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STRATEGY: A “PATHFINDER” MISSION?

“In Africa, they say that there are two hungers, the lesser hunger and the greater hunger. The lesser hunger is for the things that sustain life, the goods and services, and the money to pay for them, which we all need. The greater hunger is for an answer to the question ‘why?’, for some understanding of what that life is for” (Charles Handy, 1997:13).

1. RISE TO THE OCCASION

Following the introductory quotation, Charles Handy refers to the assumption of capitalist societies which argues that the greater hunger is best satisfied by “appeasing the lesser hunger”. Consequently, money becomes the measure of all things, but people are left behind with “hungry spirits.” This image points to a very general dilemma of human beings having to deal with “pinching” objectives, such as dealing with both the short term and the medium or long term, with both surviving and purposeful living, etc.

This is not, of course, different in business life. Companies also have to deal with objectives which cannot be simultaneously maximised. The integration of the short term and the long term, for example, is a major dilemma for all companies. Here, the “distant” long term is also “dealt” with by appeasing the visible, forceful short term. Usually, the latter situation is more easily proven by quantitative statements, while the former only has support from face-value validity.

The quest for performance of a steel and aluminium company over time will be central to this dissertation. A rule of thumb when confronted with such a complex problem is to break it down into less complex smaller problems and to solve these. An initial way of breaking down the performance problem is by using an “outside-in” approach such as “industrial organisation.” This approach will explain a company’s performance by its relative position in the steel and aluminium sector or industry. A second way of breaking down the business performance problem is by using an “inside-out” approach such as the “resource-based view of the firm.” This approach will explain the performance of a firm by focusing on the unique resource accumulation of that firm over time. Consequently, performance is determined partly by the sector and partly by a firm’s resources. The synthesis of the two answers provided results in a “bit of both reasoning” simply because *interactions over time*

between the steel and aluminium company and its industry are left out of the explanation.

This research project was initiated because of these synthesis problems, which have seemingly gained weight because of the popularity of economic theory (e.g. the resource-based view) within strategic management. By taking the interaction and fusion of a firm and its industry seriously the *complex reality of business life* will be embraced. In "appeasing" *both* firm and industry, and in uniting resources in their territory, a better understanding will be gained.

1.1 THE "BONES OF STRATEGY": DECISION AND CHOICE

There are also problems of synthesis within the strategy of a firm. Already in 1990, Mintzberg and Waters, in an exchange of views on "studying deciding", wondered if decision was getting in the way of understanding strategy behaviour. Since 1990, much research has been done regarding strategy, but the focus on decision and choice at the expense of behaviour and action has been a continuing story. Pettigrew (1990:6) argued that "Beneath the words [like decisions] lie ontological and epistemological assumptions which open up and close down fields of inquiry". With this he meant that using a concept like that of decision and choice as the unit of analysis may lead to the exclusive focus on what Pettigrew referred to as the "front-end decision to-go-ahead stage" at the cost of implementation.

Recently, upon the reversal of the takeover by Dasa of Fokker Aircraft plc in the Netherlands, the CEO of Dasa, Mr. Schrempff said: "You cannot eat strategy". With this he meant that even when two companies are in theory - at the point of decision - complementary and profitable, this may not be the case in practice. Obviously, strategy here represented the proverbial or theoretical pudding, which is only proven when eaten (or practised). In this case, strategy remained a theory. Strangely, much of what strategy is about, both in business schools and companies, does not move beyond a "theory" (i.e. strategic plan and a decision of choice) and a clear gap exists between theory or strategic intent *becoming* practice or implementation (e.g. Pettigrew, McKee & Ferlie, 1988). This theory of a strategy plan or decision, however, as it is posed in this dissertation, represents only part of the story. And in another way, optimising decision making alone appeases the lesser hunger as mentioned by Handy (1997).

1.2 THE "FLESH AND BLOOD OF STRATEGY": BEHAVIOUR AND ACTION

Strategic management needs to break through the watershed between *theory* (or potential ability) and *actual practice* (behaviour and action) at both the level of the firm and the level of the sector.

In this dissertation, the steel and aluminium company Koninklijke Hoogovens plc will serve as bearer of the message why it is that we need this breakthrough and what - among others - is obtained by it. In focusing on the

company's organisational life, its strategy paths will be highlighted as these move within a "territory" through time. The territory (e.g. industry or sector) of the company is very important because it represents the proverbial "iron sharpening iron" for a company. This interaction process between a company and its sector will be central to this dissertation in discovering the way in which the resources of a company come into being over time.

