

# BUSINESS POLICY AND STRATEGY

## Conference Paper Abstracts

### COMPLEMENTARY RESOURCES AND THE PREDICTION OF POST-ACQUISITION PERFORMANCE

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Research shows that acquisitions, on average, do not improve firm performance. However, increased performance is the dominant rationale given for why firms pursue acquisitions. This disparity clearly shows that modeling post-acquisition performance to distinguish between acquisitions that fail and those that succeed is needed. By building a model based on complementary resources, the present research develops a model for predicting when acquisitions of high-technology targets result in improved performance. Implications for M&A theory, research and practice are identified.

**Keywords:** Merger and acquisition, post-acquisition performance, high-technology

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### EXPLORING COMPETING MOTIVATIONS BEHIND THE ACQUISITION OF HIGH-TECHNOLOGY TARGETS

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Equivocal findings in existing post-acquisition performance research may result from the assumption that merger and acquisition (M&A) activity is motivated by increased financial performance. If manager goals motivating M&A activity are not uniform, then the disparity of findings in existing research should not be surprising. I find that models for predicting post-acquisition sales growth and financial performance based on common M&A research variables can exhibit opposite effects on key variables, while exhibiting comparable R-square. This represents a significant contribution by demonstrating conflicting findings in existing M&A research may result from alternate motivations behind M&A activity.

**Keywords:** merger and acquisition, merger motives, high-technology

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### DIRECTIONS OF GROWTH: A TEST OF POSITIONING, RESOURCE, AND SOCIAL CONTAGION ARGUMENTS

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A number of logics have been proposed to describe and prescribe the direction of firm growth. Among the most well-established logics are arguments relating to positioning, resources, and social contagion. Using data of all mutual fund openings in the U.S. for the period 1961-1996, we find that all three logics help explain firm behavior. To make correct inferences, however, it is important, in particular for the social contagion variables, to control for the other two logics. In addition, we infer the growth logic(s) followed by individual firms from their product introductions and test the performance consequences, i.e., the prescriptive aspects, of each logic. Firms that followed a positioning logic had higher performance than firms that followed a social contagion or resource logic. Even though firms that followed a resource logic were able to introduce superior products (new funds with higher returns), their overall performance was not positively affected. This finding points to a potential pit-fall of following exclusively a resource-based

strategy. By focusing internally on existing resources and capabilities, firms may develop superior products for markets that are, however, not very attractive.

**Keywords:** firm growth, RBV, positioning

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## STRATEGIC INERTIA DETERMINANTS: ANALYZING THE SIZE, MIDDLE MANAGER, COMPETITIVE INTENSITY MIX

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In this exploratory study, we revisit firm size as a determinant of strategic inertia. On the basis of theoretical arguments and prior empirical evidence from the strategic management and competitive environment perspectives, we introduce decision-making autonomy (on behalf of middle management) as a possible determinant of strategic inertia and assess competitive intensity as possible moderator of the relationships between firm size and strategic inertia and between middle management decision-making autonomy and strategic inertia. Using data collected from a sample of 453 middle managers to perform moderated regression analysis, findings were produced indicating that middle management decision-making autonomy is significantly related to strategic inertia and that competitive intensity moderates this relationship as well as the relationship between firm size and strategic inertia.

**Keywords:** Strategic Inertia, Competitive Intensity, Middle Managers



## SHE-E-OS: GENDER EFFECTS AND STOCK PRICE REACTIONS TO ANNOUNCEMENTS OF TOP EXECUTIVE APPOINTMENTS

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Recently, we have seen an increase in female executives. However, little has been done to assess how investors perceive women leaders. This study uses the market signaling and diversity literatures to link top executive announcements to shareholder reactions, highlighting possible gender effects. Results show that shareholder reactions to female CEO appointments are significantly more negative than reactions to male CEOs. Moreover, women are more positively viewed if they have been promoted from within a firm.

**Keywords:** Market signaling, Diversity, Top Management Team

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## THE INFLUENCE OF PROACTIVE TOP MANAGERIAL COGNITIONS ON STRATEGIC CHANGE: A THEORETICAL FRAMEWORK

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Prior empirical work on strategic change and persistence remains incomplete because it has focused on top managers' reactive, but not proactive, role in the strategic change process. We develop the argument that top managers' efficacy and goals can proactively motivate strategic change. We draw upon cognitive

theory within psychology to more accurately assess the effects of top managers' efficacy and goals on strategic change. Finally, we present testable research propositions and identify methodological implications and theoretical extensions for future research.

**Keywords:** Strategic Change, TMT decision making, Managerial cognitions

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## **RESTRUCTURING IN JAPANESE COMPANIES: FOREIGN OWNERSHIP, STRATEGIC INVESTMENTS, AND FIRM PERFORMANCE**

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Traditional governance mechanisms (stable ownership, keiretsu ties, main banks, etc.) that have historically facilitated a "retain and reinvest" strategy in previous decades appear to exert inertial forces on Japanese firms, preventing them from restructuring. Based on a sample of 154 large Japanese manufacturing firms, we investigate the extent to which foreign ownership can facilitate the cutbacks on excessive investments required to align firm strategy with the decline in growth opportunities during the 1990s. Our results show that foreign ownership leads to reduction in R&D and capital expenditures as well as improvement in performance, especially for firms with high free cash flow that are likely to have the most severe agency problems. Foreign ownership, however, is not associated with decrease in diversification. These results suggest that foreign ownership may represent a change in Japanese governance mechanisms that foster significant, but limited, restructuring.

**Keywords:** corporate governance, Restructuring, Japan

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## **FOOD SAFETY POLICIES AND ORGANIZATIONAL STRATEGY: WHY SOME FIRMS CHOOSE ANONYMITY OVER RECOGNITION**

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While many agribusinesses have a growing strategic interest in developing branded products, a large number of them are resisting participating in traceability and identity preservation initiatives. We argue that this resistance is based on a rationale that anonymity has a positive value in excess of the value generated by identification. This value is more important in situation where their actions carry the risk of making them liable for adverse food events in consumers. We show that because of the value of anonymity, those seeking to implement traceability initiatives as industry policy must be willing to provide incentives that compensate industry stakeholders for their loss of anonymity.

**Keywords:** Food safety, Anonymity, agribusiness

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## **CEO COMPENSATION AND THE INFLUENCE OF COMPARABLE FIRMS**

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This study examines the effects of CEO compensation at comparable organizations on subsequent CEO salaries, bonuses, and stock options. Hypotheses were tested using a sample of 848 Fortune 1000 firms and their CEOs. Results indicate that a CEO's compensation is significantly influenced by the prior year compensation of other CEOs who are employed by (1) firms that are in the same or similar industries and (2) firms of similar size. Results also suggest that peer compensation differentially influences the various forms of compensation that CEOs receive. While much prior research on the topic has relied on agency theory, these results provide support for alternative theoretical explanations of CEO pay based upon institutional and social comparison theories.

