Indeed, an argument favouring the resource-based view that arrived later (and also built on economics) was that superior performance comes from exploiting scarcity rents rather than monopoly rents. Thus, a resource-based strategy is not harmful to social welfare (see the discussion in Foss, 1997).

More generally, it is not true that the economic theory of the firm that emerged in the 1970s and 1980s was dominated by industrial organization economics and its emphasis on entry barriers and monopoly power. As noted above, this period saw the development of organizational economics from figures such as Oliver Williamson, Armen Alchian, Harold Demsetz, Michael Jensen, William Meckling, Bengt Holmström, Oliver Hart, and many others. This approach to the firm, like the approach to strategy favoured by Bansal et al. (2024), treated organizations as open systems in continual interaction with internal and external stakeholders, creating and capturing value by increasing efficiency, not exploiting market imperfections. Indeed, the 'new stakeholder theory' (McGahan, 2023) can be interpreted as an extension of 'mainstream' organizational economics, showing how the assignment of decision rights, the distribution of residual claims, and procedures for resolving disputes among potentially heterogeneous stakeholders affects value creation and capture across a variety of organizational arrangements (firms, non-profits, government agencies, partnerships, networks, and the like).

Third, it is far from clear that the ecological fallacy is a 'fallacy' at all. It is well known that the behaviour of firms – like that of all economic and social actors, including governments, unions, non-profit organizations, and so on – can cause externalities, that is, effects on individual wellbeing and outcomes for other firms that are not directly registered in prices (and therefore do not show up as costs in accounting statements). But it doesn't follow that firm behaviour is harmful in the aggregate. Profit-seeking behaviour can provide net benefits even in the presence of so-called market failures (e.g., the benefits of the firm's actions exceed its costs plus the negative externalities it generates). Externalities, in particular, are ubiquitous – in an interconnected world, the actions of all parties affect other parties, often indirectly or unintentionally. The question for policy is which externalities, if any, are *remediable*, that is, can be reduced or even eliminated at an overall gain in welfare, a question Bansal et al. do not address. As discussed below, the potential costs of government policies to mitigate externalities in the face of the information, incentive, and bureaucracy problems that plague government action must also be considered.

Moreover, whether an 'ecological fallacy' exists also depends on the prevailing structure of property rights. A classic idea in economics is that if all property rights are delineated and can be enforced at low cost, harmful externalities will be very low or non-existent (Coase, 1960). One reason why some economists have argued that firms shouldn't care about 'social purposes' is that they tacitly assume a structure of property

rights, established by governments or social convention, which renders much of the presumed ‘social purpose’ superfluous.

METHODOLOGICAL INDIVIDUALISM AND ESTABLISHED SOCIAL SCIENCE

At the level of basic social science methodology, we are concerned about what we see as an abandonment of methodological individualism – the central explanatory principle in social science (Elster, 1982; Menger, 1883) – in the Bansal et al. essay. They call for treating Nature not only as an actor with its values and objectives. While this may be acceptable for some modelling purposes, and certain metaphysics may support such a view, it is controversial in philosophical circles. It goes against the conventional view in social science that only humans (and perhaps higher-level animals) have preferences that should be incorporated into the analysis and that concern for Nature is primarily driven by concern for human preferences, including the preferences of as-yet unborn humans. In practice, calls to incorporate Nature as an actor reduce to calls for a certain set of humans – activists, politicians, bureaucrats, judges, and intellectuals – to divine what ‘Nature’ really wants.

Partly for this reason, we are sceptical that a ‘New Strategy’ with a more holistic focus and its own macro-level constructs and tools can be effective. To be sure, societal-level challenges related to health, justice, the environment, and other aspects of wellbeing are difficult, and we appreciate the desire to make strategy research more relevant to these challenges. Careful thinking about identifying and addressing externalities, what might be done to remedy them, and how to think about ‘value’ across levels is important and necessary. But this has been recognized for a long time and treated thoughtfully by scholars ranging from Pigou to Coase to Samuelson and others. As pointed out above, externalities are ubiquitous; the issue is identifying ones with actionable remedies. Information, incentive, and collective-action problems (along with the ‘theory of the second best’) suggest that attempts to remedy externalities often fail, leading to even worse outcomes. But, in addition, we should not automatically assume that spillovers cannot be priced and accommodated by competitive markets, even in the case of environmental challenges where technological innovation is often key to addressing them. Taking the strategy (and policy) focus away from firms and markets will likely impede the process of profit-seeking entrepreneurs devising new solutions to environmental challenges. As Arrow, Hansmann, Ostrom, and others have pointed out, collective action problems can further harm the ability of larger groups to coordinate across levels to address such challenges. Politicizing these issues can also invite cronyism as economic actors compete for political privilege, subsidies, and other relationships that provide private benefits under the guise of solving social and environmental problems.