However, to be able to do this, some obstacles need to be overcome, such as obstacles of theory and obstacles of method. Most concepts of strategy, the five forces and the value chain of Porter (1980, 1985) and the seven S's of McKinsey, etc., for example, describe a situation, and fit comfortably into the "bones" of strategy, but are not *dynamic or processual* enough to be able to fit within the long term "flesh and blood" process of strategy formation. In order to be able to describe actual practice, processual concepts will be introduced and illustrated.

1.3 THE FOCUS: THE "BECOMING" OF RESOURCES IN THEIR TERRITORY

The "bones" and the "flesh and blood" of strategy will be brought (closer) together in this dissertation by focusing on the formation or coming into being of a firm's resources within their territory. After all, "resources are not, they become" (De Gregori, 1987) and this "becoming" can only occur through time, by behaviour and action, and in the reality of a firm interacting within its sector.

Entering this reality when working as an academic researcher in an organisation is a staggering experience. Standing between two worlds, it turns out that many managers do not really value our academic theories of strategic management and many academics do not really value managerial practice. This, of course, is hard to swallow! Without wanting to find fault, it seems that management theorists have become too "theoretical" and management have become too "practical" to even meet each other. It is hard to find genuine management in management theories or genuine theory in management practice. Gerry Johnson, now a professor of strategy but at the time a full-time executive, was struck by the fact that

"Most of my reading on management that became my early guide was from books and papers that appeared to say very little about management as I had understood it. The theories and the techniques seemed sensible enough and I could identify that many were known and some employed by managers, but the authors neglected a whole raft of issues and problems that managers faced and that, at least in my experience, were central to the lives of managers and to decision-making" (1987: xiii).

Management theory should take the "whole raft" of management practice seriously. This, however, will not provide a "quick and dirty" theory as most busy managers would like it to. Embracing the *complex* reality of management practice will provide a *complex* theory as well. On the other hand, a theory as

complex as reality itself, will not provide us with new insights. Consequently, some limitations and simplifications had to be adopted. In focusing on the *fusion* of a firm's resources and its sectors, several more specific - but still important - features of the firm and the sector were underexposed. At the same time, effort has been made to shed *some* light on these features such as the internal power struggle of individuals within the firm before actions are made.

This *academic* dissertation naturally finds its audience in the academic world, in those interested in management theory. However, efforts have been made to move the focus onto management theorists who value managerial practice and onto management practitioners who value managerial theory. This dissertation will add its "few Euro cents" in making sense of the complex reality of business life.

2. DEVELOPING THEORY

Within the "tools" of strategic management there are hardly the language and corresponding concepts to describe and deal with the formation process of a company's resources in their context. Moreover, many concepts treat strategy as if it were a simple rational sequential analysis process instead of the uncertain, ambiguous and complex exercise it is in reality. Researchers like Johnson (1987), Pettigrew (1985a), Pettigrew and Whipp (1991) and others are notable exceptions to this rule.

A first objective of this dissertation is to overcome obstacles of synthesisⁱ regarding strategic management theory. All too often, strategic management (and the formation of resources) is still seen as an a-processual and a-historical exercise (Pettigrew, 1985a/b, 1990, 1992). What a company is today is not an outcome of sheer coincidence but an outcome of a historical pattern, or path, of actions: *an outcome of a historical process of becoming*. On the other hand, what a company is today, is neither to be seen as a choice exercise by omniscient management, but much more in terms of activities (behaviour) and action (implementation). And finally, strategic management is not a one-dimensional exercise either, resembling management activity *or* market forces. Instead, strategic management is an extremely complex exercise at the boundary of a firm and the market sector in the midst of an environment. It is in the *interaction* between a firm and a sector that strategic management becomes apparent. As mentioned above, in dealing with these obstacles for synthetic strategic management, theory will be developed.

Fascinated by Piotr Sztompka's (1991) "Society in Action: The Theory of Social Becoming" this dissertation will transfer - and reconstruct - the concept of "social becoming" to business *society*. Describing a firm's resource

ⁱ The word "synthesis" is used in a every day manner as pointing to the resource-based firm meeting the sector; of social becoming. It does not put forward any "beyond post-modern" ambition whatsoever.

