Toward an Integrated Theory of Strategy

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Abstract

We introduce the concepts of customer advantage, stakeholder advantage and economic surplus to develop an integrative approach to the study of strategic management. A general framework of strategic decision-making and performance is proposed, explaining how, in a production team view of the firm (Blair and Stout, 1999), a firm engages its stakeholders in relational contracts and deploys its resources and capabilities in product and resource markets to produce economic surplus, the residual value above the payment of fixed stakeholder compensations, which is then shared among customers and stakeholders, including shareholders. This model is then applied to analyze the interdependencies between competitive, growth and stakeholder strategies for the achievement of customer and stakeholder advantage.

Keywords: customer advantage, stakeholder advantage, economic surplus, production team theory, stakeholder theory, competitive strategy, growth strategy, stakeholder strategy.
INTRODUCTION

The strategic management field evolved during the last half century through a collective effort to address several key questions, broadly related to the necessary conditions for the achievement of sustained performance. For instance, competitive strategy focuses on how firms compete on product and factor markets, corporate strategy chooses on what markets to compete in and on how firms create resources and capabilities to compete on those markets, and stakeholder strategy studies how firms create cohesion among stakeholders despite the presence of diverse sets of interests and potential for trade-offs (e.g., Tantalo and Priem, 2014).

Without a doubt, the increasing amount of specialization in each of the field’s domains and sub-domains generated significant progress in our conceptual understanding of questions specific to each work-flow. There have also been significant gains from specialization in the empirical validation (or lack thereof) of the theories developed, with increasing sophistication in the operationalization and methodological accuracy of the tests proposed.

The successful development of strategic management as a field of academic inquiry brought by the increasing amount of theoretical and empirical specialization has come at the price of significant segmentation of the overall scientific quest. The proliferation of Interest Groups in the Strategic Management Society is a (admittedly superficial) sign of success of the academic advancement of the field, but also of its increasing segmentation in areas that speak to specific phenomena, often linking to, and effectively leveraging, external knowledge in social sciences and other domains of scientific inquiry. Whereas the broadening and reaching out of strategy scholarship to related knowledge domains can only be welcomed as a sign of maturity for the field, one cannot gloss over the potential costs of this positive evolution in terms of its internal coherence and capacity to provide a well integrated body of knowledge to scholars in related
fields as well as to practitioners, both managers and policy-makers, interested to apply that body
of knowledge for their own decisions and actions. For example, what do we really know about
the implications of acquisitive or partnership-led growth for firms’ competitive dynamics (e.g.
pricing or volume choices, differentiation, cost leadership or niche strategies, etc.) in their core
markets? And, vice versa, what can we say about the effects of a given strategic choice, say
differentiation-led competition, on the likelihood of success of other type of strategic choices, say
related to corporate growth, or to stakeholder engagement?

Interestingly, many of the “founding fathers” of strategic management had proposed
definitions of the field that are inherently integrative and holistic with respect to the breadth and
complexity of the phenomena that senior managers need to tackle:

“Corporate strategy is the pattern of decisions in a company that determines and reveals its
objectives, purposes, or goals, produces the principal policies and plans for achieving those
goals, and defines the range of business the company is to pursue, the kind of economic and
human organization it is or intends to be, and the nature of the economic and noneconomic
contribution it intends to make to its shareholders, employees, customers, and communities”.
(Andrews, 1980: 18)

Thus, the concept of strategy itself calls for an integrated notion of “purpose”, related
“policies and plans”, the scope of the business activity and its organization, and the value
contributions it aims to provide for its stakeholders. Despite the fact that the strategic
management field has developed a significant body of knowledge in each of the separate “pieces”
of Andrews (1980) definition, the way the various pieces link with each other and, even more
importantly, influence each other’s capacity to create (or destroy) and distribute value for the
business’ stakeholders, is yet to be clarified in theoretical, let alone empirical, terms.

In this paper, we propose to contribute to the development of the theoretical endowment
of the strategic management field by explicitly beginning to address the problem of linking and
integrating separate, specialized, strands of the strategy literature. To do so, we will focus on
three particularly important domains of strategic management inquiry, all explicitly mentioned in Andrews (1980) definition. Competitive strategy, as the core content of the “policies and plans” that characterize the way a firm decides to position itself in the markets it competes on vis-à-vis the value propositions of its rivals (Porter, 1980 and 1985). Corporate growth strategy, defining “the range of business the company intends to pursue” and how it intends to develop the required resources and capabilities to pursue them: whether through organic growth or through external, acquisitive, growth (Rumelt, 1974; Singh and Montgomery, 1987). Finally, we will focus on the firm’s stakeholder strategy, defined as the choice to integrate sustainability principles in its strategies and operations, including a stakeholder-oriented governance and decision-making processes, rather than decoupling statements of commitment from the actual behavior (Freeman, 1984; Freeman et al., 2010; Crilly et al., 2012).

