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An Organization-Based View of Strategy and an Integrative Framework of Strategic Management

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Abstract

Just like scholars distinguish two types of firm's external environment, i.e., competitive and institutional, we make a distinction between two types of firm's internal environment, i.e., resources and organization. Based on this distinction, we propose an organization-based view of strategy (OBV), not only as a label to unite various organization-related issues within the strategy field, but also as a fourth research paradigm to supplement to three existing paradigms, i.e., industry- or competition-based view (CBV), resource-based view (RBV), and institution-based view (IBV). Bringing the four paradigms together, we transform Mike Peng's 'strategy tripod' into a 'strategy quadrapod'. By proposing an organization-resource-institution-competition (ORIC) analysis and a situation-action-performance (SAP) framework, we attempt to make a grand integration of the strategy field.

1. Introduction

Strategic management courses today are often criticized for being 'repositories of multiple frameworks that are not tightly integrated and that are aging rapidly' (Mahoney & McGahan, 2007: 86). The same can be said of the extant strategy literature that is path dependent and 'eclectic in nature' (Hoskisson et al., 1999: 417).

The development of the strategy literature is incrementally built around the three major research paradigms, captured by Mike Peng's (2006) metaphor of 'strategy tripod', i.e., industry-based or competition-based view (CBV), resource-based view (RBV), and institution-based view (IBV). While being insightful and useful, these three paradigms do not and cannot cover all and some emerging research issues within the broad strategy field. In particular, many organization-related issues, such as platform organization (Ciborra, 1996), platform provider (Eisenmann, Parker, & Van Alstyne, 2006), organizational ambidexterity (Gibson & Birkinshaw, 2004; Tushman & O'Reilly, 1996), strategic paradox (Smith, Lewis, & Tushman, 2011; Smith & Lewis, 2011), open innovation (Chesbrough, 2003), and crowdsourcing (Brabham, 2008; Howe, 2006), fall outside the scope of the 'strategy tripod'.

Here is a case in point. In the Deloitte Human Capital Trends 2016 report that is based on a survey of more than 7,000 companies in over 130 countries, it is pointed out that the No. 1 issue on leaders minds is 'how to redesign our organizational structure to meet the demands of the workforce and business climate today' (Bersin, 2016). However, as Probst & Raisch (2005) point out, 'While restructuring is at the very top of the managerial agenda, business management research hasn't really concerned itself with organizational structures during the last ten years'.

Indeed, like what Prahalad & Hamel (1994) pointed out two decades ago, strategy as a field of study is in search for a new paradigm (cf. Schendel, 1994). In this paper, we propose an organization-based view of strategy (OBV), not only as a label to unite the above mentioned

organization-related research issues but also as an additional research paradigm to supplement to the existing three. Hence, we transform the ‘strategy tripod’ into a ‘strategy quadrupod’ with the OBV as its fourth leg.

In what follows, we first explain the necessary and sufficient conditions for proposing an OBV, and then, we explicate the four aspects of the OBV. Afterwards, we bring together the four views to form the organization-resource-institution-competition (ORIC) analysis as a modification or adaptation of the SWOT analysis. Then, by bringing in the organizational ambidexterity or strategic paradox lens as well as the competitive dynamics view, we propose a situation-action-performance (SAP) framework as a grand integration of the strategy field.

2. The need for an OBV and the four aspects of organization design

One plausible reason for the neglect of developing an OBV is that the organizational issues have been subsumed under the notion of organizational resources within the resource-based view (Barney, 1991) on the one hand and organizational resources are treated as a secondary (re)source of competitive advantage (Barney, 1995) on the other hand. According to Barney (1991: 101), ‘Organizational capital resources include a firm’s formal reporting structure, its formal and informal planning, controlling, and coordinating systems, as well as informal relations among groups within a firm and between a firm and those in its environment’.

Barney (1991) established his VRIN framework for assessing the potential of a resource for generating sustainable competitive advantage. Later on, He adapted the VRIN framework into the VRIO framework with the ‘O’ denoting the question whether a firm is ‘organized to exploit the full competitive potential of its resources and capabilities’ (Barney, 1995: 56).

According to Barney (1995: 56, italics in original), ‘Numerous components of a firm’s organization are relevant when answering the question of organization, including its formal reporting structure, its explicit management control systems, and its compensation policies. These components are referred to as *complementary resources* because they have limited ability to generate competitive advantage in isolation. However, in combination with other resources and capabilities, they can enable a firm to realize its full competitive advantage’.