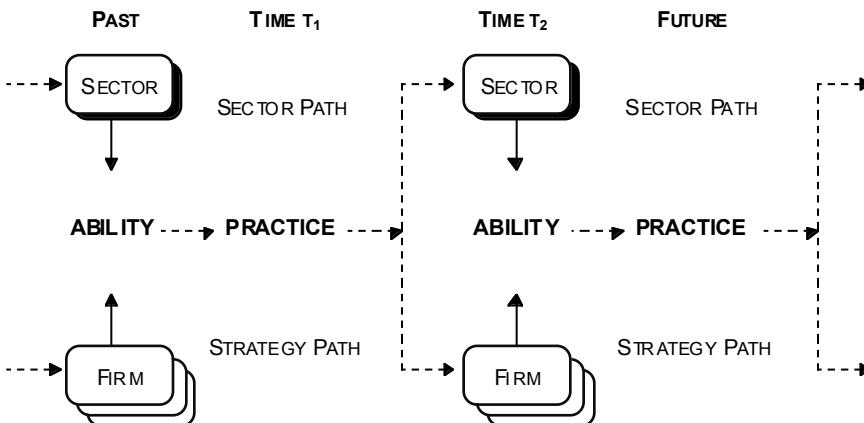
formation *as a process of social becoming* will be the central thread throughout this dissertation. Doing this will involve several lines of reasoning:

- a conceptual process model of business reality (chapter 2);
- an exposition of meta-theoretical assumptions (chapter 3); and
- filling out the model with the “flesh and blood” of empirical reality (chapters 4-6).

Strategic management is only relevant because the world is moving on, hence the need for the concept of time within strategy. The most important element of social becoming is that there are two modes of existence of business reality: (potential) *ability* and (actual) *practice*. In strategy literature this is easily recognised as strategy formulation and strategy implementation at the level of the firm. It is in potential ability and actual practice that the firm “meets” its sector and vice versa. Practice is the proverbial proof of the pudding of everything a firm and the sector have to offer. Also, it is practice that sets the stage for the “next” interaction. This, of course, is a continuous process and points to the “playing field” in which a firm operates. This field is a result of interaction between, and among, the sector as collectivity and the firm acting as a concrete group of individuals. It is in between these forces that “reality” takes place. Theories of strategic management have a tendency to focus on either the firm or the sector. The first (e.g. resource-based view) predominantly emphasises the agency of management, while the later (e.g. industrial organisation) emphasises the power of the “external environment”. Figure 1-1 on page 5 highlights three dimensions of the conceptual process model:

- time (past, present, and future);
- three levels of analysis (sector, firm, and interaction); and
- (potential) ability and (actual) practice.

FIGURE 1-1 A PROCESS MODEL OF “BECOMING”



2.1 TIME

As noted above, many strategic management concepts describe or prescribe situations but have difficulty describing process (i.e. continuity and a change in situations) over time. In business life, strategy formation, as both "bones" and "flesh and blood", can occur only in time. The introduction of diachronic time into strategic management theory is important for introducing interaction between firm and sector. Apart from functioning *in* time (i.e. continuity), phenomena also change *over* time. To admit that strategy formation is functioning in time remains rather static without admitting that strategy formation is changing through time. This marks a move from a synchronic (simultaneous) process towards a diachronic (historical) process (Sztompka, 1991). A historical process takes into account the differences in the speed at which phenomena change. Through time a sector (a collective structure) interacts with firms and the former might change more quickly than the latter or vice versa. It is through this interaction that conditions are reproduced and are possibly changed through time.

2.2 THREE LEVELS OF ANALYSIS

When analysing a strategy process, there is a need for dynamic process concepts to be able to analyse strategic process *in motion*. In line with the objective of analysing resource formation of a firm through time, this dissertation adopts a resource-based focus. This means that special attention and interest will be given to the development of a firm's collective resource conduct *in its* territory. Consequently, the level of the firm interacting with its territory will be central to this dissertation, *without* losing the importance of the firm itself. In order to be able to analyse resources, several resource-based concepts will be introduced in chapter 2, §2. Facilitating the importance of interaction, the collective structure of the sector, being a broader concept than the industry, will be introduced as a second level of analysis. To expose sector dynamics several concepts will be introduced in chapter 2, §3.

The question that arises after the discussion of the firm and the sector as two levels of analysis is when, where, and how these levels of analysis "meet" in interaction. Here (chapter 2, §4) the concept of social becoming will describe interaction not only between the firm and the sector, but also as moving through time and as "floating in the environments of nature and consciousness" (Sztompka, 1991:138).