**Keywords:** CEO compensation, institutional theory, agency theory

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## **A KNOWLEDGE-BASED VIEW OF STRATEGIC ALLIANCES**

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This paper presents a knowledge-based view of strategic alliances. Incorporating several approaches including transaction cost economics, property rights theory, and industrial organization economics into the analysis, this paper provides an integrative view of the knowledge-driven alliances, demonstrating that the motives and stability of these alliances are determined by the characteristics of markets, firms, knowledge, and contractual arrangements. Specifically, our main arguments include: (1) The knowledge-driven strategic alliances are jointly motivated by the strategic value of alliance partner's knowledge to the focal firm and partner's appropriability of the focal firm's own knowledge; (2) if transfer of existing knowledge between partners is the primary concern, then the stability of alliances is determined by the leakage potential of knowledge and the strength of contractual protective mechanisms; and (3) if the property rights of knowledge generated during the alliances are the central issue, then the stability of alliances is a joint function of relative redeployability of the new knowledge between the partners and the regime of property rights regarding the new knowledge. We also discuss the relative transaction costs involved in each situation when analyzing the different types of knowledge-driven alliances.

**Keywords:** knowledge, strategic alliances, transaction costs

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## **A COGNITIVE EXPLANATION OF VALUE CREATION AND DESTRUCTION IN ACQUISITIONS**

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Merger and acquisition activity continues at a frenzied pace despite substantive empirical research suggesting that, on average, parent firms have destroyed value for shareholders through acquisitions in the last two decades. The current paper offers a cognitive explanation for the value destruction wrought through acquisitions. Building on past theoretical research which conjectures that executive cognition affects acquisitions, the authors hypothesize and test the effects of two collective, TMT level, cognitive constructs on value creation/ destruction for parent firm shareholders in a longitudinal design. Findings confirm expected negative effects of TMT cognition but also point to positive effects of team level sensemaking.

**Keywords:** acquisitions, value destruction, cognition

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## **DEMOCRATIC MANAGEMENT IN A COMPETITIVE ECONOMY: A TEST OF ITS EFFECTIVENESS**

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The current study provides a model that aims to explain the origin of the competitive advantage of organizations in terms of the ownership structure, whether democratic or not, and technological endowment. To reach this objective, we have classified the organizations in two groups using the cooperative character criterion. The results show that, although cooperative firms achieve a superior competitive advantage, there are other factors, such as the degree of commitment of the owner-client, that considerably affect the relationship. The study is focused on the Spanish Pharmaceutical Distribution Industry.

**Keywords:** democracy, cooperatives, management

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## ALLIANCE EXPERIENCE IN HIGH-TECH AND BASIC-TECH ACQUISITIONS

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Throughout the 1990s, organizations have been combining resources through acquisitions and alliances in record numbers. This study investigates investors' reactions to acquirers' and targets' alliance experience in high-tech and basic-tech acquisitions. It extends prior work on acquisitions and alliances by investigating whether acquirers' and targets' alliance experience correlate with investors' reactions. The study uses robust regression techniques and analyzes high-tech and basic-tech acquisitions separately. The study finds that investors' reactions are different for high-tech acquisitions than for basic-tech acquisitions and that investors' reactions correlate with alliance experience. The findings have important implications for literature on acquisitions and alliances, as well as for managers.

**Keywords:** acquisitions, alliances, high tech

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## LIVING TOGETHER BEFORE MARRIAGE: ALLIANCE BETWEEN ACQUIRER AND A TARGET AND ACQUISITION PERFORMANCE

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Throughout the 1990s, organizations have been combining resources through acquisitions and alliances in record numbers. This study investigates whether a previous alliance between an acquirer and a target affects post-acquisition performance. The study uses robust regression techniques. The study finds that previous alliance experience between an acquirer and a target correlates positively with performance. The findings imply that previous alliance experience between acquirers and targets is beneficial and have important implications for literature on acquisitions and alliances, as well as for managers.

**Keywords:** alliances, acquisitions, performance

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## KNOWLEDGE ALLIANCES AND FIRM PERFORMANCE: A NEW LOOK AT THE KNOWLEDGE BASED VIEW OF THE FIRM

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This paper seeks to extend the knowledge-based view of strategy by studying the relationships between a firm's external knowledge alliances, its competitive strategy, technological capabilities, and its overall financial performance. This study responds to an absence of empirical tests linking the knowledge-based view of strategy to firm performance. Findings suggest that in the absence of a proper fit with current technological capabilities and strategy, a firm's external knowledge alliances may have negative effect on its performance. I develop explanations for this anomalous finding and draw implications for future research.

**Keywords:** Organizational Knowledge, Knowledge Based View, Strategic Alliances

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## **ORGANIZATIONAL SURVIVAL IN UNCERTAIN TIMES**

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We use neoinstitutional theory and research on political institutions to examine organizational survival under conditions of environmental uncertainty. Bridging research on political institutions to neoinstitutional theory permits us to examine the relative importance of technical and institutional criteria in the inter-organizational and organizational environments by exploiting differences in the forms of uncertainty faced in national institutional environments. Using a sample of 2,283 international manufacturing plants created by 642 listed Japanese multinational corporations in 53 countries during the 1992-2000 period, we test for the influences of uncertainty in the policy environment and uncertainty in the socio-political environment (e.g., coups, government crises and constitutional change) on the survival probabilities of these plants. We contend that uncertainty in the policy environment is less exogenous and more predictable than socio-political uncertainty. Our hypotheses and tests demonstrate that this difference across these two types of environmental uncertainty is manifest in two organizational outcomes. Plant survival probabilities are more heavily influenced by the prior decisions and actions of other similar organizations in the presence of socio-political uncertainty than in the presence of policy uncertainty. Policy uncertainty tends to be countered more strongly, however, by the levels of an organization's own relevant experience. These results suggest that while the inter-organizational and organizational environments may both yield normative pressures for legitimacy and useful technical information, consistent with theories of organizational learning, a firm's prior relevant experience contains comparatively more technical information than does the actions of other firms.

**Keywords:** survival, institutional theory, foreign expansion

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## **THE RISK-RETURN PARADOX FOR STRATEGIC MANAGEMENT: DISENTANGLING TRUE AND SPURIOUS EFFECTS**

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The relationship between firms' performance and risk is a central question for strategic management. A common approach to this issue relates the mean and variance of firms' returns to each other. Employing this approach, Bowman found the puzzling result of a negative relationship, which he termed the "risk-return paradox". This paper analyzes the spurious effect that skewness of individual firms' return distributions has on the mean-variance relationship as it is usually measured. First, the size of this effect is theoretically calculated. Then, a method is devised to disentangle the spurious effect and the sought-for true relationship between mean and variance. Finally, this method is employed in an empirical analysis of mean and variance. It is found that the spurious effect from skewness explains the larger part of the observed negative relationship - the "paradox" is largely resolved. The results might contribute to reconciling mean-variance approaches to risk-return analysis with other, ex ante, approaches.

**Keywords:** risk-return paradox, mean-variance, skewness

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## **ORGANIZATIONAL SLACK, ABSORPTIVE CAPACITY, AND PERFORMANCE: AN ARCHITECTURAL INNOVATION PERSPECTIVE**

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Based on the resource-based view of the firm (RBV), this article describes how dynamic capabilities that reconfigure organizational resources (that is, architectural innovation) may operate within firms. Specifically, we divide firm resources into two types: necessary resources and excess resources (organizational slack), which is the main focus of the paper, and investigate the relationships between organizational slack (excess resources) and performance. Absorptive capacity is singled out as one of the specific dynamic ability to recombine slack resources since dynamic abilities are often criticized as being vague, tautological, and non-operational.