We intend to proceed in two logical steps. First, we propose a framework linking a firm’s activities on both product and factor markets with the creation and distribution of economic surplus through the combination of customer and stakeholder advantages. In so doing, we move away from the canonical definition of stakeholders in that we don’t consider customers among them, but only the resource providers like financers, employees, suppliers and communities. The logic is that customers do not have a “stake” in the well-being of the company, per se. They usually do not contribute to the development of the market proposition, but determine its success with their selection decisions. This approach is in line with Blair and Stout (1999)’s “Team Production” theory of the firm, according to which shareholders work in team with employees, suppliers and communities to satisfy customers’ needs and interests. It is also consistent with Zingales (2000) in his efforts to propose a stakeholder-oriented theory of the firm capable to address and solve the shortcomings of the dominant shareholder primacy model.
The second step consists of studying the interdependence between the decisions underlying the creation and sustainability of the two strategic outcomes: customer advantage on one side and stakeholder advantage on the other. We propose that strategic choices\(^2\) aimed at each one of the two outcomes indirectly affect also the other outcome. Whereas competitive and growth strategies are fundamentally aimed at achieving customer advantage and stakeholder strategies are primarily implemented to get stakeholder advantage, we contend that each of these strategies produces some moderating effects that influence the outcome of the other. More specifically, we address the following research questions: 1. How does competitive strategy influence the effectiveness of stakeholder strategy? 2. How does growth strategy influence the effectiveness of stakeholder strategy? 3. How does stakeholder strategy influence the effectiveness of competitive strategy? 4. How does stakeholder strategy influence the effectiveness of growth strategy?

**AN INTEGRATED FRAMEWORK OF FIRM STRATEGY**

The model depicted in figure 1 represents a first attempt to integrate the processes underlying the creation or depletion of customer advantage with strategic decisions responsible for the creation or depletion of stakeholder advantage on the resource markets within the same conceptual framework. As Figure 1 shows, the firm’s “entrepreneurial formula”\(^3\) is conceptualized as a set of strategic decisions concerning five elements: 1) the product markets where the firm decides to

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\(^2\) The strategic choices considered for the purpose of this paper’s theoretical analysis include the two generic strategies introduced by Porter (1985) and a key corporate strategy choice related to the speed of growth of the firm (as well as the choice of the mode of growth: internal, acquisitive and cooperative). We will thus attempt to integrate in the notion of market competitiveness both competitive strategy and corporate strategy choices.

\(^3\) The first version of this model (named “entrepreneurial formula”) was originally developed by V. Coda in the Eighties (1984) to show to an audience of managers, unions and institutions in the Italian context that the success of business enterprises does not need to come at the price of increasing sacrifices on the part of the other stakeholders (especially of employees).
compete; 2) the products that the company offers to its actual and potential customers, who select them comparing them with similar offers from the focal firms’ rivals; 3) the factor markets, which includes all the providers of production factors (“stakeholders”): capital, labor, raw materials and equipment provided by suppliers, as well as institutional support (communities, local government, etc.) with their expectations, interests and powers of influence on the firm (Freeman et al, 2010, Mitchell et al., 1997); 4) the set of proposals that the firm, explicitly or implicitly, makes to its stakeholders – in terms of compensation, personal development, financial returns, support for local communities’ development, etc. - in return for their contributions, their commitment and their support (relational contracts, Baker, Gibbons and Murphy, 2001); and, finally, 5) the firm’s resources and capabilities that enable and support its value proposition on both the product and the factor markets. The two sub-systems, with product markets and product offers on one hand, and relational contracts and stakeholders on the other, are in fact connected through the firm’s endowment of resources and capabilities, as well as through the firm’s growth strategies and organizational arrangements that assemble, govern and deploy them. This internal endowment generates the two cycles of value proposals and transactional, as well as relational, engagements with customers and stakeholders. In turn, these engagements shape the evolution of the firm’s resources and capabilities both directly, through learning and adaptive change processes, as well as through the production customer and stakeholder advantages, and the distribution of the related surplus (benefits) to customers, stakeholders and to the firm’s resource endowment.

To understand how this value creation and distribution process happens, we need a bit of definitional work on some of the key concepts, so that we can link them to the dynamic
development of firm’s strategy depicted in the co-evolution of the firm’s resource endowment with its product and factor systems.

**Customer advantage**

We define customer advantage as the degree to which the needs of the firm’s customers are comparatively satisfied through its offer vis-à-vis the offer of competitors present on the same product markets. Customer advantage depends on the value that a firm delivers to its customers for a given price - or “value for money” -, compared to the value for money delivered by competitors (Forbis and Mehta, 1981; Ghemawat, 1991). Value for customers depends on tangible features of the product (quality, range, reliability, etc.), its intangible elements (such as prestige, elegance, health, safety, social responsibility and so on), and the pre- and post-sales services connected with the product (like fast delivery, training, assistance). Thus, a firm achieves a customer advantage to the extent it is able to offer to its customers a higher value for money with respect to that delivered by its rivals.

The concept of customer advantage is linked, but not overlapped, to that of competitive advantage, one of the cornerstone constructs in the strategy literature. Whereas there is substantial debate about its accurate definition (Rumelt, 2003), competitive advantage is widely conceptualized as a situation in which a firm earns a higher rate of economic rents than the average competitors (Besanko et al., 1999). Whereas competitive advantage is measured by the relative level of profit, customer advantage manifests itself primarily in increased revenues and market shares. Thus, customer advantage is a necessary, but not sufficient, condition to achieve competitive advantage. For instance, a firm might dominate, thanks to its superior capacity to deliver value to customers, a market segment, but suffer from a structural disequilibrium between the size of this segment and its production capacity. Or it might have a strong and superior capability to innovate and continuously adapt to customers’ needs, but without an adequate
orientation to productivity and cost control. In both cases, customer advantage does not translate into competitive advantage.