2.3 "POTENTIAL ABILITY" AND "ACTUAL PRACTICE"

As mentioned above, the implementation of "potential ability" (e.g. strategic plans, etc.) in order to get to "actual practice" (implementation) is still too often taken as a technicality within strategic management. It is in the transition from ability to practice that several interesting (e.g. human) factors enter the scene of strategic management. Why do people not act according to the plans agreed upon by "the management"? And why does this competitor

all of a sudden lower its product prices? Every manager faces these kinds of problems, particularly when using “bone” strategy or decision-making approaches only. However, in introducing all the insecurities of moving from potential ability to actual practice, business life will show its real colours, such as uncertainty, ambiguity and complexity: characteristics commonly known to be unpopular among mere mortals.

Sztompka (1991) refers to the complex, idiosyncratic *fusion* of the realities, firms interacting in their sector, providing *ability* as an enabling, limiting and enforcing context in which a firm is located. The question that will be answered in this dissertation is what kinds of ability will lead to possible successful practice for a firm concerning the coming into being of its resources.

2.4 CONCLUSIONS

Introducing “reality” into a *theory* of strategic management in an *academic dissertation* is a seemingly obscure exercise. Nevertheless, it will be emphasised that there is nothing so practical as a good theory. Efforts will be made to develop a genuine “interaction theory” answering the question as to what kinds of ability will lead to possible successful practice for a firm and the development of its resources.

The first objective of this dissertation, to overcome theoretical obstacles of synthesis, is dealt with by presenting a conceptual process model of becoming, highlighting time, three levels of analysis, and potential ability and actual practice.

3. DEVELOPING METHOD

In any research, but especially in a processual research effort uncomfortable in the ambit of “normal science,” an exposition of meta-theoretical assumptions should be given. It will be put forward that we need an epistemology able to capture the complex *interaction* between a sector and firms through time. Pepper’s (1942) contextualism will serve well in this field. Consequently, several quality indicators will be introduced that are capable of distinguishing “good” from “bad” processual research. According to Pettigrew (1992, 1997), there are five basic guidelines along which processual research should be developed. Good processual research, being a craft, is also highly dependent on the experience of the process scholar in question.

A second objective of this dissertation is to overcome obstacles of synthesis regarding epistemology and methodology.

The discussion of epistemology sets the stage for the methodological approach (an in-depth processual case study of Koninklijke Hoogovens plc). Rather than “choosing” in favour of either an inductive or a deductive methodology, it is emphasised that there have been iterative moves between data and theory. This is in line with the “spirit” of Glaser & Strauss’ original study of 1967 and has recently been emphasised by Orton (1997) and Pettigrew (1997). Several techniques have been used for (mostly qualitative) data

collection and data analysis, such as textual analysis of annual reports, company documents, sector documents and academic documents (literature), participative observation and in-depth interviews.

The second objective of this dissertation, to overcome meta-theoretical obstacles of synthesis, is dealt with by putting forward an epistemology capable of capturing an understanding of interactions between both sector and firm through time, and a methodology capable of enhancing an understanding of these interactions.

4. DEVELOPING RESOURCES

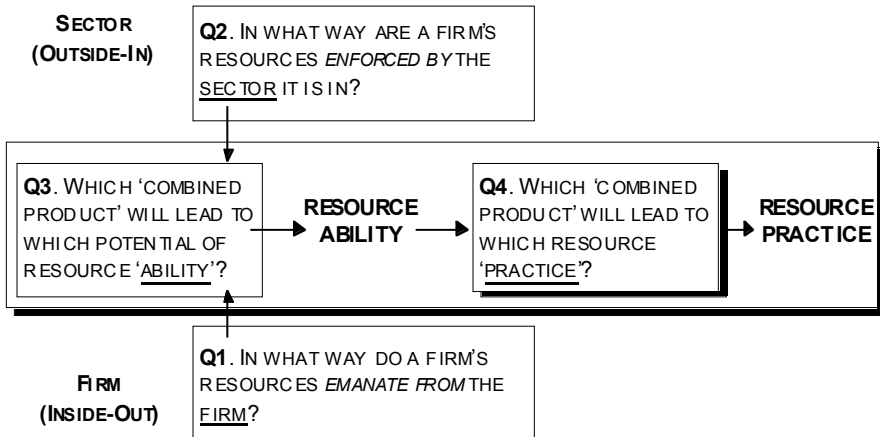
The way this introductory chapter has been written so far might suggest to the reader a rather linear and straightforward research process. Nothing could be further from the truth. However, the research process could be summarised under the banner of "the coming into being of a firm's resources." The journey on which the author's fascination has taken him is far from systematic and straightforward. In fact, three journeys are presented to the reader at the same time: the journey of the coming into being of a "dynamic resource-based theory", the journey of the formation of "a processual method" and the journey of the "becoming" of the resources of a firm - Koninklijke Hoogovens plc.