**Keywords:** organizational slack, architectural innovation, absorptive capacity

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## LEARNING TO CONTRACT: EVIDENCE FROM THE PERSONAL COMPUTER INDUSTRY

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Many organizational scholars have argued that hybrid organizational forms -- arrangements that involve more detailed contracts than are found in traditional spot market exchanges - have become much more common. However, there has been little analysis of the extent to which firms learn how to use contracts to manage their interfirm relationships. Many theories that have previously been applied to interfirm relationships have not yet focused on learning. In this paper, we explore whether and how firms learn to contract by conducting a detailed case study of a time series of 11 contracts concluded between the same two partners during 1989-1997, both of which participate in the personal computer industry. We find many changes to the structure of the contracts, and these changes cannot be explained by differences in technology or assets, and we argue that the evidence suggests that the firms are learning how to contract with each other. The nature of this learning is very incremental and local. These effects are likely to be particularly important when technology is advancing rapidly and there are few strongly developed industry norms to help define the exchange.

**Keywords:** Learning, Contracting, Transaction Costs

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## CONTEXTUAL DRIVERS OF RESOURCE VALUE: WHAT ALLOWS TOP HOLLYWOOD STARS TO MAINTAIN THEIR STANDING?

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There has been a growing awareness of the role that key resources can play in providing a firm with a strong and sustainable advantage. Yet the resource-based literature has not paid much attention to the factors that can allow such resources to maintain their value over time. Unless key resources can retain their value, it is not likely to matter whether they can be imitated or have suitable substitutes. In this paper, we focus on the contextual factors that can affect the enduring value of top Hollywood stars. We show that these stars are more likely to retain their value during years in which they appear in a certain film genre, do repeat work with specific directors and continued to be associated with a particular studio. More generally, our results suggest that the enduring value that a firm may be able to derive from human resources is tied to the context in which they are deployed.

**Keywords:** Value, Resources, Top Stars

## PROBING INTO THE NATURE OF RESOURCES: ASSESSING APPROPRIABILITY IN THE U.S. MOTION PICTURE INDUSTRY

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Most of the resource-based literature has concentrated on the sustainability of advantages rather than on the appropriability of rents that can be derived from these. In this paper, we focus on the issue of appropriability by developing a classification of resources as either contracted, owned or embedded that is based on type of ownership and control. We then test for the ability of the major studios in the U.S. motion picture industry to appropriate rents from their films. We assess this by examining the contribution of each of these different types of resources to the box office revenue. Our results do indicate that the studios are less likely to appropriate most of the rents that can be tied to contracted resources in the form of top-rated stars and directors. But they also show that these firms should be able to appropriate more of their rents by focusing on their owned resources in the form of characters and concepts that can be used in sequels. Finally, the studios may be able to do even better in terms of appropriability by developing their embedded resources which can take the form of accumulated firm-specific knowledge and learning in the development and marketing of various types of film genres.

**Keywords:** Resources, Motion Pictures, Appropriability

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## STRATEGY COMBINATIONS AND STRATEGIC REORIENTATION IN NEWLY COMPETITIVE INDUSTRIES

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The paper explores the issue of strategic reorientation in newly competitive industries, by examining the strategic options available to the companies of the privatised UK electricity industry. Using the Pearce and Robinson framework of grand business strategies, the analysis attempts to identify which strategic options that been used in the UK electricity industry since its privatisation in 1989, and to understand why some options have been favoured over others. In undertaking this analysis, the authors seek to extend the work of Pearce and Robinson by suggesting some potential combinations of the original grand strategies, and testing for their existence and utility in an industry of this nature. The history of the industry and its characteristics are briefly reviewed to provide a context for the analysis. The paper identifies distinct differences in strategic behaviour over the duration of the privatisation period, which is identified as having moved through three distinct phases. The relationship between decisive factors such as regulation, ownership, innovative behaviour and selection of strategic options is explored. The paper concludes by bringing forward a series of recommendations for general managers concerning the scope of available strategic options in newly competitive industries. These recommendations identify that critical mass and vertical integration are central to the achievement of competitive advantage in an industry of this nature. However, it is clear that the constraints imposed by regulatory bodies limits the scope for business decision making available to managers.

**Keywords:** Reorientation, Privatization, Classification

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## EXECUTIVE TURNOVER IN ACQUIRED FIRMS: A LONGITUDINAL ANALYSIS OF LONG-TERM INTEGRATION EFFECTS

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Existing studies on top management turnover following an acquisition have focused on explaining why acquisitions lead to high turnover among incumbent executives shortly after the acquisition. Target



company top management teams lose about one-quarter of their executives within two years. The objective of this research was to redirect existing research from its focus on incumbent executive teams to a broader examination of how acquiring firms manage target company top management teams over the long-term. Using a sample of 179 merged and non-merged firms, we found that, consistent with the existing literature, incumbent executives quit at significantly higher rates than normal during the first two years after the acquisition. We also found that executives who joined the target company after the acquisition quit at significantly higher rates than normal beginning in the second year. Executives continued to depart at higher than normal rates for nine years after the acquisition. Acquiring firms continued to downsize and restructure target company assets long after most incumbent executives were gone and a large percentage of target companies were divested. These organizational changes had a significant impact on executives hired after the acquisition. Our findings indicate that acquisitions permanently alter the dynamics of target company executive teams and have both positive and negative repercussions for executives who join the target company after the acquisition.

**Keywords:** Top management turnover, integration, mergers and acquisitions

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## THE CONTRIBUTION OF LEADERSHIP AND HUMAN RESOURCES TO PERFORMANCE IN MAJOR LEAGUE BASEBALL

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The purpose of this paper is to contribute to an underdeveloped area within the resource based view (RBV) of strategic management. Relatively little work has been carried out concerning the concurrent contribution of leadership and human resources to a given organization's success. We investigated the relative contribution of these two resources to competitive advantage within the context of professional baseball. We found that player resources (defense/pitching and offence/batting) explained 74% of the variance in winning percentage, while leadership explained very little (less than 1%) of the variance. We relate our results to seminal RBV arguments and find these supportive of our findings. We also explore the minimal contribution of leadership in our results. We suggest a number of ways that future research could investigate this further. While we limited the leadership construct to the "field manager," future studies could expand the construct to include the "management team" (i.e., include coaches) and/or corporate leadership.

**Keywords:** performance, resources, leadership

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## PREDICTING THE PATH OF A DIFFUSING IDEOLOGY: THE CASE OF A SHAREHOLDER VALUE ORIENTATION IN GERMANY

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Much of the recent literature on corporate governance has been dominated by agency theory and the belief that shareholder value maximization in particular must be the ultimate performance criterion for a firm and its top management. Furthermore, a number of authors have argued that the Anglo-Saxon model of corporate governance will continue to diffuse across the globe as different nations eventually adopt the superior model of organizing exemplified by a shareholder value orientation. While these arguments have primarily relied upon an efficiency logic based on market principles, this study suggests that the spread of a shareholder value orientation may be better conceptualized in terms of ideological diffusion. We develop and test a variety of hypotheses about the mechanisms that influence the diffusion of shareholder value management among German firms. Specifically, we show how the decision to espouse a shareholder value orientation is influenced by (1) factors at the organizational level, such as ownership

structure and the ideological orientation of powerful shareholder groups, (2) intra-organizational factors, such as the demographic background and educational specialization of top executives, and (3) factors at the supra-organizational level, such as bandwagon effects and the ability of unions to resist strategic change. We discuss implication for corporate governance research, the diffusion of governance models, and the debate over the convergence of national governance systems.