**Stakeholder advantage**

We define stakeholder advantage as the degree to which the interests and expectations of the firm’s stakeholders are comparatively satisfied by the firm’s engagement proposal (prospects offered) vis-à-vis that of other firms present on the same resource markets. In line with the resource dependency theory (Pfeffer and Salancik, 1978) and the resource-based view of the firm (Barney, 1986; Barney, 1991), the logic underlying the concept of stakeholder advantage is that a firm is in competition with other firms to obtain the resources it needs to realize its final products according to customers’ needs and requirements. Each stakeholder is likely to have, at least to some extent, the possibility to reallocate the resources it controls from a firm to another, according to the expected relative benefits and advantages. Hence, the higher a firm’s ability to meet stakeholders’ interests, the better its access to resources. On the other side of the coin, meeting stakeholders’ interests presents costs that can erode the firms’ capacity to compete on the products’ markets (Besanko et al. 1999).

Importantly, stakeholder advantage depends on both economic and non-economic compensations a firm offers to its stakeholders, compared to those they can receive from competitors. Economic compensations can be fixed in explicit contract terms or contingent to specific conditions, including the distribution of economic surplus (see below). Therefore, all stakeholders (not only shareholders) can potentially receive at least part of their compensation on a residual basis (Zingales, 2000). Additionally, stakeholders can receive non-economic compensations for their contributions to the success of the “production team” (Blair & Stout, 1999), in the form of high quality relationship with the firm (relational contract, Baker et al. 1999), fairness in the distribution of residuals, participation in strategic decision-making
processes (Collins, 1997) as well as personal development and learning opportunities (Coff, 1999).

**Economic surplus**

We define economic surplus as the difference between revenues and those components of costs of inputs that have been established *ex ante* according to explicit contracts or agreements. If positive, it corresponds to the size of the pie to be shared among stakeholders in the form of residual compensation or retained by the firm to fund future investments or cover future negative surpluses. If negative, it is the overall sacrifice that stakeholders must bear.

Economic surplus is different from Amit and Schoemaker’s (1993) concept of organizational rent, which includes only the residual that accrue to shareholders. It differs also from nexus rent as defined by Coff (1999), since the latter includes all residual *after* that “all stakeholder receive sufficient compensation to hold them in place (pay ≥ opportunity cost) and some stakeholders get more than would be required to hold them in place (rent)”. Instead, economic surplus corresponds to the overall value to be shared in the form of residual compensation (which, in case of shareholders, might be 100% of their compensation) and does not exclude that some stakeholders are paid less than agreed and others more.

Importantly, economic surplus can be shared among stakeholders and the firm itself in several forms. Beyond monetary compensation, it can take the form of childcare service to female workers, executive training (bonus) programs, shared innovation development with suppliers beyond contractual agreements, community investments (schools, hospitals, culture, etc.) and so on. Moreover, the process through which strategic decisions (see the 5 sets of decisions described above, for instance) and the allocation of economic surplus are made can be designed with varying degrees of involvement by stakeholders, which contributes to the perception of fairness and their sense of belonging to the firm.
Therefore, economic surplus affects both stakeholder and customer advantage, since whatever is not allocated to internal resource enhancement purposes (e.g. R&D, marketing, or simply cash reserves) will be deployed to benefit either one type of stakeholder or customers, and typically both. In turn, both stakeholder and customer advantage affect economic surplus. The former enhances a firm’s capability to attract, motivate and retain stakeholders and thus the composition and quality of the production team. The latter affects variables like volumes of goods sold, prices, and customer loyalty, which directly impact revenues, as well as customers’ willingness to cooperate with the firm in forms like sharing R & D efforts or providing anticipated market feedback, which improve a firm’s capability to create value for customers and thus eventually future revenues.

The integrated model of firm strategy described above has several interesting aspects, beyond its basic mechanics. First of all, the model actually links basic notions of competitive strategy with stakeholder strategy choices related to the degree of inclusion and reward offered to non-shareholding stakeholders, and with some of the key tenets of the resource-based view within the same theoretical framework. The fact that the first version of the model was proposed by Coda (1984) at the same time when all those core theoretical strands in the strategy fields were being initiated speaks even more to its credit and to its integrative potential.

It is also interesting to note that, in the integrated strategy model proposed, the firm’s resources and capabilities function as the transmission chain that connects together the competitive strategy and the stakeholder strategy systems. The production of surplus is thus viewed as the end result of the combined capacity of the firm to meet both (primarily) transactional demands by customers, and (primarily) relational demands by stakeholders. Where the model departs from the received tenets of the resource-based-view of the firm is in
maintaining a balanced role between the market consensus obtained from the interaction with customers and the “social consensus” generated via the interactions with stakeholders. This is fundamentally different from arguing for the conditions under which firm resources can generate competitive advantage on the product market (Barney, 1991), since that assumes the primacy of one type of consensus (product market) on the other (stakeholder interactions).

Second, the assumptions underlying the model configure a conception of firm performance that encompasses economic and social dimensions, which entails that firm strategy is to be oriented towards the joint and simultaneous achievement of success along these two dimensions. This is in line with the exposition of the so-called “separation fallacy” (Freeman et al. 2010): there simply are no strategically relevant decisions that have only economic and no social implications. Hence, focusing only on the purely economic dimensions of firm performance, at the exclusion of its social dimensions, is a logical error, even before a modeling choice, since the omitted dimension of strategic decision-making and of performance cannot be considered orthogonal to the dynamics of purely economic decisions and outcomes.