A third objective of this dissertation is to describe and analyse the social becoming of a company's resources in their territory. This latter journey will be highlighted by focusing first on both the *firm's* and the *sector's* historical path. A firm's historical path will be referred to as the strategy path and a sector's historical path will be referred to as the sector survival path. As mentioned before, in order to shed light on the quest for a firm's resource formation in its territory several obstacles need to be taken. A first research question to be answered concerns the way in which a firm's resources *emanate from* the strategy path of that firm through time ("inside-out"). An answer will be provided by a reconstructed resource-based view put forward in chapter 2 in interaction with business data. Once the inside-out approach has been described a second research question concerns the way in which a firm's resources are *enforced by* the sector survival path ("outside-in"). An answer to this question will be provided by a reconstructed firm-in-sector perspective. Also discussed in chapter 2 and developed in close co-operation with management.

Then, in line with this dissertation's call for interaction (synthesis) and processual description we will move on to a third research question, speculating as to which "combined product" of interaction between the firm and the sector (e.g. research questions 1 and 2) will lead to which potential of resource "ability"? The answer to this question will set the stage for our final quest of a firm's resource formation in its territory. As mentioned before, the proof of the ability of the firm and the ability of the sector is in the practice. Consequently, the fourth research question will address the most difficult phenomenon of all:

which “combined product” of interaction between a firm and its sector will lead to which resource “practice”? (see Figure 1-2 on page 9)

FIGURE 1-2 RESEARCH QUESTIONS



These research questions resulted from the conceptual process model (chapter 2) and the exposition of meta-theoretical assumptions (chapter 3). Filling out the model with the “flesh and blood” of empirical data will be reported in three empirical chapters featuring the 80-year history of the steel and aluminium company Koninklijke Hoogovens plc. This extensive case study will serve as an *analytical generalisation* to the theory of chapter 2 as opposed to statistical generalisation about a population of firms (cf. Yin, 1994). Chapter four will provide a bird’s-eye view and will serve as a stepping stone to the process analysis of the more detailed chapter five. Chapter six will provide a systematic comparative view on the output of resource formation processes of Koninklijke Hoogovens plc within its territory: the steel sector and the aluminium sector.

The third objective of this dissertation, to describe and analyse the social becoming of a company’s resources in their territory, is dealt with by presenting a detailed case study of the social becoming of the resources of Koninklijke Hoogovens plc in their territory.

5. IN SHORT... A “PATHFINDER” MISSION

This dissertation presents the author’s fascination with the coming into being of a company’s resources in the midst of its sector(s). The social becoming of a firm’s resources is presented as a “*pathfinder*” mission on the level of both the firm and the sector. In viewing both the firm and the sector as moving along paths the focus will be on the continuity and change of these paths *and* their interaction. It is the task of a firm’s management to react to, or in some cases to change the behaviour of the sector. However, a change in behaviour by the firm will invite a change in behaviour by other companies in

the sector, or feedback effects. Some of these reactions - the so-called feedforward effects - can be anticipated. At any event, the challenge of management in creating and exploiting resources lies in anticipating which "combined product" of a firm's abilities and the sector's abilities will lead to which potential resource "ability," and consequently will lead to which resource "practice".

Most proponents of the much cited resource-based view, however, paint a partial, distant and "bloodless" picture of the relatively static resource "base" of a firm's performance. Based on a discussion of the literature and an analysis shedding light on the firm's resource formation over time within its sector, a conceptual process model will be provided for the purposes of analysis and description. In a two-step-process (epistemology and methodology) the conceptual model of chapter 2 will then be "grounded" in a discussion of the author's meta-theoretical position.

The empirical work in which this dissertation is embedded will then be presented. First, based on the theoretical concepts in chapter 2, the steel and aluminium sector will be analysed and the formation process of Koninklijke Hoogovens described. In the next step, the data gathered will be analysed and highlighted in order to shed light on the resource formation process. In this step, the complexity of these processes will be emphasised. In the next step, by introducing comparative analysis, the complexity will be reduced and the focus will shift to the outcome of the resource formation process. Finally, the argument of this dissertation will close by answering the intriguing question: What have we learnt?