Strategic management at the beginning of the XXI century: the impact of crisis turbulences

Abstract: The nature of corporate strategy problems cannot easily be framed within a fixed paradigm. Strategic management is necessarily a multi-paradigmatic discipline, requiring varied theoretical perspectives and methodologies. The purpose of this paper is to present and assess the evolution of corporate strategic management in the first decade of the current century, particularly under the influence of the recent economic crisis. For the last two decades strategic management has been dominated by a resource-based view. Recently we can distinguish two important perspectives of research: behavioral and institutional. The first regards decision-making processes of company executives based on considerable progress made by psychologists in identifying and validating fundamental cognitive constructs which are promising for advancing theory and research on top management teams. The institutional perspective is based on increased realization of the importance of national and global institutions for the competitiveness of companies, sectors and countries.

Keywords: strategic management, evolutionary framework, behavioral perspective, institutional perspective, entrepreneurship, hypercompetition.

JEL codes: D01, D02, D03.

Introduction

Strategic management as a field of inquiry is one of the more important and widely cited subjects and forms a critical part of the business and management curriculum at all levels. In the early 1960s, there was little mention of strategy in company reports, whilst today it is difficult to find a company report without encountering the word strategy several times. A number of scholars have examined the evolution of strategy as a field of inquiry: Mintzberg, Ahlstrand and Lampel [1998], Hoskisson et al. [1999], Phelan, Ferreira and Salvador [2002], Ramos-Rodriguez and Ruiz-Navarro [2004], Nerur, Rasheed and Natarajan [2008], Ghobadian and O’Regan [2008], Furrer, Thomas and Goussevskia [2008].
Strategic management as a field of inquiry is firmly grounded in practice and exists because of the importance of its subject. The strategic direction of business organizations is at the heart of wealth creation in modern society. The field, like medicine or engineering, exists because it is worth codifying, teaching, and expanding what is known about the skilled performance of roles and tasks that are a necessary part of our civilization [Rumelt, Schendel & Teece 1991]. Strategy started life with a high degree of practitioner orientation and the theoretical perspective now holds sway. Strategy is academically more respected but arguably less relevant to needs of practicing managers [Ghobadian & O’Regan 2008].

1. Strategic management as an academic field of inquiry

Strategic management as an academic field has been reconceptualized and relabeled – from ‘business policy’ in 1979 by Schendel and Hofer [1979]. Strategic management is now a firmly established field in the study of business and organizations. During a relatively short period of time, this field witnessed a significant growth in the diversity of topics and variety of research methods employed. The field of strategic management is eclectic in nature. Its subject of interest overlaps with several other vigorous fields, including economics, sociology, psychology, marketing and finance.

It is commonly asserted that the field of strategic management is fragmented and lacks a coherent identity. This skepticism, however, is paradoxically at odds with the great success that strategic management has enjoyed. According to Nag, Hambrick and Chen [2007] strategic management’s success as an academic field emerges from an underlying consensus that enables it to attract multiple perspectives, while still maintaining its coherent distinctiveness. Strategic management’s apparent weakness seems to be its strength. Its amorphous boundaries and inherent pluralism act as a common ground for scholars to thrive as a community without being constrained by a dominant theoretical or methodological strait-jacket. Strategic management acts as an intellectual brokering entity, which enables the simultaneous pursuit of multiple research orientations by members who hail from a wide variety of disciplinary and philosophical regimes. At the same time, however, these diverse community members seem to be linked by a fundamental implicit consensus that helps the field to cohere and maintain its identity.

2. Evolutionary framework

Early strategy researches were predominantly concerned with identifying firms’ “best practices” that contribute to corporate success [Chandler 1962; Ansoff 1965].
One of the more significant contributions to the development of strategic management came from industrial organization economics (IOE), specifically the work of Porter [1980, 1985]. The structure-conduct-performance framework and the notion of strategic groups, as well as provision of a foundation for research on competitive dynamics, flourished in the 1980s. The IOE paradigm also brought econometric tools to strategic management research. Building on the IOE economics framework, the organizational economics (OE) perspective contributed transaction costs economics and agency theory to strategic management. More recent theoretical contributions focus on the resource-based view (RBV) of the firm. While it has its roots in E. Penrose’s [1959] work, the RBV was largely introduced to the field of strategic management in the 1980s and became a dominant framework in the 1990s. Based on the RBV or developing concurrently was research on strategic leadership, strategic decision theory and the knowledge-based view (KBV) of the firm. Research focus returned to the company inside.