**Keywords:** Diffusion of Practices, Corporate Governance, Agency Theory

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## RESOURCE CONFIGURATIONS, GENERIC STRATEGIES, AND PERFORMANCE

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In this paper, embedded in the resource-based view of the firm, we attempt to provide a linkage and mapping between the concepts of resource space, strategy space, and firm performance. We develop a classification of resource configurations, which group firms with distinctive competences on similar resource dimensions. We then map these resource configurations onto their respective optimal strategy. We test out the theory in the context of a new industry, which we argue provides quite an appropriate testing context for our hypotheses. This paper seeks to contribute to the literature by developing and empirically testing the linkage between resource space, strategy space, and firm performance. We also explore the implications of our theory for firms entering new industries.

**Keywords:** Generic Business Strategy, Resource-Based Theory, New Industry

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## BOARD NETWORK DENSITY, BOARD EXTERNAL SOCIAL CAPITAL, AND FIRM PERFORMANCE IN KOREA

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This paper aims to build a foundation of both theory and evidence on the effect of board characteristics on firm performance by integrating the literature on corporate governance and the literature on social capital theory. The theory and the hypotheses were examined with a sample of boards of directors in 199 large, publicly traded Korean companies from 1990 through 1999. We argue that: (1) a moderate level of board network density can create value for firm because it enhances cooperation and communication among board members; (2) too dense a board network can destroy firm value because it possibly creates agency problems and leads to exclusion of outsiders, lack of objectivity in the strategic decision making process, and loss of potentially beneficial strategic input from a variety of informants; (3) board external social capital will be positively associated with firm performance because it links the organization with the external environment; and (4) environmental instability will moderate the relationship between board characteristics and firm performance. The results support the hypotheses that board network density and board external social capital influence firm performance. Board network density was found to have an inverted U-shaped relationship with firm performance, suggesting that too dense a board network can be detrimental to the organization. Board external social capital was positively associated with firm performance. The analyses also revealed substantial moderating effects for environmental instability as a moderator in the board network density-firm performance relationship.

**Keywords:** board of directors, social capital, corporate governance

## "GOING PUBLIC WITH GOOD GOVERNANCE": BOARD SELECTION AND SHARE OWNERSHIP IN IPOS

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Combining the agency perspective, entrepreneurship and upper echelon research, this paper examines inter-links between executive power, board selection strategy and share ownership in a sample of initial public offerings (IPOs). It argues that the IPO process presents a unique combination of agency relationships between the firm's executive and non-executive directors, and outside investors. It shows that, in line with the predictions of a proposed theoretical model, board independence, diversity and share ownership of non-executive directors are negatively associated with the experience and power of executive directors. Large-block share ownership is positively associated with board diversity. However, external investors, including venture capitalists, do not affect board independence and non-executives' interests.

**Keywords:** Board, IPO, Selection

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## ALLIANCE ANNOUNCEMENT EVENTS AND STOCK PRICE VOLATILITY IN THE COMPUTING INDUSTRY

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Conflict exists over how strategic alliances affect partner risk. On one hand, alliances reduce firm risk, for example, by spreading R&D across several partners. On the other hand, alliances increase firm risk, for example, by exposing partners to the high probability of alliance failure. An event study analysis where risk is measured as the implied volatility of a firm's stock price provides some resolution to the conflict. A sample of recent alliances in the computing industries in the US reveals that alliances can significantly affect firm risk up and down. Additional analysis reveals a number of factors within a firm's control can be used to manipulate risk exposure in an alliance.

**Keywords:** alliance, options pricing, firm risk

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## REFOCUSING PERFORMANCE: A STRATEGY-CENTERED APPROACH

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Businesses are now turning to strategic planning as a means of achieving competitive advantage and enhanced performance. However, many fail to achieve the full potential benefits of this approach due to the lack of both a supporting organizational culture and/or leadership style. In this paper, we empirically examine the relationship between leadership, culture, strategic planning and performance within a single study. Most of the previous studies examined the bilateral relationship between two of these variables. A single study eliminates the differentiated impact of sample contingencies facilitating a more reliable examination of the relationship between these important variables. The domain of the study is the electronics and engineering sectors. This study confirms the close association between strategic planning, organizational culture, leadership and performance. It also depicts the attributes of leadership, culture and strategic planning associated with performance. For example, a balanced transformational and human resources leadership style is likely to lead to better performance. The study confirms that firms strongly emphasizing any of the leadership or culture styles performed better than firms with uncertain or weak leadership or culture styles. Finally, the analysis indicates that high-performing firms place a much higher emphasis on strategic planning attributes and have stronger and more defined leadership and culture styles, compared with low-performing firms. The paper provides systematic steps

to enable managers to align their organizational strategy, culture and leadership style in order to achieve desired performance.

**Keywords:** Corporate Strategy, culture, leadership

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## WHEN EXECUTIVE CHANGE LEAD TO ORGANIZATIONAL CHANGE: AN APPRAISAL OF EMPIRICAL EVIDENCE

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The effect of executive succession on organizational performance and change constitute a major unresolved dispute facing organizational theory. Based on three different sets of hypotheses, researchers found positive, negative, and null results for succession. These mixed findings and the growing interest in this area point to the value of empirically synthesizing the evidence on executive succession. To this end, I conduct a meta-analysis of the reported findings. I find that succession–outcome association is contingent on the type of outcome and succession event examined, on the measurement and operationalization of those outcomes, and finally on various organizational characteristics. The implications of my findings are discussed and several directions for future research are offered.

**Keywords:** Organizational Change, Executive Succession, Meta-Analysis

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## LOOKING AT ALLIANCE PERFORMANCE THROUGH THE LENSES OF SOCIAL CAPITAL AND RESOURCE-BASED THEORIES

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Alliances provide firms access to new knowledge, new product markets, and new technologies that enhance the firm's ability to learn, exploit economies of scale and scope, share risks, and outsource certain value-chain activities and in the process can increase firm performance. Using social capital and resource-based theories as the underpinning for our study, we demonstrate how alliance specific characteristics such as the locus of the alliance, credibility of the alliance partner, longevity of the alliance, and governance structure influence alliance performance over time. Using a sample of 209 worldwide alliances from the biotechnology and pharmaceutical industries during the period 1996 through 2000 we found that equity alliances and alliances with highly credible partners perform better over time. With respect to the locus of the alliance, we found that exploitative alliances, which are in the later stages of technology development, tend to have shorter pay-off times than exploratory alliances, which are in the earlier stages of technology development. Results from this study also indicate that the longevity of an alliance has a lagged relationship with alliance performance and there is an interesting interaction between the locus of alliance, its governance structure, and performance. It was observed that equity alliances tend to perform better in later stages of technology development. We discuss the implications of this study for future research and managerial practice.

**Keywords:** Performance, Alliance, Alliance Locus

## TRANSACTION COST ECONOMICS OF MARKET-BASED EXCHANGE: REPUTATION AND EXTERNAL VERIFICATION AGENCIES

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The purpose of this analysis is to contribute to the literature concerning market-based transaction costs. In our analysis, we measure transaction costs indirectly by focusing on variations in market price when selling Morgan Silver Dollars on eBay. We find that both seller reputation and the reputation of the coin rating agency employed significantly influences the price premium a seller is able to obtain. Thus, we find strong support for the suggestion that both seller reputation and the reputation of third party verification agencies employed will have a significant influence on perceived transaction costs.