Third, the model suggests that customer and stakeholder advantage are highly interdependent and mutually reinforcing through the pivotal role of economic surplus. Customer advantage leads to value creation and increases the total amount of resources available to meet stakeholders’ demand. Stakeholders, in turn, cooperate by contributing their resources, commitment and support to the firm, thus enabling it to improve the quality of its offer to customers, to the extent they are satisfied with their relationship (not only with the remuneration) with the firm. Furthermore, the activation and sustainability of such “virtuous” loop connecting customer and stakeholder advantage is contingent upon the presence of strong relational contracts between the stakeholders, the firm and its customers. These favor the development of a cohesive corporate culture (f.i. Jones et al., 2007), with aligned values, mutual respect and trust, and a
shared corporate mission to which all stakeholders commit. On the other hand, negative performance within any sub-system produces negative implications for performance in the other one, giving rise to a “vicious” cycle that can spread around the system. In this case, the firm’s capacity to maintain or recover a positive economic surplus will depend on the extent to which strength of the relational contracts can produce sufficient resilience so that the positive goodwill among stakeholders and the firm can be protected and enhanced.

We now turn to specify the interdependencies between strategic choices and their impact on customer and stakeholder advantage.

THE INTERDEPENDENCE OF STRATEGIC CHOICES IN AN INTEGRATED MODEL OF STRATEGY

In this section, we aim to show how the general framework introduced above could be applied to study the influence of a given type of strategic choice on the impact of other choices on customer or stakeholder advantage. Since this is the first application of this kind of analysis, it has no ambition of exhaustiveness but rather aims to illustrate the usefulness of the proposed conceptual frame for future theoretical development and empirical work.

The model depicted in Figure 2 illustrates the interactions between two sets of strategic choices: the competitive and growth strategies on the one hand, and the stakeholder strategy on the other⁴.

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⁴ For the sake of simplicity, and the illustrative purpose, we refrain in this paper from the analysis of the interdependencies between competitive and corporate strategy, leaving it to future theoretical development efforts.
The simplifying assumption underlying the model is that competitive and growth strategies are geared primarily towards the development of customer advantage, whereas stakeholder strategies focus primarily on the development of stakeholder advantage. However, the key idea is that each type of strategic choice also moderates the impact of the other decision on its “primary” form of advantage. For instance, stakeholder strategy influences the effectiveness of competitive and growth strategies in terms of customer advantage and, vice versa, both competitive and growth strategies will have an influence on the effectiveness of stakeholder strategy for the generation of stakeholder advantage.

Another simplifying assumption, for the sake of the analysis, is that, whereas each strategy could be conceptualized as a “continuum”, along which a firm has an infinite set of alternatives, we will focus on the two “extreme” options of each strategy: cost leadership vs. differentiation for competitive strategy (Porter, 1985; Besanko et al. 2001), internal (organic) vs. external (acquisitive) growth for the corporate growth strategy (Capron and Mitchell, 2012)\(^5\), and integration vs. decoupling for stakeholder strategy (Crilly et al., 2012).

We’ll thus develop our arguments and propositions following a comparative and integrative logic among these three, hitherto separate, strands of the strategy literature. Before we do that, though, it might be worth to provide some clarification about the third strategic choice examined, since stakeholder strategy is probably the least established in the strategic management literature.

**Stakeholder strategy**

Whereas all firms face some institutional pressures (DiMaggio and Powell, 1983) to act in a way that can satisfy the interests of a broader range of stakeholders, rather than purely maximizing shareholders’ wealth, the way they go about doing so might vary significantly. Some firms limit

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\(^5\) Note that, for the sake of simplicity, we will limit the analysis to the comparison of the internal and acquisitive external growth, avoiding the intermediate alternative of partnerships, which will be left for future advancements.
their efforts to produce a purely symbolic statement of intent and rarely followed by real integrative efforts of principles of social and environmental sustainability in the firms’ strategies, structures and operations. They are often referred to as “decoupling” their strategic discourse from actual behavior (Meyer and Rowan, 1977; Fiss and Zajac, 2004; 2006; Westphal and Zajac, 1994: 2001). Decoupling may manifest itself in actions and initiatives like corporate philanthropy, the adoption of ethical codes of conduct, the publication of social and environmental reports according to some international standards. Furthermore, decoupling firms are often involved in several initiatives of communication and stakeholder engagement. What all these activities have in common is a limited impact on behavior (Weaver et al., 1999), a cosmetic response to stakeholders’ demands (Porter and Kramer, 2006), as well as a focus on peripheral change (Crilly et al., 2012). Decoupling can also manifest itself in what Barnett (2007) calls “direct influence tactics”, i.e. a combination of high stakeholder relationship orientation and low social welfare orientation.

Other firms, instead, produce a much more substantive effort to adapt their core structures and activities to consider the interests of the diverse plurality of stakeholders that they aim to satisfy. For instance, they might embed social and environmental performance targets in the strategic planning processes, integrate similar goals in individual performance assessments and incentive systems, and launch large internal change processes to integrate social and environmental metrics in their management accounting and control systems (Greening and Gray, 1994, Crilly et al., 2012).