In any case, these issues have been widely discussed in the ‘mainstream’ social science and strategy literatures and we are doubtful that a radical, new approach solves more problems than it creates. Indeed, analysis at the level of industries, markets, platforms and ecosystem, and entire economies has proliferated, and we have learned much about

interactions across levels, including those in which the natural environment takes centre stage. Continued theoretical and empirical development and extension along these lines is more likely to generate new insight than a radical reconstruction of the foundations of strategy, innovation, and entrepreneurship.

More generally, many examples in the essay of alleged drawbacks of mainstream strategy (and economics as a foundational discipline) represent caricatures that misrepresent the generality, flexibility, and nuance of conventional approaches. For example, no mainstream strategist (or economist) holds that people are motivated only by money (p. 12), that decision-makers care only about short-term value maximization, and so on.

WHAT IS A 'RESOURCE'?

Bansal et al.'s essay takes a surprisingly materialist view of 'resources', adopting the natural-science view that resources are fixed in supply and therefore 'should not be extracted at a rate faster than they can be regenerated' (Bansal et al., 2024, p. 26). For social science, however, *resource* is an economic or value concept, not an engineering concept. Resources are factors or inputs into production, material goods (and, in some interpretations, intangibles like knowledge, human capital, reputation, networks, etc.) that can be combined and transformed into goods and services that satisfy consumer wants. As demonstrated by developers of marginal analysis in economics (Carl Menger, Leon Walras, and W. Stanley Jevons), the value of resources – natural or otherwise – is 'imputed' backward from the value (to the consumer) of the goods and services they are used to produce. In strategy, resources are typically classified as 'physical', 'organizational', 'financial', 'human', 'relational', etc., which may convey the impression of an engineering point of view. However, strategic analysis takes as fundamental that resources ultimately derive their value from being deployed in production to satisfy customer or consumer needs, and that resource value is thus imputed (Lippman and Rumelt, 2003). Resources can be seen as bundles of 'attributes' (functionalities and characteristics) describing how the resource can be used in production (Foss and Foss, 2005). Managers hold beliefs or 'theories' (Felin and Zenger, 2017) about these attributes. Indeed, entrepreneurship can be understood as a process of identifying such resources, learning about their attributes, and experimenting with combinations of resources in pursuit of economic (or social) gain (Foss et al., 2007). In this sense, the value of a resource depends on subjective interpretation, being determined by its place in the entrepreneur's production plan (Foss et al., 2007; Kirzner, 1966).

This interpretation implies that the concept of a 'resource' is contingent on human judgments about conditions of nature, technological possibilities, and economic activity. As the economist Julian Simon (1981) emphasized, human reason is the meta-level resource that gives other resources meaning and value. For example, petroleum was not a valuable natural resource until entrepreneurs learned how to extract, refine, transport, and market it for commercial, industrial, and consumer uses. Before that, it was sticky black goo – and woe to the landowner who found it seeping out from the

ground. Likewise, silicon, hydrogen, lithium, and so on may or may not be resources depending on how they can be used and their demands relative to the demands for other resources.

Simon (1981) argued that because resources are subjective in this sense, a market economy can never ‘run out’ of resources because, as a particular physical resource becomes more scarce, its price will rise, incentivizing providers to invest in more efficient extraction and refining procedures, entrepreneurs to create or discover alternative resources or resource combinations for producing the same outputs, and consumers to reduce their use of the products made from the increasingly scarce resource and switch consumption to substitute products made from other resources – in turn causing the price of the original resource to fall. Echoing an argument from Hayek (1945), it is market prices, not government edicts, that encourage conservation.

In his famous 1980 bet with ecologist Paul Ehrlich, Simon predicted that, due to the operation of the price mechanism and the anticipated responses of entrepreneurs and other market participants, the prices of a set of valuable natural resources chosen by Ehrlich (copper, chromium, nickel, tin, and tungsten) would fall over the next decade. Ehrlich took the opposite side of the bet, predicting these resource prices would rise as the earth began to run out. In 1990, the prices of all five had fallen. In other words, these resources are becoming more, not less abundant, relative to their potential valuable uses. The same kind of analysis has been performed many times, with similar results (Perry, 2013).