The case method based on clinical case studies was preferred by the early strategy scholars. There was little attempt to generalize the findings of a case to strategy making in general. Largely because of this approach, strategic management was not regarded as a scientific field worthy of academic study. As the field embraced IOE, it began to emphasize scientific generalizations based on the study of broader sets of firms. Additionally, strategy researchers increasingly employed multivariate statistical tools with large data samples. The availability of commercial databases such as PIMS and COMPUSTAT provided strategic management research with convenient access to a large amount of firm level data. The development of strategic management into a more respected scholarly field of study was at least partially a result of the adoption of “scientific” methods from IOE. The research methodologies are becoming increasingly sophisticated and now frequently combine both quantitative and qualitative approaches.

Normative, inductive case-based studies had dominated the early history of strategic management. Positivistic, deductive empirical research based on the falsification philosophy of Popper became dominant during the next period. Concern with explanation and prediction, rather than prescription, was strongly advocated by strategy scholars with the aim to elevate the field to a more rigorous, “scientific” academic discipline.

The above described evolution of strategic management for the period 1960–1999 can be shown with the aid of pendulum swings [Hoskisson et al. 1999]. After forty years the field of strategic management returned to its roots, e.g. to the company inside (Figure 1).

Strategic management owes a considerable intellectual debt to economic theory. A significant section of the strategy schools grew out of the neoclassical economic theory. The most influential contribution was undoubtedly M. Porter’s Competitive Strategy [1980] based on industrial economics. Porter argued that competitive ad-
vantage can be sustained. The doctrine of sustainable competitive advantage was embedded in the mainstream economic theory.

3. Last crisis effect on strategic management field

Till now there has been no direct evidence that the last financial crisis had an influence on the strategic management theory. There is a significant inertia factor as in each field of science. The editorial cycle in the most prestigious journals is at least two years. For example, in 2010 The Academy of Management Journal published a significant article by four authors: Mishina, Dykes, Block and Pollock, titled Why ‘good’ firms do bad things: The effects of high aspirations, high expectations, and prominence on the incidence of corporate illegality. The article was based on a sample consisting of all manufacturing firms that were part of the S&P 500 between 1990 and 1999 and had December 31 fiscal year-ends. The resulting data set contained 194 firms and 1749 firm-year observations.

Mishina’s et al. research [2010] identified 469 incidents of corporate illegality, of which 162 were environmental violations, 96 were fraud-related, 124 were related
to false claims, and 87 were anticompetitive violations. Recent corporate scandals involved prominent, high-performing firms. There is the assertion that the cost of getting caught decreases the likelihood that such high performers will act illegally. The authors have explained this paradox by using theories of loss aversion and hubris based on behavioral economics (see Section 4). Results demonstrate that both performance above internal aspirations and performance above external expectations increase the likelihood of illegal activities. The authors argue, on the base of behavioral economics, that the threat of decline in an organization's future relative performance and the potential costs to the organization and its managers of not meeting internal aspirations and external expectations increase the likelihood of illegal behavior, and that this likelihood is even greater when a firm is also prominent (e.g. Arthur Andersen, Enron, World Com or Tyco). The study contributes to the growing literature exploring how cognitive biases shape top management team (TMT) decision making.

Eight years before the above study, Bazerman, Loewenstein and Moore [2002] in their prophetic article Why good accountants do bad audits, written just after President G.W. Bush signed into law the Sarbanes-Oxley Act (SOX) in July 2002, warned of the repetition of accounting scandals. They underlined the psychological reasons of fraud. Corporate auditing is particularly vulnerable to unconscious biases. Accounting scandals such as Andersen’s audits of Enron, may have at their core a series of unconsciously biased judgments rather than a deliberate program of criminality. The most important in this case is self-serving bias: armed with the same information, different people reach different conclusions – ones that favor their own interests. Bazerman, Loewenstein and Moore [2002] stated that the reforms in the SOX did not address the fundamental problem of self-serving bias, and therefore they would not eliminate further scandals in the future. They were right.