**Keywords:** transaction, reputation, costs

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## ANTECEDENTS OF NEW PRODUCT PROGRAM CREATIVITY: THE MODERATING ROLE OF ENVIRONMENTAL TURBULENCE

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Firms endeavor to set themselves apart from their competitors by developing and launching creative new products. As environments are turning increasingly turbulent, it is becoming particularly critical for firms to be creative across the entire range of their new products, i.e. their new product programs, rather than just sporadically develop a highly creative or radical new product. It is argued that traditional structural predictors (such as communication, participation, and formalization) of organizational innovation, may not facilitate the creativity of the new product program. Literature on the organizational conditions of creativity is used to identify four previously unexamined drivers of new product program creativity: a climate of constructive conflict and tolerance for failure, a firm's willingness to cannibalize its existing resources, and future oriented market scanning. It is further argued that some of the antecedents may be more or less effective in the face of rapid and unpredictable environmental changes in three sections of a firm's environment: customers, competitors, and technologies. The hypotheses were tested using a sample of U.S. public manufacturing firms. All four antecedents had significant additive main effects that jointly explained a great proportion of the variance in new product program creativity. Moderator analyses showed that willingness to cannibalize fosters creativity more strongly in all three forms of environmental turbulence, whereas future market scanning hinders creativity under customer and competitive turbulence, but fosters creativity under technological turbulence.

**Keywords:** new products, environmental turbulence, creativity

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## ORGANIZING FOR RENEWAL: ANTECEDENTS OF SECOND-ORDER COMPETENCES

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Firms in dynamic environments have to renew their repertoire of resources and competences in order to survive and prosper. This article examines how firms can organize for such capacity for renewal. This study focuses on the renewal of two types of resources: market-related and technically-related. The notion of second-order competence, a type of dynamic capability, is developed and operationalized. Marketing and R&D second-order competences reflect the ability of a firm to renew its market and

technological resources, respectively. Next, a number of organizational features are hypothesized to facilitate these second-order competences. Using a sample of U.S. public manufacturing firms, this study examines four organizational antecedents of second-order competences: willingness to cannibalize, constructive conflict, environmental scanning, and resource slack. Each of these is found to contribute to both marketing and R&D second-order competences, albeit to different degrees. Implications for enhancing an organization's capacity for renewal are drawn, and suggestions for future research on organizational learning and renewal are made.

**Keywords:** dynamic capabilities, organizational culture, organizational renewal

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## WHAT DOES VALUE MEAN AND HOW IS IT CREATED, MAINTAINED AND DESTROYED?

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Despite recent developments in the resource based view there is still some confusion surrounding various aspects of what is meant by value and the process of value creation. In this paper we focus specifically on: what does value and valuable mean to different stakeholders? How is value created? And how are value creation processes sustained over time? We also address the issue of value destruction, which we believe is central to any exploration of comparative firm performance. We suggest that 'value' means different things to different stakeholders and that if the firm operates in line with investor interests, in dealing with external stakeholders the firm itself acts as both customer and supplier, and its motivations will reflect these different roles. We then consider the activities inside the firm that reflect the firm's motivations when these separate roles are performed. Five types of activity can be identified. Two types are involved with the process of value creation: one is concerned with the capture of exchange value from customers, and another with the capture of use value from suppliers. Two other activity types are directed at the maintenance of the firm, and the maintenance of its capital stock. The final category is activity that destroys value. We conclude with some suggestions as to how these different activities can be identified, and we explain some of the difficulties inherent to recognising 'valuable' resources.

**Keywords:** resource-based view, value creation, value

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## FIRM RESOURCES, INDUSTRY STRUCTURE AND PROFITABILITY: A LONGITUDINAL ANALYSIS

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Using a dynamic heterogeneous panel data model, we examine the impact of firm-specific resources (effectiveness of corporate management, employee productivity and technological competence) in enhancing and maintaining the intertemporal variation in firm-specific profitability. We also examine the moderating effects of industry characteristics on the relationship between firm-specific resources and firm-specific profitability. Consistent with the propositions of the resource-based view of the firm, we find that firm-specific resources enhance both accounting-based measures (return on assets and return on sales) and market-based measure (Tobin's q) of firm-specific performance. We also find that industry characteristics moderate the relationship between firm-specific resources and firm-specific profitability.

**Keywords:** Firm resources, Industry structure, Firm-specific Profitability



## DELINEATING THE STRATEGIC CONTROL CONSTRUCT: TOWARD AN INTEGRATIVE FRAMEWORK

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Several researchers have identified the incommensurability and conceptual confusion existing in the strategic control literature, and thus, the need for an integrative framework. We employ the complexifying approach of Ofori-Dankwa and Julian (2001) to meaningfully incorporate different frameworks within the strategic control literature. We identify strategic control research corresponding to four different levels of complexity: contingency, cycle, competing values, and chaos. First, we identify strategic control literature that corresponds to each of these four levels. Then, for literature representing each complexity level, we examine the implications of considering such literature at different levels of complexity. This process results in important new lines of research inquiry regarding strategic control.

**Keywords:** Strategic Control, Integrative Framework, Complexify

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## FROM DIVERSIFICATION PREMIUM TO DIVERSIFICATION DISCOUNT DURING INSTITUTIONAL TRANSITIONS

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Recent research in emerging economies has uncovered a diversification premium, suggesting that some business group-affiliated companies may outperform stand-alone independent firms. Is the diversification premium found in emerging economies likely to hold over time? This article theoretically argues that as institutional transitions unfold, diversification premium in emerging economies is likely to dissipate over time and become a diversification discount. Then, we empirically draw on a data set from South Korea during 1984-96 involving 84 business groups and 751 firms to substantiate this claim. To the best of our knowledge, this represents the first study which documents the longitudinal process of how a diversification premium becomes a diversification discount during institutional transitions.

**Keywords:** South Korea, diversification, transitions

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## CAN IDEAS BE CAPITAL? FACTORS OF PRODUCTION IN THE POST-INDUSTRIAL ECONOMY: A REVIEW AND CRITIQUE

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It is a widely accepted premise that we are in a midst of a radical change of economic and social relations, associated with terms such as the “knowledge economy”, “weightless economy”, “post-industrial society” or “information society”. The intellectual capital literature appears to suggest the arrival of a distinct factor of production, replacing or supplementing land, labour and capital. Some exponents of intellectual capital analysis see knowledge, ideas, capabilities and skills as a new, perhaps overriding productive factor; others conceive of the changes within a widening of the traditional definition of capital to include business processes, intellectual property, product ideas, even customer loyalty; again others use “intellectual capital” as a rhetorical tool withholding any coherent definition. In this article, we first give a historically informed theoretical exposition of capital as the durable result of past production processes, transforming future production while not being transformed itself, and associated with a particular economic actor. Second, we offer a taxonomy of the perceived characteristics and location of intellectual

capital in the production process. Third, we argue that capital, and thus intellectual capital, is not a useful way of theoretically capturing knowledge and ideas.