In this dispute, we side with Simon over Ehrlich. More generally, a social-science perspective on strategy, while benefiting from deep engagement with the natural sciences, should avoid viewing production, exchange, and even externalities in purely physical terms. More generally, strategic analysis and practice must consider the entrepreneurial aspect of all human activity, particularly in a system in which actions are coordinated via the price system. For example, estimates of the potential impact of climate change are highly sensitive to assumptions about mitigating actions by individuals, companies, entrepreneurs, and so on. Households relocate; technologies for heating or cooling can be developed and implemented at a larger or smaller scale; weather forecasting and insurance practices change over time; and so on.

Of course, we do not claim – nor do Simon, Hayek, or other social scientists writing on these topics – that entrepreneurship, technological innovation, new organizational practices, etc. are panaceas. They are subject to all the errors, inefficiencies, and other failures common to all human activity. However, from a comparative institutional perspective, the question is how decentralized market responses to natural resource and environmental issues perform relative to state-led, centralized ones. On this, we think both theory and evidence strongly favour the former. We worry that Bansal et al.’s (2024) materialist and reductionist approach to resource and environmental issues encourages top-down, collective solutions to problems that are better handled bottom-up.

More fundamentally, focusing on physical stocks of resources, as economic actors conceive of and interact with them today, and the current levels and depletion rates of these resources, directs our attention away from the more important social and economic problem of how engagement with the natural environment impacts human well-being.

For example, since 1950, the percentage of the global population living in extreme poverty has plummeted from 63 per cent to less than 10 per cent (Our World in Data, 2024). Other measures of well-being such as infant mortality, malnutrition, longevity, and real per-capita income show a similar trend (*idem*). While these are complex phenomena, a primary driver of these radical improvements in the global standard of living is the availability of cheap and reliable electricity, especially in China and India – until now almost entirely driven by the use of fossil fuels, particularly coal and natural gas (Armstrong, 2020).

Whether the use of currently valuable natural resources (i.e., carbon-based energy sources) should be discouraged is a political issue, and it is clear that current policy in most Western countries is aimed at supporting non-carbon-based, renewable energy sources instead. The so-called 'green transition' involves setting up new sources of energy, for example, in the form of 'power-to-x' ecosystems. While the organizational and strategic challenges of setting up such ecosystems are huge, understanding the process does not require new theory, but rather the application of existing theory to new phenomena (e.g., Foss et al., 2023).

We doubt that fossil fuels will be abandoned on a global scale anytime soon and, for this reason, strategy research may focus on ways to deploy these resources in the best possible manner. The auto industry may serve as an example. While much of the industry is transitioning to electric vehicles, often pushed and pulled by government legislation, subsidies, and so on, the industry has continuously improved the (fossil) fuel economy of cars (Preston, 2020). If indeed a significant segment of auto sales for the foreseeable future will involve cars that runs on fossil fuel, we think strategy research and practice should help sustain these improvements – mainly to the benefit of low-income individuals and countries – rather than eschew any involvement with fossil fuel-based cars. More generally, we think existing strategy thinking is useful both in an exploitation context, such as the traditional car industry, and in explorative contexts, and can help generate new contexts encouraging entrepreneurial experimentation with new technologies, asset combinations, and organizational practices (the literature on green entrepreneurship [Demirel et al., 2019] is an example). However, these efforts do not require the radical rethinking of existing strategy Bansal et al. (2024) are calling for.

REORIENTING STRATEGY? MANAGERIAL COMPETENCE, IMPACT ACCOUNTING, GOVERNMENT FAILURE, AND CRONYISM

Managerial and Ownership Competence

The specific implications of the New Strategy favoured by Bansal et al. are formulated on a high level of abstraction. The following description is typical (Bansal et al., 2024, p. 20):

Sustaining and adaptively reinforcing an organization requires executives to navigate multi-factor interactions across levels of analysis at unprecedented scales, rendering traditional cost-benefit analyses inaccurate. Furthermore, cross-level intertemporal

dynamics accelerate or decelerate traditional economic cycles with dramatic shifts in amplitude, instantly devaluing rules of thumb and shopworn ‘principles of management for success’.

While we may not have grasped the full meaning of this passage (and others like it), the implication seems to be that managers should think in a new and different way, one in which their ‘agency broadens its scope of attention, involves greater analytical and synthetic capacities to integrate a plurality of interests, and offers a less heroized and more humble view of strategic leadership that is not centred on one person, but involves many actions and interactions among actors who co-create solutions’ (Bansal et al., 2024, p. 23). This sounds to us like a ‘heroized’ view of strategic leadership, as the task portfolio of strategic leaders gets burdened with unclear but complex tasks of navigating ‘[i]nteractions among factors at different levels of analysis with varying cross-level intertemporal dynamics’ (p. 22) without recourse to traditional decision-support tools.