Barney’s (1995) treatment of organizational resources or ‘components of a firm’s organization’ a complementary resource with limited ability to generate competitive advantage in isolation, on the one hand, downplays the significance of ‘organization’, and on the other hand, paves the way for separating organization from resource. Such a separation is reasonable and necessary because Penrose (1959: 31, italics added), the intellectual mother of the RBV, makes a clear distinction between resource and organization and defines the firm as ‘both an administrative organization and a collection of productive resources’ whose ‘general purpose is to *organize* the use of its ‘own’ *resources* together with other *resources* acquired from outside the firm for the production and sale of goods and services at a profit; its physical resources yield services essential for the execution of the plans of its personnel, whose activities are bound together by the administrative framework within which they are carried on.’

If Penrose’s distinction between resource and organization serves as the necessary condition for developing an organization-based view in addition to the resource-based view, the sufficient condition is created by numerous researches focusing on the strategic impacts of various organizational design issues on firm performance since Chandler’s (1962) seminal study of structure-strategy link.

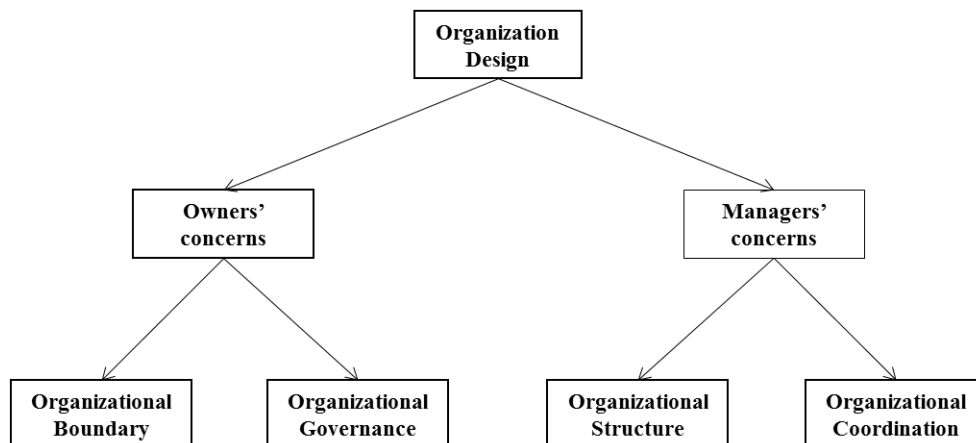
Following Chandler (1962), Williamson (1970, 1971, 1975) proposes the M-Form hypothesis, which argues that ‘the multidivisional structure (M-form) is generally regarded as the most efficient organizational form for large and diversified companies’ (Probst & Raisch, 2005: 2). In addition to the organizational *structure* issue, the organizational *boundary* issue was a central concern of organizational economists (Coase, 1937; Williamson, 1975) as well as strategy scholars framing into the ‘buy or make’ question (Jacobides & Billinger, 2006; Madhok, 2002). Another important organizational issue is corporate *governance* (Jensen & Meckling, 1976) and its impact on firm strategy and performance (Baysinger & Hoskisson, 1990; Daily & Dalton, 1992; Hill & Snell, 1988). Recent literature on organizational ambidexterity (Gibson & Birkinshaw, 2004; Tushman & O’Reilly, 1996) and strategic paradox (Smith, Lewis, & Tushman, 2011; Smith & Lewis, 2011) provides another push for an organization-based view as Raisch et al. (2009: 685) posit that ‘Organizational ambidexterity has emerged as a new research paradigm in organization theory’.

Given the necessary and sufficient condition, we propose an organization-based view arguing that the design of the firm’s organization has strategically significant impacts on the behaviors of the individual members and hence the performance of the firm.

According to Daft (2013: 12), ‘organizations are (1) social entities that (2) are goal-directed, (3) are designed as deliberately structured and coordinated activity systems, and (4) are linked to the external environment...Managers deliberately structure and coordinate organizational resources to achieve the organization’s purpose’. Based on this definition and the above mentioned organization-related researches, we propose a boundary-governance-structure-coordination (BGSC) framework of organization design for the OBV (see Figure 1).

When it comes to organization design, we distinguish the owners’ concerns from the managers’ concerns for those firms that are not owner-managed in general and are characterized by the separation of ownership and management (Berle & Means, 1932). While the owners’ primary concerns are the design of organizational boundary and governance, the managers are primarily concerned about how to design the organizational structure and coordination system to ensure the organization to achieve its purpose.