Most major financial institutions, which had to be rescued from insolvency in 2008, were more than compliant with SOX. At the banks that collapsed, 80% of board members were independent. All firms had evaluated their internal controls yearly, and the 2007 reports from their external auditors showed no material weaknesses in those controls [Pozen 2010]. But that did not stop the failures. The model for corporate governance was broken [Lui 2011].

The reforms did little to improve the quality of people serving on boards or change their behavioral dynamics. Each company should be free to craft the exact nature of the professional directors’ role in accordance with the size and scope of the business [Evans 2010]. In fact, almost any allocation of roles between directors and management is permissible in the United States under the current legal framework – the same is true in most free-market countries.

Few CEOs would voluntarily embrace any scenario that shifts a significant degree of power from management to the board. A few brave and confident CEOs from sound companies might actually be willing to try out the new model. The practice
of majority often starts from the initiatives of a few enlightened CEOs. If experiments with the new model were to generate higher earnings or stock prices for the companies involved, then the new model would spread [Pozen 2010].

Pozen [2010] proposed a model of professional directorship. In this model, all boards would be limited to seven persons. Most of the independent directors would be required to have extensive expertise in the company’s lines of business, and they would spend at least two days a month on company business beyond the regular board meetings.

The articles discussed above represent two different perspectives: behavioral and institutional. These two perspectives are strictly related by feedback. Institutions influence behavior of decision-makers. The behavioral perspective regards microeconomic decision-making by company’s executives. The institutional perspective regards macroeconomic institutions. Thus, the basic hypothesis of this article is that the two perspectives have dominated the current strategic management literature, although RBV is still influential (Figure 2).

---

**Figure 2. Evolution of predominant area of research in strategic management**
4. Behavioral perspective: micro level

Behavioral economics strengthens the explanatory possibilities of economics by providing it with more realistic psychological foundations. The most influential authors, Kahneman and Tversky [1979], documented violations of neoclassical economics and proposed an axiomatic theory grounded in psychological principles. Behavioral economics is founded on the premise that human beings are not totally rational and are motivated by unconscious cognitive biases.

4.1. Cognitive biases and improvement of strategic decision-making

Kahneman and Tversky [1974] introduced the term “cognitive bias” for the description of a deviation pattern in the judgment of people that occurs in particular situations. It is used to describe effects in the human mind, some of which can lead to perceptual distortion, inaccurate judgment, or illogical interpretation. Biases (e.g. framing, self-serving, confirmation, hindsight, loss aversion, status quo bias, money illusion, etc.) can be classified on a number of dimensions.

Mintzberg, Ahlstrand and Lampel [1998, pp. 150–173] distinguished a cognitive school in strategic management based on the achievements of cognitive psychology. A strategy is some kind of interpretation of the world and strategy formation is a cognitive process that takes place in the mind of the strategist. Thus, strategies emerge as mental perspectives – in the form of concepts, maps, and frames – that shape how people deal with inputs from the environment.

A survey prepared by McKinsey & Company [Lovallo & Sibony 2010] confirmed that cognitive biases affect the most important strategic decisions made even by the smartest managers in the best companies: mergers routinely fail to deliver the expected synergies, strategic plans often ignore competitive responses, and large investment projects are over budget and over time. Despite the growing awareness of psychological aspects of decision-making, most executives are incapable of recognizing their own biases.

Kahneman, Lovallo and Sibony [2011] described how to detect bias and minimize its effect. Most strategic decisions are influenced by many people and decision-makers can adjust their ability to spot biases in others’ thinking. We may not be able to control our own intuition, but we can apply rational thought to detect others’ faulty intuition and improve their judgment. Kahneman, Lovallo and Sibony [2011] developed a tool based on a 12-question checklist that is intended to unearth defects in cognitive biases of the teams making recommendations for executives. A study by Lovallo and Sibony [2010] of 1048 important business investments showed that when organizations worked at reducing the effect of bias in their decision-making processes (“debiasing”), they achieved returns (ROI) up to seven percent.
4.2. Leadership

A big part of the strategic management literature is devoted to CEOs (chief executive officers). Leadership, especially in a firm’s senior positions, has a significant impact on company performance. Recently, psychologists have made considerable progress in identifying and validating fundamental constructs that hold considerable promise for advancing theory and research on top management teams. There are several psychological concepts useful in strategic leadership analysis: the concept of core self-evaluation, the idea of intuition, the concept of entrepreneurial passion, etc.