For the purpose of this paper, we build on the extant management literature on symbolic vs. substantive management to define stakeholder strategy as a firm’s commitment to take into account the interests of a plurality of stakeholders. Such stakeholder strategy can however be
implemented along a continuum defined by the two extreme cases described above: (symbolic) decoupling and (substantive) integration.

**Theoretical Development Propositions**

How does the choice of competing in product markets through a cost leadership strategy, for instance, influence the firm’s capacity to effectively execute a decoupling strategy vis-à-vis its stakeholders? Whereas a cost leadership strategy entails standardization, process simplification, and homogeneity to succeed, a differentiation strategy builds advantage on customization, on tailoring products and services to customer needs. Hence, the latter is more aligned with a logic of integration of stakeholder interests in the firm’s operations and decision-making processes, thus enhancing the ability of the firm to create stakeholder advantage. A differentiation strategy strengthens the sensitivity towards others’ interests and facilitates the development of a capacity to learn how to adapt internal operations to meet and align them to stakeholders’ demands.

On the other hand, implementing a cost leadership strategy is expected to impose trade-offs on the satisfaction of stakeholders. For instance, cost leadership strategies are built upon the search for efficiency, use of cheaper inputs, and price renegotiations with suppliers. They might also entail the renegotiation of labour wages and the downsizing of workforce through outsourcing, the abandonment of local subcontractors to outsource to cheaper ones in less developed countries, or even frequent and sudden shifts from one developing country to another one in search of cheaper labour costs.

Cost minimization strategies might also lead to greater uncertainty about future economic prospects for entire communities. The mere threat of transferring production capacity puts wages under pressure, which, in turn, may result in worsening economic conditions for local
communities. More in general, a cost leadership strategy is likely to lead to lower levels of investments in the development of local communities, not only through philanthropic activities, but also via joint projects aimed at the enhancement of human capital (e.g. the local schooling system) and social capital (e.g. harmonious interactions and inclusive practices among different ethnic, religious or social communities).

From an empirical standpoint, (Zollo et al., 2009) provides evidence of a positive correlation between differentiation strategies and the cognitive alignment between managers and stakeholders on their understanding of the content of corporate responsibilities. In turn, this cognitive alignment is associated to higher corporate social performance. Therefore, managers of firms adopting a differentiation instead of a cost minimization strategy seem to be more fine-tuned with stakeholders as far as the interests to prioritise, the risks and responsibilities associated with firm activity, as well as the assessment of what a firm actually does for its stakeholders. Cognitive alignment positively affects managers’ capacity to sense, listen to, and meet stakeholders’ demands, thus enhancing their satisfaction.

We therefore expect that:

**Proposition 1. The stronger is the orientation towards differentiation in competitive strategy, the stronger is the impact of the integrative (rather than decoupling) stakeholder strategies on the generation of stakeholder advantage.**

What about the impact of the choice of corporate growth, especially between organic vs. acquisitive growth, on the effectiveness of stakeholder strategies? Let us compare the implications of the two growth strategies in terms of potential stakeholder perceptions. Of the two alternatives, organic growth is likely to enhance more motivation and commitment from stakeholders, since they might tend to be proud of dealing with a company that grows with its
own internal means and thanks to their own support. It can thus be expected that organic growth has a positive impact on stakeholders’ pride and motivation, since it is perceived as the result of their efforts and commitment much more than in case of acquisitive growth. In addition to stimulating intrinsic hedonic motivation in employees (Lindenberg, 2001, Gottschalg and Zollo, 2007), organic growth can potentially align and strengthen the support of shareholders and of communities as they could perceive this type of corporate strategy choice to leverage and redeploy internal competencies at lower risk levels. This reinforces the creation of stakeholder advantage from a given investment in the integration of stakeholder interests in the firm’s practices, processes, and decisions making.

On the other hand, M&A-driven growth often entails cost synergies to be pursued, which (as seen above) are expected to negatively affect the relationships among and with stakeholders, since they lead to redundancies, conflicts of interest, and, more in general, to potential shifts of relative value allocation among stakeholders. Hence, an acquisition-driven growth process may bring about more tensions in the relationships with and among employees, suppliers and local communities. In addition, acquisitive growth might negatively impact their motivation, compared to an organic growth strategy (Buono and Bowditch, 1989, 1990; Haspeslagh and Jemison, 1991). Similarly to what occurs in case of a cost minimization strategy, trade-offs and tensions are expected to reduce the credibility of stakeholder integration and thus weaken its impact on stakeholder advantage.

Note that, in absolute terms, the impact of acquisitive growth on effectiveness of an integration-oriented stakeholder strategy does not need to be negative, and might even turn out to be positive for the generation of stakeholder advantage. This is the case, for example, when the value logic of the acquisitions completed by the firm leads to revenues rather than cost synergies. Nevertheless, in a comparative logic, and all else being equal, we expect that organic growth
strategies will create significantly less tensions among existing stakeholders, and that it would in any case avoid the need to engage and include the interests and needs of new stakeholders from acquired companies. We therefore submit that:

**Proposition 2. The stronger is the orientation towards organic (as opposed to acquisitive) growth in the firm’s corporate strategy, the stronger is the impact of an integrative (as opposed to a decoupling) stakeholder strategy on the generation of stakeholder advantage.**

Let us now examine the opposite sense of the theoretical causality arrow. How would the strategic choice of enactive substantive change in the implementation of the firm’s stakeholder strategy influence the likelihood of success of the same firm’s competitive strategy in generating customer advantage?