**Keywords:** Intellectual capital, Ideas, Capital

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## THE ROLE OF INNOVATIVE, ORGANIZATIONAL, AND COMPETITIVE DYNAMICS ON IT IMPLEMENTATION SUCCESS

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ERP systems have been adopted by many organizations in the past decade. These systems have revolutionized organizational computing by facilitating integrated and real-time planning, production, and customer response. While many companies consider their ERP investment a success, other firms have had serious problems implementing the systems, often resulting in loss of productivity and stakeholder dissatisfaction. This paper draws upon Diffusion of Innovation (DOI) theory and Information Systems Success (IS) theory to develop and test a model of ERP implementation success. Results reveal that top management support, competitive pressure, and training are positively related to user satisfaction, while complexity of ERP shows a negative relationship. Consensus in organizational objectives and competitive pressure are positively associated with perceived organizational performance. Post-hoc analysis identifies user satisfaction as a moderator between some DOI characteristics and organizational performance. This leads to the proposal of a new model of IT implementation for future research.

**Keywords:** Technology Strategy, Information Systems, Innovation



## COMMITMENT, TRUST, AND MUTUAL ADAPTATION: AN EXAMINATION OF SUPPLIERS AND BUYERS RELATIONSHIPS

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An increase in inter-firm cooperation has brought into focus the importance of social exchange for developing commitment and trust between partners, as opposed to relationships based on power dependence. Effective partnerships require mutual adaptation from competitive to cooperative strategies. Using Lisrel, this study tests a model of factors used to build partner trust, commitment and mutual adaptation for firms in the U.S. automotive industry. The results of the study indicate that both social and economic dimensions impact these relationships. Buyer adaptation is impacted by trust with suppliers, the supplier's adaptation to the buyer's needs and the use of joint decision making processes. Supplier's adaptation is impacted by a combination of both economic dependence on the buyer and joint decision-making. Commitment to the partnership is influenced by quality communication between suppliers and buyers. Lastly, the supplier develops trust within the relationship through commitment to the process and adaptation.

**Keywords:** cooperative strategy, adaptation, social exchange

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## KNOWLEDGE AND LEARNING IN STRATEGIC ALLIANCES: HOW TO LEARN WITH COOPERATION

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This theoretical paper explores the recent contributions of knowledge management to the study of strategic alliances. The first part justifies the importance of a learning approach of strategic alliances, while the second part analyzes strategic alliances as a setting for inter-organizational learning.

**Keywords:** Alliances, knowledge management, organizational learning

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## FOREIGN AND DOMESTIC OWNERSHIP, BUSINESS GROUPS AND FIRM PERFORMANCE: AN EMERGING MARKET PERSPECTIVE

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We examine how ownership structure and business group affiliation affect the performance of firms using firm level data from a large emerging market, India. We specifically focus on a previously unexplored phenomenon, namely the differential role played by foreign institutional and foreign corporate shareholders. An examination of more than one thousand Indian listed firms suggests that the positive effect on firm performance of foreign ownership is primarily attributable to foreign corporations that have, on average, a larger shareholding and a higher degree of commitment and long-term involvement. Furthermore, we document the positive influence of domestic corporations, which are by far the largest blockholders with significant monitoring potential. We find an interesting dichotomy in their monitoring influence depending on whether they have a group affiliation. Our analysis of group firms reveals that group affiliation generally exerts a negative impact on firm performance.

**Keywords:** Business Groups, Ownership Structure, Firm Performance

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## MEASURING EXPLORATION ORIENTATION AND ITS IMPACT ON INNOVATION

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Although exploration has featured prominently in discussions of organizational innovation and adaptation, little scholarly attention has been devoted to developing a sound measure of exploration orientation that could be used for testing substantive hypotheses. In this article we offer a theoretical reconceptualization of exploration orientation in terms of scope of information-acquisition actions. We then advance a multidimensional measure of the construct. Analysis suggests that the measure is best represented by a factor structure comprising three correlated factors: supply-side, demand-side, and geographic information-acquisition scope. Reliability, unidimensionality, convergent, and discriminant validity properties of the measure are established. Using this measure, a curvilinear relation is found between exploration and innovation after controlling for organization size and financial slack. While moderate levels of exploration are found to be associated with high levels of new product development success, both low and high levels of exploration are found to be associated with low levels of new product development success.

**Keywords:** Measurement, Exploration, Adaptation

## CREATING RESOURCE HETEROGENEITY: PREEMPTION IN STRATEGIC FACTOR MARKETS

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In this paper, we argue that firms can earn rents as the result of preemptive actions in strategic factor markets. These actions are aimed at creating heterogeneity among hitherto equivalent resources. We identify two mechanisms that permit the creation of heterogeneity. The first is the prevention of the access of rivals to resources by gaining exclusive access to more factors than necessary to compete in the product market. The second is the reduction of the relative efficiency of factors owned by competitors. We then examine the conditions moderating the likelihood and type of preemption strategies. Finally, we apply this framework to M&As and show that acquisitions can be a means to achieve both sorts of preemption in strategic factor markets.

**Keywords:** Resource, Heterogeneity, Preemption

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## IN THE MONEY: THE DETERMINANTS OF CEO STOCK OPTIONS EXERCISE

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This study examines from a multi-theoretical perspective the CEO's decision to exercise stock options. We find that CEO characteristics, prior firm performance, CEO equity, and contingent compensation are related to stock option exercise. We find some evidence that CEOs exercise stock options to balance firm-specific risk and manage the performance sensitivity of their compensation.

**Keywords:** Stock Options, Ownership, Executive Compensation

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## CORPORATE GOVERNANCE & PATH DEPENDENCE: BUSINESS HISTORY AND EXECUTIVE PAY IN MODERN GERMANY

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Institutional theory has traditionally been concerned with the embeddedness of actors and organizations in national culture and institutions. The organizational outcome of this perspective is seen to be path dependence, organizational isomorphism and inertia. A consideration of lengthy episodes in Russia, Japan and Germany, representing the most propitious circumstances for institutional change, emphasizes the resistance of national institutions to "alien" innovations suited to different cultural and institutional environments. On the other hand, recent developments in neo-institutional theory have identified the circumstances in which institutions can respond to changes in their external environments. Using a combination of neo-institutional and innovation diffusion theory, one important element of the alleged "Americanization" of German corporate governance is analyzed. Research propositions are generated that will ultimately test the ability of these two schools of institutional theory to make accurate predictions.

**Keywords:** governance, institutional, executives

## THE IMPACT OF ACCOUNTABILITY, MONITORING, AND INCENTIVES ON THE INCIDENCE OF CORPORATE ILLEGAL ACTS.

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This paper seeks to develop a mid-range theory that examines the influence of accountability, monitoring, and incentives on corporate illegal acts. The proposed conceptual framework suggests that high accountability creates a pressure to commit illegal acts on behalf of the organization, while high monitoring decreases the opportunity for such acts. However, I posit that these relationships are more complicated in that the level of monitoring would also positively moderate the relationship between accountability and corporate illegal acts. Furthermore, I seek to explain the influence of compensation schemes on corporate illegal acts, a neglected area in this field of research.

**Keywords:** Corporate Illegal Acts, Independent Directors, Institutional Investors

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## BALANCING EXTERNAL AND INTERNAL ISOMORPHIC PRESSURES: DEINSTITUTIONALIZATION IN MNEs.

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Extant research in international business view the multinational enterprise (MNE) either as a single organization operating in a global environment, or as comprised of several related organizations operating in distinct national environments. These different views not only reflect the different levels of analysis, but also highlight the importance of managing tradeoffs between the need for MNEs to be locally responsive within and globally integrated across distinct national environments. In a similar vein, institutional theorists coined the term institutional duality to refer to two distinct sets of isomorphic pressures originating from the host country network and the internal MNE network, and the corresponding need for foreign subsidiaries to maintain legitimacy within both networks. In order to manage these distinct sets of isomorphic pressures, foreign subsidiaries have to initiate a deinstitutionalization process, where current organizational practices and routines are challenged and replaced by new ones. The purpose of this paper is to examine the sources of deinstitutionalization pressures, their antecedents, and the moderators that lead foreign subsidiaries to initiate the deinstitutionalization process within the internal MNE network.