To be sure, the top decision-making role, whether played by salaried managers or ‘active’ owners (Foss et al., 2021) has traditionally encompassed negotiator, figurehead, and spokesperson as well as resource allocator and entrepreneur (see Mintzberg, 1990). But it is one thing to take on these roles on behalf of a single organization, another to ‘integrate a plurality of interests’ in assuming responsibility for the welfare of multiple other actors ‘at unprecedented scales’. We are doubtful that managers – even those trained in the ‘New Strategy’ – are capable of playing such an ambitious role. On the contrary, urging them to take such responsibility can encourage hubris, entrenchment, overinvestment in risky activities, and even a ‘saviour’ complex that interferes with mundane managerial tasks. (As we explain below, this may explain why some high-profile executives are eager to see themselves in this light).

Impact Accounting

In more practical terms, the Bansal et al. (2024, p. 16) proposal for reorienting strategy seems to boil down to a plea for new metrics to assess strategic action:

a line of work is emerging that goes back to the early works on the purpose of the firm, which was construed as value creation for society, the planet, and future generations (e.g., Durand, 2023; George et al., 2023; Henderson, 2021; Lee et al., 2023; McGahan, 2023). Some scholars have developed approaches and measures that recognize the relationship between corporate action and natural resources (Figge and Hahn, 2021). And a growing number of scholars are arguing for systems-based analysis that involves planetary boundaries and novel methodological approaches to Strategy, including design thinking and future thinking (DeJardine, 2019; Gümüşay and Reinecke, 2021; Rindova and Martins, 2022).

They allude here to strategic impact accounting, the idea that firms should seek to measure ‘impacts on customers and the environment from use of products and services, in monetary terms, that can then be reflected in financial statements with the purpose of creating impact-weighted financial accounts’ (Serafeim and Trinh, 2021). The idea is

to convert all financial, social, and environmental impacts into monetary values so that the total impact of a firm's behaviour (i.e., monetizing all pecuniary and non-pecuniary externalities caused by a firm) can be accurately and objectively assessed. This implicitly addresses the critique of Jensen (2002) that CSR efforts fail in the face of a lack of a unifying metric, and, in principle, allows trade-offs to be assessed and efforts to maximize net positive impact to be made.

While such accounting exercises are plausible within the confines of theoretical models of externalities, we should not mistake such models for reality. Abstract models are useful for shaping our thinking about economic and business issues, but they are not the thing itself. For example, stylized, mathematical models of resource allocation in decentralized economies have often been proposed as practical blueprints for allocating resources in a socialist economy (Levy and Peart, 2008). However, the basic problem is that such models abstract from the problems of concentrating the many dispersed 'data' of economic decision-making that are dispersed in society in the hands of a central planner (Hayek, 1945). In addition, they abstract from the incentives of such a planner. Besides, 'data' change constantly, making such attempts entirely impractical.

In this context, the 'planner' is, of course, the firm. Any firm influences its environment in myriad ways, only some of which are reflected in prices (or other institutions that control externalities, such as norms). It is simply not realistic to expect firms to be able to do this. Moreover, there is the issue of incentives: while some firms will feel morally obliged to engage in substantial incentive accounting efforts, others won't. Various (costly) monitoring institutions will probably arise, such as public shaming (e.g., via traditional or social media, trade associations, and public institutions). However, these are likely to incentivize firms to account for those impacts that happen to be currently highly salient (which may not be those that truly matter). Additionally, how are these different impacts to be weighed? 'Prices' need to be imputed to the different impacts. It is intuitive that some matter more than others. But, in the absence of markets that price the impact (which is the core problem), the process of assigning prices becomes inherently politicized, and may fail to reflect 'true' costs and benefits (e.g., Zycher, 2018). In general, as social choice theory (Arrow, 1951) explains, aggregating the preferences of a broad set of actors across multiple dimensions into a single metric for social welfare is a fool's errand; it just cannot be done (see also Klein et al., 2022, for discussion of this).