To begin with, it is worth noting that, regardless of the type of generic strategy managers have adopted to achieve customer advantage, an integrative (substaintive) stakeholder strategy is likely to enhance stakeholder commitment and support to its implementation, compared to a decoupling one. This is simply because integrative stakeholder strategies are associated with greater information sharing, inclusiveness of multiple interests in decision processes, and overall credibility (due to the consistency between stated and actual behaviours). In turn, this type of stakeholder strategies should lead stakeholders to trust the firm’s key decision makers to support them, as well as to accept short term sacrifices, if required. Therefore, a stakeholder integration strategy allows a firm to avoid the costs and inefficiencies implied by the need of managing conflicts and negotiations, to benefit from higher stakeholders’ cohesion and commitment, and, ultimately, to increase access to higher quality resources, in terms of human, social and physical (e.g. raw material) capital. For instance, good labour relations are likely to entail an enthusiastic and effective workforce, which would be useful to execute on either a cost leadership or a
differentiation competitive strategy (Hamel and Prahalad, 1993, Hull and Rothenberg, 2008). From this point of view, stakeholders’ commitment can be seen as a valuable asset (Dierickx and Cool, 1989), which is likely to enhance the effectiveness of any kind of competitive strategy (Jones, 1995).

Both differentiation and cost leadership strategies are also likely to suffer from the negative side of the coin in similar ways. The significant organizational change efforts connected to the integration of stakeholders’ interests in core organizational processes, structures, and even (competitive) strategies may significantly increase the complexity and reduce the speed of decision making, or even infuse inertia into organization, which would impair the firm’s ability to react and adapt to rapidly changing environments (Brown and Eisenhardt, 1997). The net, direct, impacts of integrative stakeholder strategies on the effectiveness of competitive strategies is an eminently empirical question, of course. We are interested, in this paper, to adopt a comparative perspective among strategic alternatives and identify the arguments that might support a different impact of stakeholder strategy on the two extreme forms of competitive strategy choice.

In this respect, we argue that there are reasons to believe that a stakeholder integration strategy might produce stronger impacts on the effectiveness of differentiation strategies, compared to the effectiveness of cost leadership strategies. First, an integrative stakeholder strategy, by its own nature, depends on, and simultaneously helps develop, organizational capabilities related to sensing, understanding, and satisfying stakeholders’ interests and demands. These capabilities also enable the adaptation of the firm’s product offer to heterogeneous and rapidly changing customers’ needs. In terms of the integrative framework presented in the previous section, an indirect and unintentional knowledge advantage might occur between the stakeholder and the customer systems, since dynamic capabilities honed through the sensing and adaptation to the evolution of stakeholder demands might transfer to the sensing and adaptation
to the evolution of customers’ needs and interests. Hence, it can be argued that a stakeholder integration strategy might enhance the effectiveness of a differentiation more than a cost leadership strategy.

Second, the implementation of a cost leadership strategy might actually be hindered by the costs and the requirements connected to the organizational change processes and the ongoing implementation of integrated stakeholder strategies. In fact, a decoupling stakeholder strategy, which does not incur in significant organizational change costs, and maintains shareholder oriented, simpler, decision-making interests, might be more consistent with, and conducive of effective implementation of, cost leadership competitive strategies.

Therefore, we submit that:

**Proposition 3. The stronger is the orientation towards integrative (substantive) stakeholder strategy, as opposed to decoupling (symbolic) strategies, the stronger is the impact of differentiation strategies on the generation of customer advantage.**

Finally, let us examine the impact of stakeholder strategy choices on the effectiveness of different corporate growth strategies, especially comparing organic to acquisitive growth. Similarly to what occurs for competitive strategies, also growth decisions, either organic or acquisitive, are likely to benefit from integrative stakeholder strategies. In both cases, a stronger involvement and commitment by stakeholders, presumably generated by integrative stakeholder strategies, is likely to generate support for the design and implementation of growth strategies. The question is whether there are reasons to expect a stronger positive impact in the design and implementation of one growth approach, compared to the other.

We believe there are, but they require more elaboration and fine-tuning than in the arguments proposed above. The reason is that, the influence of integrative stakeholder strategies
on acquisitive growth has to be qualified with respect to the different logics of value creation that acquisitions could pursue. Similarly to what occurs in case of a cost leadership strategy, a firm that grows primarily through acquisitions driven by cost synergy reasons is likely to put in place actions that are inconsistent with a stakeholder integration strategy. Cost synergies, in fact, require significant organizational and operating restructuring decisions, with lay-offs, plant closures, divestitures, and many other forms of interventions that damage the quality of stakeholder relationships (Haspeslagh and Jemison, 1991), often even to the point of re-negotiating explicit and implicit contracts with internal and external stakeholders (Shleifer and Vishny, 1994). The presence of integrative stakeholder strategies, therefore, will likely reduce the effectiveness of cost-synergy driven acquisitive growth strategies, since the commitments taken to take into account and optimize multiple stakeholder interests will work against the need to swiftly and efficiently reduce resource overlaps and inefficiencies in the acquired as well as the focal firm.

Differently, when the focal firm relies on revenue synergies in its acquisition-driven growth strategy, the capabilities and reputational assets generated through an integrated stakeholder strategies could be effectively leveraged in the context of post-acquisition integration planning and execution processes to enhance their effectiveness in terms of generating cross-selling, innovation or other forms of revenue growth opportunities (Capron, 1999: Haspeslagh and Jemison, 1991).