**Keywords:** Isomorphic Pressures, Multinational Enterprises, Deinstitutionalization

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## BEYOND BOARD STRUCTURE & REGULATION: ON BECOMING A CORPORATE GOVERNOR.

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Corporate Governance and the role and performance of boards are centre stage within both the general and business media: the topic is hotter than it has been for a long time. The academic community has gathered considerable knowledge about board performance by focusing on the structure of boards. This paper makes the argument for a micro psychological perspective that is concerned less with questions of structure and agency and more with the personal development challenges of governance. It addresses the task of becoming an effective corporate governor.

**Keywords:** Personal, Boards, Development

## GLITCHES IN GLOBAL STRATEGY? SOME LESSONS FROM THE FOOD AND DRINK INDUSTRY

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This paper explores the difficulties in developing an integrated global strategy (as defined by Porter, 1986a) through a study of some food and drink manufacturing companies. It examines the issues that have arisen amongst the world's largest 35 food and drink manufacturers, defined by 1998 turnover, as they have attempted to develop international and global strategies over the period 1991-2001. It shows that there have been few real successes so far in terms of integrated global strategy development. The paper identifies some of the common problems affecting such companies and concludes that many food and drink companies may never achieve an integrated global strategy. It suggests that the lessons from food and drink global strategy can be applied to other industries and highlights some difficulties in implementing a global strategy.

**Keywords:** Globalization, Progress, Strategy

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## A BALANCED VIEW OF THE OUTSOURCING-PERFORMANCE RELATION

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This study reviews and reassesses the relationship between outsourcing and financial performance. Outsourcing has been one of the most pervasive management trends in the last 20 years. However, there is still no consensus on the relationship between outsourcing and firm performance. Some authors have argued for a positive relationship while others have pointed at the advantages of vertical integration and posited a negative relationship. Yet there is also theory to suggest that there should not be any direct relationship between outsourcing and firm performance. Combining these points of view, we argue that over time there is a negative curvilinear relationship between outsourcing and financial performance. We then proceed to test this thesis on a sample of 1,147 firms with hard performance data on the Dutch assembly industry and conclude in favor of it. Most empirical tests in the literature to date have various limitations because they only look at cross-sections of firms and use only perceptual data. We find that balancing the advantages of integration and outsourcing will lead to the best results. A future point of interest is what variables moderate a firm's optimal degree of outsourcing.

**Keywords:** Outsourcing, Longitudinal analysis, Firm performance

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## THE PERFORMANCE IMPLICATIONS OF MEMBERSHIP IN COMPETING FIRM CONSTELLATIONS

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In this study I outline sources of benefits associated with membership in firm constellations and offer novel hypotheses about how group organization—i.e., whether the constellation is explicit (based on formal, multilateral agreements) or implicit (informal clusters based on the structure of bilateral ties among firms)—affects those sources. The global airline industry, which has witnessed the formation of both implicit and explicit constellations, provides an appropriate empirical setting. Results suggest that group organization moderates the relative impact of constellation-specific variables, which determine membership benefits available to all members, and member-specific variables, which determine how membership benefits are distributed within the group.

**Keywords:** constellations, strategic alliances, networks



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## MOVING OUT OF COMMITTED RELATIONSHIPS

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In conditions of social uncertainty—i.e., when exchanges are subject to the hazards of opportunism—committed relationships promote both the shadow of the future and the shadow of the past necessary for cooperation. For this reason, some argue that exchanges can be self-governed without the need of legal enforcement and other formal controls. While this conclusion is correct when the value of a long-term relationship does not vary much over time, we provide new experimental evidence showing that it is invalid when individuals face high exchange value uncertainty—i.e., when there are constantly new opportunities to transact with more valuable partners outside committed circles. Under both social and exchange value uncertainty, a reduction in commitment can potentially increase exchange performance, at the cost of a potential reduction in cooperation. By creating safeguards in market exchanges, contract enforcement can make individuals more willing to move out of committed relationships and into relationships with higher exchange value.

**Keywords:** commitment, cooperation, trust

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## CONTRADICTION AND COHERENCE: MANAGERIAL CONTRIBUTIONS TO STRATEGIC ACTIVITY

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This paper examines how top managers contribute to strategic activity. Drawing upon Weick and Roberts' (1993) theory of action within distributed activity systems, the paper captures the systemic nature of strategic activity and the partial nature of 'contribution' by any particular group of actors, even a powerful group such as a dominant coalition or top management team. The paper is based on an in-depth empirical investigation of top teams in three universities. Universities, as with other public sector organisations, are professional organisations with ambiguous, pluralistic and disconnected strategies. Strategic activity is, therefore, inherently fraught with contradictions arising from the multiple constituents involved in strategy making. How, in such contexts, do top managers construct contributions to collective strategic activity? Managerial contributions are explained, through an activity theory framework, as negotiation with other organisational constituents and use of strategic infrastructure and situated norms of interaction in order to engage in strategic activity within varying degrees of system level contradiction. Three patterns of top management contribution are found; contradiction escalation through formalising contributions, contradiction avoidance through balancing contributions, and contradiction exploitation through persuasion and iteration. These findings make two main contributions. First, furthering theoretical and empirical understanding of the provisional and emergent nature of strategic activity within distributed activity systems. Secondly, contributing to theories of managerial agency in pluralistic, contradictory contexts where rational, top-down perspectives on management cannot be assumed.

**Keywords:** Activity theory, Distributed strategising, Managerial agency

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## CORPORATE GOVERNANCE A CATALYST FOR INNOVATION AND CHANGE?

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Research results concerning the direct relationship between corporate governance characteristics and firm performance are inconclusive. As a result, research has shifted attention to more intermediate

relationships, such as the relationship between corporate governance and corporate strategy and innovation and venturing activities. Innovation processes are not seldom characterised by more “enfranchised” stakeholders besides investors. In that case, the efficient governance structure of the enterprise should reflect the willingness of all the stakeholders to offer the inputs for the innovation processes through the incentive - and bargaining structure and the distribution of risk. This paper elaborates upon the three transmission channels through which corporate governance structures affect corporate efficiency: incentives to value-creation; influence- and co-ordination cost and allocating risk to the least risk averse stakeholder. Following Zingales it is argued that the archetypical Berle and Means corporation does no longer fit the current business environment. In our view, this has repercussions for both internal and external corporate governance relations of firms. There are more residual claimants besides shareholders and corporate governance is not only a matter of distribution of control rights at the top of the organisation. In this paper, we analyse how this existing configuration of control rights in the Dutch situation may contribute to the explanation of the innovation position of Dutch firms. Dutch corporate governance is characterised by a dense network of interlocking directorships. We conclude that resulting allocation of control rights to Dutch top managers is probably not efficient.