Some new issues regarding leadership have appeared recently. According to I. Nonaka and H. Takeuchi [2011], people behave less ethically when they are part of an organization. Individuals who may do the right thing in normal situations behave differently under stress. Common rationalizations, that one is acting in the company’s best interest, or justification that one will never be found out, lead to misconduct.

Business leaders must extend beyond the company and create the common good. CEOs need to ask if decisions are good for society, as well as for their companies. Companies should start thinking of themselves as social entities charged with a mission to create lasting benefits for society. Unless companies create social as well as economic value, they will not survive in the long run.

I. Nonaka and H. Takeuchi [2011] after studying leadership in different organizations in the world, show that the use of explicit and tacit knowledge is not enough and CEOs must also draw on a third, often forgotten kind of knowledge, called practical wisdom. Practical wisdom is the experiential knowledge that enables people to make ethically sound judgments. The world needs leaders who will make judgments knowing that everything is contextual, and will make decisions knowing that everything is changing.

4.3. Innovation

Innovation is the central job of every leader, regardless of the place he or she occupies on the organizational chart. Innovators rely on their “courage to innovate” – an active bias against the status quo and an unflinching willingness to take risks – to transform ideas into powerful impact [Lafley 2009].

Dyer, Gregersen and Christensen [2009] identified five “discovery skills” that distinguish the most creative executives: associating, questioning, observing, experimenting, and networking. Together, these skills create, according to the authors, the so called “innovator’s DNA”. Studies of identical twins separated at birth indicate that our ability to think creatively comes one-third from genetics; but two-thirds of the innovation skill set comes through learning – first understanding a given skill, than practicing it, experimenting, and ultimately gaining confidence in one’s capacity to create.
To grasp the invention process, it is important to understand how the brain operates. The brain does not store information like a dictionary. Instead, it associates words with experiences from our lives. Some of these are logical, while others may be less obvious and rather emotional. The more diverse our experience and knowledge, the more connections the brain can make. Fresh inputs trigger new association; for some, these lead to novel ideas. Associating is like a mental muscle that can grow stronger by using the other discovery skills. Innovators, engaging in such activity, build their ability to generate ideas that can be recombined in new ways. The more frequently entrepreneurs attempted to understand, categorize, and store new knowledge, the more easily their brains could naturally and consistently make, store, and recombine associations.

5. Institutional perspective: macro level

The last decades have shown us that institutions matter, and matter greatly [Kowalski and Wihlborg 2010; Kowalski and Shachmurove 2011]. Corporations are supported and constrained by institutions in their strategic pursuits, and may also attempt to shape them to their own advantage. There is an increased realization of the importance of national and global institutions for the competitiveness of countries and companies. Williamson’s works have been extremely influential in management research, which has helped improve our knowledge on transaction governance and the role of the firm. In the last decade the institutional perspective in strategic management has been strengthened and developed by the concepts of North [1990], who received the Nobel Prize in 1993, sixteen years before Williamson.

5.1. Douglas North’s theory of institutions

North’s theory of institutions [1990] is constructed from a theory of human behavior combined with a theory of the costs of transacting. North’s focus is on the interaction of institutions, defined as any constraint humans devise to shape their interactions, and organizations, created to take advantage of the opportunities presented by institutions in shaping the development of economies. In other words institutions are the rules of the game in a society [North 1990, p. 3]. In consequence they structure incentives in human exchange, whether political, social, or economic. Institutional change shapes the way societies evolve through time and hence is the key to understanding historical change.

Institutions affect the performance of economies. The central focus is on the problem of human cooperation – specifically the cooperation that permits econo-
mies to capture the gains from trade. The evolution of institutions that create an hospitable environment for cooperative solutions to complex exchange provides for economic growth.

Defining institutions as the constraints that human beings impose on themselves makes the definition complementary to the choice theoretic approach of neoclassical economic theory [North 1990, p. 5]: “Building a theory of institutions on the foundation of individual choices is a step toward reconciling differences between economics and the other social sciences. The choice theoretic approach is essential because a logically consistent, potentially testable set of hypotheses must be built on a theory of human behavior. The strength of microeconomic theory is that it is constructed on the basis of assumptions about individual human behavior. Institutions are a creation of human beings. They evolve and are altered by human beings; hence our theory must begin with the individual. At the same time, the constraints that institutions impose on individual choices are pervasive. Integrating individual choices with the constraints institutions impose on choice sets is a major step toward unifying social science research”.