Some of the 'prices' associated with impacts may seem to be 'given,' for example, consumers' evaluations of benefits (as well as harms) associated with specific products or services. Many strategy students are taught that part of the creation of value a given product creates is the 'consumer surplus', that is, the difference between what a given consumer would have been willing to pay and the price she was charged. Again, the simplicity of this concept (as conveyed in neat diagrams) is misleading; in reality, computing consumer surplus is extremely difficult and, in practice, often impossible (see King and Pucker, 2021, for specific critiques of schemes devised to engage in such measurement). The fundamental reason is that we cannot read the consumer's mind. While we may be able to conduct, for example, online experimentation with prices to obtain data points on demand and prices that may help estimate consumer surplus, such estimates are only snapshots of a valuation that may have changed the moment after.

Because of these difficulties, in practice, social impact accounting is a means of substituting one particular set of preferences – those of the individuals, groups, and institutions devising the accounting measure – for the preferences of a broad set of market participants (customers, suppliers, workers, partners, competitors) whose actions, in the aggregate, determine firm profitability. Thus, King and Pucker (2021) show how the Harvard Impact Weighted Accounting Initiative (IWAI), which ostensibly contains a method for objectively calculating consumer surpluses, amounts to imposing the specific preferences of the IWAI on the available numbers.

Government Failure and Cronyism

In Bansal et al.'s ideal world, solving environmental and other societal challenges will require more than just a new mindset within business schools, consulting firms, and the strategy literature – it also requires a larger, stronger, and more interventionist government to compensate for alleged market failures. Their discussion is rich with examples of where firms and managers have supposedly fallen short. More generally, while Bansal et al. are quite focused on private sector failure, they are silent on government failure. As Coase (1964, p. 195) famously put it: ‘Until we realize that we are choosing between social arrangements which are all more or less failures, we are not likely to make much headway’.

Asking the public sector to take on an expanded role, in partnership with private actors such as corporate managers, introduces a host of difficulties. As noted above, government interventions to compensate for externalities, provide (some actors' desired) public goods, and otherwise shape and structure markets impose costs of their own. Public actors – and managers practicing the ‘New Strategy’ – are as self-interested as executives with pictures of Milton Friedman on their office walls and they will seek to impose their own preferences (e.g., about what Nature wants) on those of other members of society. Their inevitable errors are not subject to correction by competitive market forces, unlike the actions of managers pursuing firm profitability. We worry that Bansal et al.'s *Point* suffers from what Demsetz (1973) called the ‘Nirvana fallacy’, the idea that policy analysis can proceed by assuming a stylized and highly unrealistic view of state actors as omniscient, benevolent dictators.

Moreover, the proposed close partnership between public and private actors gives room for cronyism as firms seek to develop and exploit political connections to increase profitability (Klein et al., 2022). Firms that claim to speak for Nature, firms whose actions allegedly produce fewer harmful externalities than those of their rivals, and firms who otherwise claim the mantle of promoting the greater good will receive preferential treatment through subsidies, regulatory advantage, and so on. As the rent-seeking literature shows, this redirects managers' efforts from creating and capturing value in the marketplace to establishing and maintaining valuable political ties. The rent-seeking economies of Russia and China provide vivid illustrations of this system in action (Chen et al., 2011; Dong et al., 2016; Gel'man, 2016). We fear that the new direction proposed by Bansal et al. pushes all economies in this direction.

The move from private to social value creation can also facilitate managerial entrenchment. When performance metrics are ambiguous (or politically contested), poorly performing managers will find it easier to mask their performance. Mechanisms for disciplining and replacing poorly performing managers such as the market for corporate

control (Manne, 1965) and the internal market for managers (Fama, 1980) depend on objective, consensual performance measures.

CONCLUSIONS

Traditionally, management research, including strategy research, has taken place downstream relative to the other social sciences. First, we have been adopters and consumers of fundamental insights from the non-management social science. Second, we have adopted and used these insights to further our understanding of what goes on within organizations and in organizational fields regarding cooperation and competition. Over the last couple of decades, there have been many calls for management scholars to influence the making of public policy (e.g., Aguinis et al., 2022; Kochan et al., 2009; Rynes and Shapiro, 2005), and some have penned explicitly political statements (e.g., Adler, 2019). Many such calls have been made in the context of major international crises such as the 2020 Covid pandemic and have routinely been made in the context of the various environmental crises.