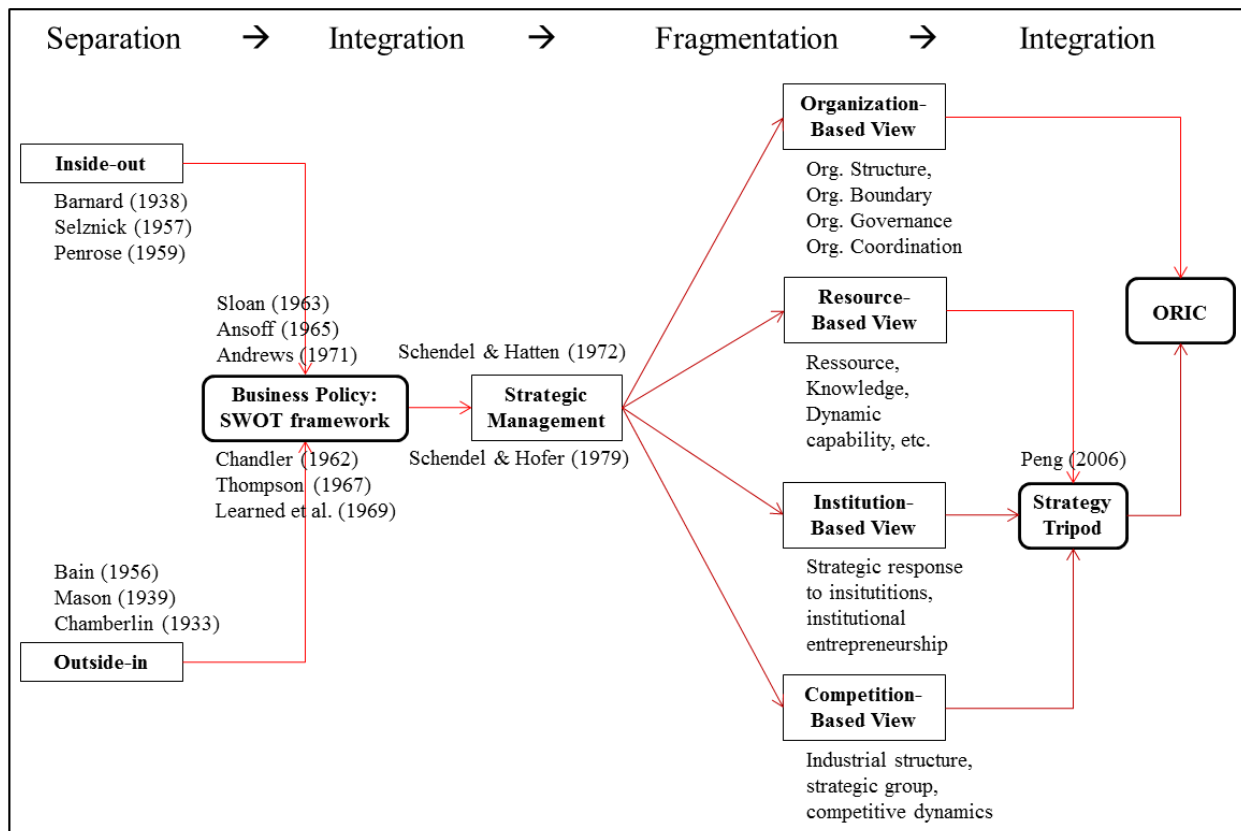
Figure 1. The four aspects of organizational design



3. Strategic situation analysis: from SWOT to ORIC

The strategy field emerged in the 1950s out of fragmented researches scattered in fields such as the industrial organization economics and sociology of organization (see Figure 2). In the 1970s, strategy scholars established the SWOT analysis as the first integrative framework for the strategy field, which has largely shaped the evolution of the field ever since. In 1980s, the industry-based or competition-based view focused its attention on the external aspect of the SWOT framework, i.e., the industrial structure or competitive forces that shape the firm's conducts and performance, hence the structure-conduct-performance (SCP) paradigm. In 1990s, with the rise of the resource-based view, the primary focus of the strategy field turned away from the external environment toward the internal environment of the firm. In 2000s, some international business and strategy scholars managed to bring another previously neglected aspect of the external environment, i.e., the institutional condition in which firms operate, back in the strategy discourse.

Figure 2. The development of the strategy field



To integrate the three major schools of thought, Peng (2006) coined the metaphor of 'strategy tripod' and argues that all of the three sets of factors are needed when analyzing the strategic situation and making strategic decision. To justify the need of an institution-based view, Mike Peng once pointed out that 'Two legs cannot sustain a platform. It is three legs, as a tripod, that can sustain a platform upon which further explorations can be made' (Science Watch, 2010). By

the same token, we argue, it is four legs that can sustain *more* stably a platform upon which further exploration can be made. We also contend that, with the OBV supplemented to the ‘strategy tripod’, the expanded metaphor of ‘strategy quadrapod’ produces an organization-resource-institution-competition (ORIC) framework for strategy analysis, as a modification or adaptation of the SWOT analysis. The internal aspect of the SWOT analysis, i.e., the strength and weakness of the firm, can now be analyzed in greater detail by looking at the firm’s administrative organization and productive resources (Barney, 1991; Penrose, 1959; Wernerfelt, 1984); while the external aspect of the SWOT analysis, i.e., the opportunities and threats of the environment, can now be analyzed in greater detail by looking at the institutional condition and competitive context in which the firm operates (Peng, 2002; Porter, 1980).