North’s theory was exemplified by Crossland and Hambrick [2007]. They base it on three fundamental national-level institutions – national values, prevailing firm ownership structures, and board governance arrangements – and argue that CEOs in different countries face systematically different degrees of constraint on their latitudes of action, and hence they differ in how much effect they have on company performance. To test these ideas, they applied a variance components analysis methodology to 15-year matched samples of 100 U.S. firms, 100 German firms, and 100 Japanese firms. Results provided robust evidence that the effect of CEOs on company performance – for good and for ill – is substantially greater in U.S. firms than in German and Japanese firms. For example, in U.S. board governance constraint is reduced by the prevailing practice of CEO/board chair duality and the power of CEOs to influence board member appointments. In approximately 80% of U.S. companies, the CEO chairs the board that is supposed to monitor him or her.

5.2. Recommendations for institutional change

The last global economic crisis provoked a permanent discussion regarding necessary changes of capitalistic institutions. Conclusions of the discussion are very important for strategic management on the corporation level. According to majority of authors [Porter & Kramer 2011; Martin 2010; Barton 2011], in recent years business increasingly has been viewed as a major cause of social, environmental, and economic problems. Companies are widely perceived to be prospering at the expense of broader community. Companies remain trapped in an outdated approach to short-term value creation that has emerged over the past few decades.
According to Martin [2010] the shareholder value has almost nothing to do with the present value. Present value earnings tend to be a small fraction of the value of common shares. Over the last decade, the average yearly price/earnings multiple for the S&P500 has been 27x, meaning that current earnings represent less than 4% of stock prices. For managers, implications of this are clear: the only sure way to increase shareholder value is to raise expectations about the future performance of the company.

Short-term rewards encourage CEOs to manage short-term expectations rather than push for real progress. The need for a healthy share price is a natural constraint on any other objective set. Making it the prime objective, however, creates the temptation to trade long-term gains in operations-driven value away for temporary gains in expectations-driven value. To get CEOs to focus on the first, we need to reinvent the purpose of the firm [Martin 2010].

Many reasons of the crisis stemmed from failures of governance, decision making, and leadership within companies. Barton [2011] met with more than 400 business and government leaders across the globe. Those conversations have reinforced his strong sense that, despite a certain amount of frustration on each side, the two groups share the belief that capitalism has been and can continue to be the greatest engine of prosperity ever devised. Barton [2011] underlines that we need a shift from quarterly capitalism to long term capitalism. Executives must infuse their organizations with the perspective that serving the interests of all major stakeholders – employees, suppliers, customers, creditors, communities, the environment – is not at odds with the goal of maximizing corporate value; on the contrary, it is essential to achieving that goal.

According to Porter and Kramer [2011], the solution lies in the principle of shared value, which involves creating economic value in a way that also creates value for society by addressing its needs and challenges. Businesses must reconnect company success with social progress. It can give rise to the next major transformation of business thinking.

The purpose of the corporation must be redefined as creating shared value, not just profit per se. It will also reshape capitalism and its relationship to society. Shared value should help to start the next wave of business innovation and growth. According to Porter and Kramer [2011], we need a more sophisticated form of capitalism, one imbued with a social purpose. Creating shared value represents a broader conception of Adam Smith’s invisible hand. It is not philanthropy but self-interested behavior to create economic value by creating societal value.

There is a general consensus that capitalism as an institution is an unparalleled vehicle for meeting human needs, improving efficiency, creating jobs and building wealth. But a narrow conception of capitalism has prevented business from harnessing its full potential to meet society’s broader challenges [Porter & Kramer 2011; Martin 2010; Barton 2011].
6. Strategic entrepreneurship

The behavioral perspective has created interests in the role of entrepreneurship in strategic management. Mintzberg, Ahlstrand and Lampel [1998, pp. 124–147] distinguished an entrepreneurial school which focused the strategy formation process exclusively on the single leader, and also stressed the most innate of mental states and processes – intuition, judgment, wisdom, experience, insight etc. The term ‘strategic entrepreneurship’ was created at the beginning of the previous decade in order to describe entrepreneurial action with a strategic perspective. Strategic entrepreneurship is the integration of entrepreneurial (i.e., opportunity-seeking behavior) and strategic (i.e., advantage-seeking) perspectives in developing and taking actions designed to create wealth [Hitt et al. 2001].