Therefore, the influence of an integrated stakeholder strategy on the effectiveness of acquisitive growth strategies will be strongly dependent on the type of synergies that the focal firm will primarily rely on in the planning and execution of its acquisitions.

We thus submit the following propositions, leveraging on this critical distinction:
Proposition 4a: In case of revenue-synergy driven acquisitive growth, the stronger is the orientation towards integrative (substantive) stakeholder strategy, as opposed to decoupling (symbolic) strategies, the stronger is the impact of acquisitive strategies on the generation of customer advantage.

Proposition 4b: In case of cost-synergy driven acquisitive growth, the stronger is the orientation towards integrative (substantive) stakeholder strategy, as opposed to decoupling (symbolic) strategies, the weaker is the impact of acquisitive strategies on the generation of customer advantage.

CONCLUSIONS

This article aims to contribute to the development of new theory in strategic management in three main ways. First, by presenting an argument for research in strategic management to revert, or at least counteract, the trend towards increasing levels of segmented specialization in theoretical, and related empirical, research, by beginning to examine and develop integrative models of strategic decision-making. Second, by proposing an overarching framework of strategy integrating different theoretical schools in our field, and introducing new ways to explain the creation and sharing of economic surplus among customers and stakeholders. Third, by applying the framework to explore the interdependencies among strategic decisions related to three domains of study in our field – competitive, growth, and stakeholder strategies – that is, developing propositions on how a decision in one field might affects the effectiveness of decisions in other fields.

The framework introduced proposes an integrated view of firm strategy by identifying five sets of decisions that form the “entrepreneurial formula” of the firm itself. They include the “product systems”, with the classic selection of (a) products offered and (b) customers served, the
“factor systems” with the selection of (c) stakeholders engaged and (d) the relational contracts proposed, and finally the pivotal role of (e) resources and capabilities in ensuring the support and the dynamic “transmission chain” between the firm’s activities in both type of systems.

The framework also proposes a dynamic interdependence between three types of outcomes that those decisions intend to achieve: customer advantage, stakeholder advantage, and economic surplus. Splitting the well established notion of competitive advantaged in the component connected to the revenue generation (customer advantage), of the explicit, fixed, contractual cost commitment (stakeholder advantage) and of the general pool of residual value that is generated from the difference between these two (economic surplus) constitute one of the key insights in this paper. The reason is that this notion of economic surplus is free from the pre-conceived idea that shareholders are the sole residual claimants, for which there is no legal basis in any legislation (Stout, 2012), and addresses the need for the field to have a general model of the firm’s governance, based on an inclusive and flexible set of rules for the allocation of the surplus created by the joint work of the “production team” (Blair and Stout, 1999). Indeed, our model includes a sixth set of decisions, related to the distribution of the surplus created to customers and stakeholders, as well as to the endowment of a firm’s resources and capabilities, and to the process through which this allocation occurs in the given focal firm.

The model is still not complete, however. As Andrews (1980) reminds us, strategy is a pattern of decisions that are meant to realize, and at the same time reveal in its evolutionary process, a firm’s purpose (or raison d’être). It follows that the firm’s purpose, or at least the cognitive framing that organizational members have of it at a given point in time, must be part of a complete model of strategy, as it provides the basis for the 5 sets of key decisions of the “entrepreneurial formula” to be formed and eventually adapted. Together with purpose and its link to the sets of strategic decisions, the model requires space for the set of governance
mechanisms defining the “rules of the game” for the interplay between the members of the “production team” (the stakeholders), the processes through which their interests are taken into consideration, and the ways in which the economic surplus that their joint work generates is allocated among them, the customers and the firm itself. Thus, a promising line of inquiry building on these initial insights will focus on how strategic and surplus allocation decisions align with firm purpose and the form of governance adopted by the focal firm. Furthermore, the same line of inquiry could examine, in a dynamic framing, the evolutionary processes that might explain the firms’ capacity (or lack thereof) to innovate and adapt the different elements of the entire enterprise system described above to changes in customers and stakeholders’ expectations, interests and needs. This line of theoretical development inquiry would then form a fertile basis for empirical work on innovation and adaptive change processes that involve the full spectrum of organizational traits, over and beyond the limitations of current models of firm evolution focusing solely on its (routinized) behavioral traits (Zollo, Cennamo and Neumann, 2012).

For what relates to the exploration of interdependencies and interactions between different domains of strategic choice, this article should be viewed simply as a “proof of concept”, an illustrative exercise to support future scholars, as they will endeavor to model, and eventually empirically test, the nature of the interdependencies among the various actors of the “entrepreneurial formula”, as well as the role of enhancing and hindering factors shaping the dynamic interactions among these constructs. Hence, not only will it be necessary to integrate in the model domains of strategic decisions that go beyond the competitive, growth, and stakeholder strategies considered above. It will be even more important to begin the identification of the factors and the conditions that inform the nature of these interdependencies, and therefore the quality of the decisional and performance outcomes generated by the “production team” and the customers that they succeed to serve.
The propositions derived from the application of the conceptual framework for an integrated model of strategy described above might also deserve attention from current and future scholars. The combination of the four propositions proposed speaks, in fact, of the emergence of two internally coherent “bundles” of strategic choices – namely differentiation, internal growth (or revenue synergy-driven acquisitive growth) and integrated stakeholder strategies on one side, cost leadership, external growth (especially cost-synergy driven) and decoupled stakeholder strategies on the other –. In addition to the intriguing theoretical intuitions that link three domains of strategic management literature that have thus far been studied in isolation, the implications for the design and implementation of strategy for practitioners might be even equally profound. We are starting to see, in fact, the emergence of patterns of strategic decision-making across the diverse domains that can be particularly virtuous, with others potentially harmful, as they are considered together, despite the fact that each one, per se, might be perfectly justifiable to internal and external audiences.