Bansal et al.'s essay is an important contribution to a stream of management research calling for greater engagement with sustainability issues. Some argue that these issues are so pressing that management research needs to reorient from theory-building to application and activism. Thus, Williams and Whiteman (2021, p. 526) argue that 'our focus must move away from a theory-fetish toward a more applied action orientation that contributes to theory-building but does not make that its main or singular aim'. They urge scholars to focus on 'how our organizational and management theories can contribute concretely to helping humanity prepare for and respond to these shocks and build long-term societal resilience'. Compared with Bansal et al.'s call for developing a 'new strategy paradigm', we find the Williams and Whiteman view more compelling. Existing theories work well and we should concentrate on applying them to solve urgent problems, private and social.

At the core of Bansal et al.'s call for a new view in strategy is their rejection of the view that profit-seeking behaviour by firms can increase societal welfare (the 'ecological fallacy'). To assess this claim, we think a comprehensive, comparative institutional analysis is necessary, one that carefully weighs the benefits and costs of alternative modes of organization. Unfortunately, their analysis is one-sided, subjecting the behaviour of private managers to close (and highly critical) scrutiny without applying the same critical lens to managers explicitly pursuing social aims or state actors charged with enforcing such behaviour. In other words, while Bansal et al.'s essay is rich in bold and provocative criticisms of conventional approaches to strategy (as well as the behaviour and performance of markets), it is light on practical implementation or balanced comparison of feasible alternatives (Coase, 1964). In particular, there is plenty of discussion of supposed market failures but no discussion of the government failures that inevitably accompany attempts by real-world actors to make things better. Externalities are ubiquitous, but not all are remediable with net gains, particularly in a world of self-interested, myopic, and fallible public officials – whose actions impose a host of unpriced externalities of their own.

This failure to consider the full picture is present in their paper in another fundamental way. Thus, Bansal et al. lament the loss of wildlife, of open spaces, and other environmental changes that have accompanied capitalism, industrialization, and the modern age. To be sure, these losses are regrettable. In our view, however, they don't reflect greed or selfishness or the profit motive or traditional strategy thinking, but an expanding population wanting to live better lives. Depriving people in developing countries from cheap, reliable, carbon-based electricity, for example, comes across as an exercise in privilege.

The overarching problem is how we sustain the economic growth that will continue to reduce poverty and improve lives while dealing appropriately with the various externalities that this economic activity naturally brings about. Our position is that to solve these problems, one should embrace existing literature, constructs, frameworks, and theories on externalities, market and government failures, and other ideas from conventional strategy, entrepreneurship, organizational economics, and institutional theory. Of course, this doesn't mean that contemporary strategy thinking is perfect. We have argued elsewhere that strategy research has an undertheorized concept of ownership and that a primary purpose of market competition is to align resource ownership (understood as residual control of resources under Knightian uncertainty) with ownership competence or capability (Foss et al., 2021). Taking uncertainty seriously also calls into question the efficacy of some complex, multi-stakeholder governance arrangements (Foss and Klein, 2018). Resource heterogeneity, from a property rights perspective, also has implications for public policy, such as innovation subsidies (Murtinu et al., 2022) and even macroeconomic stabilization policy (Agarwal et al., 2009). But these issues are too important for new and untested paradigms.

While the main purpose of this *Counterpoint* has been to criticize Bansal et al.'s (2024) *Point* essay, we also offer an alternative to their view. Fundamentally, we don't accept the argument in Bansal et al. that traditional strategy thinking is implicated in the various environmental challenges they discuss. If anything, this thinking has contributed to better stewardship of the natural and other resources that have sustained the process of economic growth lifting untold millions out of extreme poverty. Moreover, we argue that a market system with well-defined property rights, widespread use of markets to allocate resources, flexible prices that reflect current scarcities as well as actors' beliefs about future scarcities, and an institutional environment that encourages entrepreneurship and innovation remain the best approach for dealing with environmental and sustainability challenges. Carefully delineated property rights will often assist, rather than destroy, natural habitats and ecosystems (Anderson and Libecap, 2014). As countries grow richer, more emphasis will be placed on sustaining biodiversity. Markets reflect consumer choices, and when consumers reward environmentally responsible practices, as they increasingly do across the world, firms adapt. Familiar examples include electric vehicle producers such as Tesla, SAIC, Geely and others, the start-ups that emerge to deal with the seemingly intractable challenge of recycling used wind turbines (particularly the blades, Liu and Wass, 2024), and the many private entrepreneurs and firms that are experimenting with small modular nuclear reactors (Yeo, 2023). Understanding these and other examples call for reaffirming 'conventional' strategy thinking, not abandoning it.

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NOTE

- [1] <https://www.mckinsey.com/featured-insights/corporate-purpose/from-there-to-here-50-years-of-thinking-on-the-social-responsibility-of-business>.

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