Contemporary entrepreneurship research originated in the work of Schumpeter [1934, 1942] who argued that the main agents of economic growth are the entrepreneurs. They introduce new products, new methods of production, and other innovations that stimulate economic activity. Schumpeter described entrepreneurship as a process of ‘creative destruction’. He viewed this process favorably, because innovations typically represent an improvement in terms of product or process utility and as a result create greater buyer interest and overall economic activity. Entrepreneurs have ‘carried out new combinations’, including the doing of new things or the doing of things that are already being done in a new way [Schumpeter 1934, pp. 132, 1947].

Entrepreneurship links micro and macro levels in a feedback. Baumol and Strom [2007] underline that current institutions, shaped by history and government are critical in determining where entrepreneurs will find it most promising to direct their efforts. One goal of good policy is the redesign of institutions so as to direct entrepreneurial activity to a beneficial direction. Entrepreneurs recognize the commercial opportunities offered by innovations and transform these opportunities into new products that may improve the lives of all citizens and contribute to increased productivity throughout the economy. Entrepreneurship is perceived as an engine of socioeconomic growth and development, providing new job opportunities and diverse goods and services to the population.

The new entrepreneurial practices are emerging by trial and error. Governments need to exploit all available experience and commit to ongoing experimentation. They must follow an incomplete and ever-changing set of prescriptions and relentlessly review and refine them [Isenberg 2010]. The entrepreneurship ecosystem consists of a set of individual elements – such as leadership, culture, capital markets, and open-minded customers – that combine in complex ways. In isolation, each is conducive to entrepreneurship but insufficient to sustain it. The striking dissimilarities of such countries like Rwanda, Chile, Israel, and Iceland illustrate the principle that leaders can and must foster homegrown solutions – ones based on the reali-
ties of their own circumstances, natural resources, geographic location, or culture [Isenberg 2010; Habiby & Coyle 2010].

Government cannot build ecosystems alone. Only the private sector has the motivation and perspective to develop self-sustaining, profit-driven markets. For-profit organizations today have the opportunity to collaborate with citizen-sector organizations (CSOs) on problems that neither group has been able to solve independently [Nidumolu, Prahalad & Rangaswami 2009]. The power of such a partnership lies in the complementary strengths of the participants: Businesses offer scale, expertise in manufacturing and operations, and financing. Social entrepreneurs and organizations contribute lower costs, strong social networks, and deep insights into customers and communities [Drayton & Budinich 2010].

Entrepreneurs can play a central role in finding new approaches to the world’s toughest economic challenges and social problems [Thompson & MacMillan 2010]. If successful, socially minded entrepreneurial efforts create a virtuous cycle: The greater the profits these ventures make, the greater the incentives for them to grow their business. And the more societal problems they help alleviate, the more people who can join the mainstream of global consumers.

7. Hypercompetition as a potential new paradigm

It is easy to suggest replacing short-term capitalism (quarterly capitalism) by a long-term approach. Now, due to new technologies and globalization, all processes occur faster and faster. Since the mid-1970s, a fundamental change has occurred in the structure of the American – and much of the world’s – economy. It has shifted towards far more competitive markets [Polowczyk 2010]. Technology, globalization, and deregulation – all of these intensify competition among companies to get or keep consumers, and to attract investors.

To keep shareholders, CEOs had to do everything possible to raise the value of their companies’ shares. And just as consumers kept the pressure on companies by moving with ever greater ease to a competitor with lower prices or better quality, so did investors – aided by fund managers – become more agile in hunting for bargains. In the 1990s, the average investor held on to a share of stock for a little more than two years. By 2002, the average holding period was less than a year. By 2004, it was barely six months [Reich 2007, p. 71]. It has made markets far more volatile and produced yawning gaps between corporations’ market price and their actual value. The advent of high-frequency trading (HFT) has only strengthened this trend.

---

1 According to Barton [2011] in the 1970s the average holding period for U.S. equities was about 7 years; now it is more like 7 months.
The “hyperspeed” traders (some of whom hold stocks for only a few seconds) now account for 70% of all U.S. equities trading [Barton 2011].