So, what might be the next steps towards the development of an integrated theory of strategy, besides some of the key points made above, and beyond the many limitations inherent in this initial foray? First of all, scholars will be able to add richness and depth to the, relatively stylized, way in which we studied the decisional alternatives. For instance, the growth strategy alternatives could be extended to include options like alliances and joint-ventures. Also, the “direction” of corporate growth strategies could be explicitly considered, taking into account that growth could occur through vertical integration, internationalization, and product diversification. More generally, we expect that the consideration of a richer set of alternatives and strategic options for each decisional dimension considered will lead to a deeper comprehension of the interaction effects among strategic choices belonging to different domains.
A second and promising avenue for future research towards an integrated theory of strategy consists in the cross-fertilization of bodies of knowledge outside the strategy field, normally related to one specific domain of strategy, with a different one. The recent paper of Bridoux and Stoelhorst (2014) is an interesting case in point. Drawing from social psychology, a domain intellectually close to the newly formed research agenda in behavioral strategy, they inform questions related to stakeholder strategy, suggesting that stakeholders can be studied along behavioral categories, such as those of “reciprocators” and of “self-regarding” ones. The implications from this example of cross-fertilization are that firms should use different approaches to motivate, attract and retain these two segments of contributors of production factors, and hence to create stakeholder advantage by aligning the prospects offered in the relational contracts established with each segment to their behavioral profile. Furthermore if further developed, this line of work could contribute to understand how a given positioning on a specific resource market affects the positioning on the others, as well as on the final product markets. For instance, the strategic decision to segment stakeholder in the proposed way could significantly affect the types of choice made in terms of competitive and growth strategies, as well as the relative effectiveness of those choices in terms of their impacts on the creation of customer advantage. And, vice versa, one could inquire on the influence of competitive and growth strategies on firms’ willingness to adopt that specific stakeholder segmentation, and on the effectiveness of that choice vis-à-vis the creation of stakeholder advantage.

Another important line of work towards an integrated model of strategy would prioritize the development of explicit theoretical treatments of the innovation, learning and change dynamics that shape the evolution not only of the strategic decisions and consequent behavioral adaptations on both the products and the factors systems, but of the fundamental organizational traits that shape the adaptation of strategic decisions and behaviors. In particular, the evolution of the
cognitive framing, implicitly or explicitly articulated, related to the purpose behind the existence and functioning of the focal firm, and to the set of rules and understandings that shapes the way the “production team” of the owners of the production factors work together and share the surplus of their work among themselves as well as with the customers they intend to serve.

The empirical validation of such integrated model of strategy, and of its future evolutions, will most likely require a significant effort in the mix of research designs and methodologies required to fit such a complex task. Observing the evolution of the interdependencies among strategic decisions, of their mutual influences on the production of customer and stakeholder advantage, and of the overarching purpose and governance arrangements that shape the functioning of the enterprise model (or entrepreneurial “formula”) is all but a standard research endeavor. For instance, it might require a significant investment in capacity building by the strategic management community related to the engagement of business organizations and their stakeholders in the co-production of research designs that can generate higher quality of observation of the phenomena described, better quality of evidence produced (e.g. through the design of collaborative field experiments in pilot projects) and a collaborative distillation of the insights from the empirical inquiry. The development of “engaged scholarship” (Van de Ven, 2007), implicitly applied already in complex research programs in engineering and medical fields, will be required if the strategic management field will want to move from the intellectual exercise of building an integrated model of strategy to its empirical validation, and consequent, evidence-based, refinement.

A complex and challenging endeavor, no doubt. But one that can do justice to the significant potential of our field to produce integrative knowledge and insight for future generation of scholars as well as for the (actual and potential) users of such knowledge, our core stakeholders, in the business firm, in the government and in civil society.
REFERENCES


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Figure 1 – An Integrated Model of the Firm’s Activities and Results

Customers

PRODUCT MARKETS

PROPOSED PRODUCT MARKETS

PRODUCT RESOURCES/CAPABILITIES

FIRM RESOURCES/CAPABILITIES

FACTORS MARKETS

PROSPECTS OFFERED

Employees
Financiers
Communities
Suppliers

Commitments/perspectives offered to stakeholders vs. competitors

Product features, services, price, conditions vs. Competitors

CUSTOMER ADVANTAGE

ECONOMIC SURPLUS

STAKEHOLDER ADVANTAGE

Figure 2 – Hypothesized interdependencies between competitive, growth and stakeholder strategy

COMPETITIVE STRATEGY
(Differentiation vs. Cost leadership)

GROWTH STRATEGY
(Internal vs. External)

STAKEHOLDER STRATEGY
(Integrated vs. decoupled)

CUSTOMER ADVANTAGE

STAKEHOLDER ADVANTAGE

1 +

2 +

3 +

4 +/-