4. A grand integration: the situation-action-performance framework

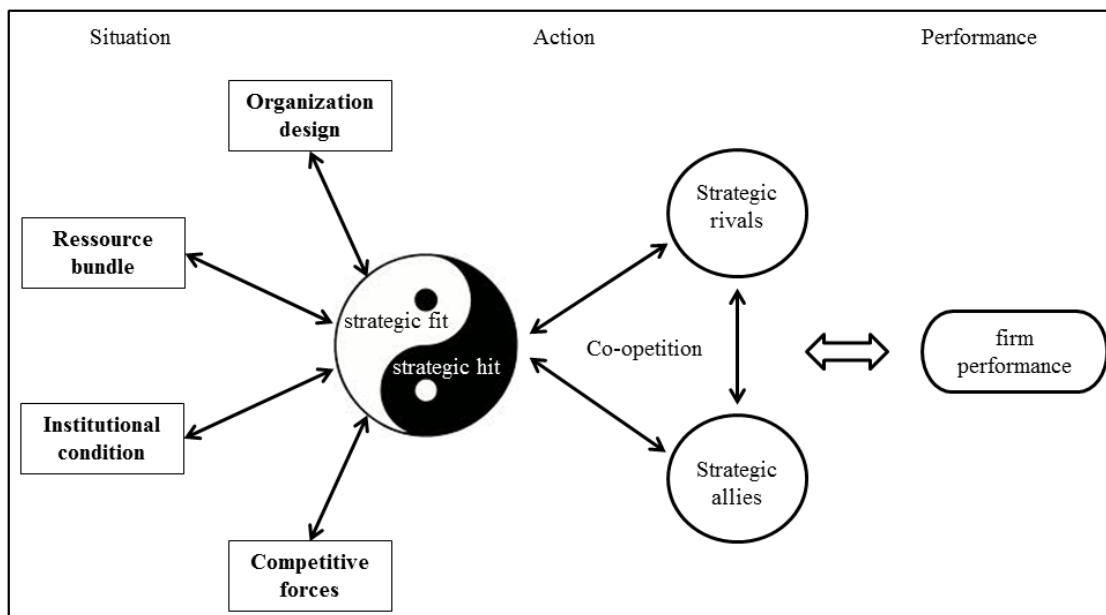
We argue, a grand integration of the strategy field must seamlessly incorporate the organizational ambidexterity or strategic paradox paradigm and the competitive dynamics (Chen & Miller, 2012), which have not been well integrated with the major research paradigms.

The ambidexterity/paradox issue is strategically important because it is the degree or quality of ambidextrous or paradoxical balance between two oppositional forces, such as, strategic fit (conforming to the situation) vs. strategic hit (overcoming the situation), and, competition vs. cooperation, that has a strong impact on firm performance.

In addition, even if the focal firm may well balance between opposite forces, other firms may also do the same. So, it is the competitive dynamics, i.e., the co-opetition among the focal firm and its strategic rivals and allies, that ultimately determines the focal firm’s performance.

Based on above analysis, we now propose the situation-action-performance (SAP) framework as a grand integration of strategy (see Figure 3).

Figure 3. The situation-action-performance framework of strategy



The situation element of the SAP framework is concerned about analyzing the internal and external situations facing the firm. This can be done by the ORIC analysis. The action element incorporates the intrafirm ambidexterity or paradoxical behaviors and the inter-firm competitive co-opetition.

In Figure 3, all arrows are bi-directional, indicating the two way impact between situation, action and performance. For example, the ORIC situation may force a firm to conform by fitting its strategy to the situation; on the other hand, the firm may try to overcome some parts of the ORIC situation by strategizing to hit the situation. In addition, the competitive dynamics among the participating firms will also have an important impact on the strategic actions of each other.

In conclusion, just like scholars distinguish two types of external environment of the firm, i.e., competitive and institutional, we make a distinction between two types of internal environment of the firm, i.e., resources and organization. Based on this distinction, we propose an organization-based view of strategy. Supplementing the OBV to the three existing paradigms, we propose a 'strategy quadrupod', an ORIC analysis, and a SAP framework as a grand integration of the strategy field.

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Author's short bio

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