The managers of the largest pension funds and mutual funds squeeze companies for higher profits. The obsessive drive among CEOs to meet or exceed Wall Street’s estimates of pending quarterly earnings has undoubtedly led to excessively short-term thinking in executive suits, as well as a string of abuses and distortions [Graham, Harvey & Rajgopal 2004]. Unsuccessful CEOs were quickly fired, and an average CEO tenure has dropped from 10 to 6 years since 1995 [Barton 2011].

The new competitive landscape in many industries gives rise to a relentless pace of competition, emphasizing flexibility, speed, and innovation in response to the fast-changing environment. D’Aveni [1994, p. 2] coined the term “hypercompetition” to describe the condition of rapidly escalating competition characterizing many industries: “an environment of fierce competition leading to unsustainable advantage or the decline in the sustainability of advantage”.

Almost from the beginning of strategic management as a field of enquiry, considerable effort has been made to define and empirically demonstrate the existence of sustainable competitive advantage. The two key sustainable advantage models are Porter’s five forces model and the resource-based view of the firm. Both Porter’s five forces model and the resource-based view of the firm are rooted in a conception of the world that is essentially stable.

Recent studies suggest that sustainable competitive advantage is rare and declining in duration [Wiggins & Ruefli 2002, 2005]. There is growing empirical evidence that the volatility of financial returns is increasing, suggesting that the relative importance of the temporary component of competitive advantage is rising [Thomas and D’Aveni 2004]. The creation and management of temporary advantage is an alternative to sustainable models of competitive advantage. The hypercompetition phenomenon with temporary competitive advantages has significant implications for both practice and research, and needs new analytical methods.

The empirical data used for research must match the applied paradigm. Much of the research in Porter’s approach and RBV was largely developed using longitudinal panel data based on public archival annual company or industry data. In the new hypercompetitive landscape data should be more dynamic and detailed, and can be based even on business press or internet daily news. There are many actions which should be analyzed during a month, a week, or day-by-day. For example, new product introduction has a significant positive impact on stock prices immediately after the introduction for the introducing firm. On the other hand, stock prices are negatively affected by rival imitation. The use of daily stock prices allowed to show the Schumpeterian creative destruction effect: the positive effects of innovation and the negative effects of rival response [D’Aveni, Dagnino & Smith 2010].

Hypercompetition is probably an unavoidable process covering bigger and bigger areas of the global economy. Capital markets will undoubtedly continue to pressure
companies to generate short-term profits, and some companies will surely continue
to reap profits at the expense of societal needs [Porter & Kramer 2011]. All partici-
pants of the economic and business processes have to adapt themselves to the above
presented phenomena, as well as the theory of strategic management.

Conclusions

The above presented evolution of strategic management as a field of academic inquiry
at the beginning of the XXI century can be summarized by the following remarks:
1. The last global economic crisis provoked a permanent discussion regarding nec-
essary changes in capitalistic institutions. Conclusions of the discussion are very
important for strategic management on the corporate level.
2. The resource-based view is still very influential in strategic management, but now
it is supplemented by two different perspectives: behavioral and institutional.
Institutions influence behavior of decision-makers. The behavioral perspective
regards microeconomic decision-making by company’s executives. The institu-
tional perspective regards macroeconomic institutions. These two perspectives
are strictly related by feedback.
3. Processes within the feedback microbehavior-macroinstitutions are supported
by the phenomena of entrepreneurship and hypercompetition originated by
Schumpeter.
4. The nature of strategy problems cannot easily be framed within a fixed paradigm.
Strategic management is necessarily a multi-paradigmatic discipline, requiring
varied theoretical perspectives and methodologies.
5. Capitalism as an institution has been and can continue to be the greatest engine
of prosperity ever devised, despite the crisis turbulences of the last years.

References

Baumol, W.J., Strom, R.J., 2007, Entrepreneurship and Economic Growth, Strategic
Bazerman, M.H., Loewenstein, G., Moore, D.A., 2002, Why Good Accountants Do Bad Audits,
Chandler Jr., A.D., 1962, Strategy and Structure: Chapters in the History of the Industrial
Enterprise, MIT Press, Cambridge MA.
Crossland, C., Hambrick, D.C., 2007, How National Systems Differ in Their Constraints on
Corporate Executives: A Study of CEO Effects in Three Countries, Strategic Management