**Keywords:** corporate governance, innovation, control rights

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## CO-EVOLUTIONARY EFFECTS: INCUMBENTS' EXPLORATION AND EXPLOITATION ALLIANCES AND INDUSTRY CHANGE

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The paper adopts a co-evolutionary perspective to investigate incumbents' adaptation to environmental discontinuities. We identify the concept of temporal lag - defined as the time it takes for the full effects of a discontinuity to unfold at industry level - as the 'locomotive' of change. We then develop a series of propositions on the relationship between the temporal lag and incumbents' mix of exploration and exploitation alliances as firm level responses to discontinuous change. Our main counter-intuitive argument is that, due to co-evolutionary effects, incumbents' exploitation alliances are agents of industry change and renewal. By explicitly addressing the issues of time, integration of different levels of analysis, and multi-directionality of effects, the paper provides a conceptualization that in empirical research may contribute to the development of the co-evolutionary perspective in strategy.

**Keywords:** environmental discontinuity, alliance strategy, co-evolution

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## UNDERSTANDING THE ROLE OF INFORMATION ASYMMETRY IN CORPORATE GOVERNANCE

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Corporate governance scholars have employed agency theory extensively to examine the relationship between boards of directors and CEOs. According to agency theory, the separation of ownership from control may result in agents pursuing their own interests rather than those of the shareholder. As a result, a primary responsibility of the board of directors is to ensure that management does not act opportunistically. Agency theory indicates that information asymmetry between the board of directors and the CEO is a primary impediment preventing boards from effectively controlling management. Despite the central role information asymmetry plays in agency theory, and calls from scholars to explore its role in corporate governance, relatively little research has addressed this issue. Using data from 145 firms, this paper attempts to fill this gap by examining the relationship between boards' information gathering behavior and the control mechanisms used to ensure that the CEO acts in the best interests of stockholders. This paper utilizes agency logic and proposes that as the amount of information possessed by the board increases, the board is better able to directly monitor the behavior of the CEO and the need to employ CEO control mechanisms therefore decreases. Contrary to expectations, the results of this

study indicate that boards that actively engage in information gathering also tend to employ CEO control mechanisms. Thus, the findings of this study suggest that information is not a substitute for traditional governance mechanisms, and perhaps indicate that effective boards take many steps to protect shareholder interests.

**Keywords:** Information, Governance, Boards

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## THE NETWORK DANCE: THE ROLE OF NETWORKS AND NETWORK DYNAMICS IN KNOWLEDGE CREATION

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We explore how the structural and relational dimensions of a knowledge worker's interpersonal network impact the value of new knowledge created. In addition, because theory predicts that dynamic changes to a network's structural and relational dimensions will be important antecedents of both social capital and knowledge creation (Nahapiet & Ghoshal, 1998), we examine how those dynamic changes impact an individual's ability to generate new knowledge. Our study of over 3,200 scientific discoveries by 89 medical research scientists working with more than 5,000 others over 11 years provides important evidence that the value of knowledge created depends on the structural and relational dimensions of the knowledge worker's network. Furthermore, our results indicate that the value of an individual's knowledge creations relies, in part, on dynamic changes to the network, as assessed through its structural and relational dimensions.

**Keywords:** Knowledge Creation, Social Capital, Network Analysis

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## FINANCIAL MARKETS AND FIRM BEHAVIOR: EMPIRICAL RESULTS ON THE MODERATING ROLE OF FIRM CAPABILITIES

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Using a large dataset from Compustat and CRSP, this study demonstrates empirically the importance of stock prices in affecting firm behavior, in particular their investment strategies. Not only are own share prices important, but we can also discern the effects that high valuations of a subset of firms have on other firms in their industry. These effects are not uniform – in line with my hypotheses I find that the capability profile of different types of firms moderates the impact of stock prices on firm behavior. Specifically, the results show that small firms with high stock returns invest more into exploitation of their existing product market positions, while large firms tend to invest more into exploration of new positions. Similarly, high stock returns of other firms in an industry are found to trigger further exploration in larger firms, presumably by delivering additional impetus for strategic change that allows these firms to overcome internal resistance. However, the latter results only obtain for data from 1990-2000. These results have implications for evolutionary theories by showing that stock markets play an important role in shaping the co-evolutionary interactions of entrepreneurial and incumbent firms in an industry.

**Keywords:** Financial Markets, Dynamic Capabilities, Learning

## EXTENSIONS ON A BEHAVIORAL APPROACH TO STRATEGIC MANAGEMENT

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This paper develops a view of strategic management that is based on the ideas of Herbert Simon in particular, and insights from the behavioral theory of the firm in general. Building on certain well-received elements of his work in strategy, we add implications from his other (rather under-studied) work, especially on altruism, near-decomposability, and design. Each of these fills an important gap at the individual, organizational, and environmental levels of analysis in mainstream strategic management theorizing today. We argue that these three extensions, when integrated, can re-shape future scholarship in strategic management in a manner consistent with key results both from the dynamic capabilities view, and the resource based view.

**Keywords:** Behavioral theory of the firm, Dynamic Capabilities, Strategy

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## DIVERSIFICATION AND PERFORMANCE: A DYNAMIC PERSPECTIVE

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This paper suggests diversification can enhance firm value in two ways: 1) by providing a means for exploiting economies of scope in existing intangible assets, and 2) by leading to growth in valuable intangible assets. We refer to the first factor as the scope factor, and the second factor as the growth factor. While previous research has emphasized the scope factor, our paper adopts a dynamic perspective and outlines a theoretical rationale for the growth factor. We find empirical evidence for both factors in a sample of large diversified firms.

**Keywords:** Diversification, Performance, Resource Based View

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## WILL THE "REAL" TOP MANAGEMENT TEAM PLEASE STAND UP: A NEW LOOK AT AN OLD TOPIC

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As top management team research has proliferated, some basic assumptions of the upper echelon perspective have been obscured. For example, top management teams are typically depicted as fixed and stable groups who work together to make strategic decisions. That depiction is not a necessary extension of the upper echelon perspective, nor is it altogether consistent with reality. In this paper, we offer an alternative framework that explains the various approaches to the definition and measurement of the top management team in terms of the type of influence being transacted. Our proposed framework provides some new insights into issues that traditional TMT research has yet to consider.

**Keywords:** top management team, upper echelon, framework

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## THE CHANGING PRODUCT AND INTERNATIONAL SCOPE OF FIRMS: A DYNAMIC PERSPECTIVE

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This paper develops and tests a framework for predicting changes in the product and international scope of the firm over time. We begin by arguing that diversification not only involves exploiting existing knowledge, but also the acquisition of new knowledge from various markets. Under these conditions we propose that absorptive capacity would play an important role in influencing changes in product and international scope. Empirical results indicate support for our framework.

**Keywords:** Diversification, Absorptive Capacity, Resource Based View

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## CONCURRENT SOURCING: WHEN DO FIRMS BOTH MAKE AND BUY?

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While extant theory typically treats the sourcing decision as a dichotomous choice, to make or to buy, in practice firms can and do simultaneously make and buy the same input. I posit that the main synergistic effects of concurrently making and buying include the improved ability to monitor suppliers due to reduced information asymmetries and the increased learning from the combination of deep tacit knowledge gained from internal production and more diverse knowledge gleaned from external sources. I use a discrete structural alternatives approach to this research question, comparing the polar sourcing modes (only making and only buying) with concurrent sourcing such that each mode has a distinct set of attributes relative to a firm's sourcing criteria. In turn, each of these criteria is affected by input, firm, supplier, and environment attributes; therefore, firms will make and buy only when these attributes warrant this choice. Amenable attributes include performance ambiguity, technological uncertainty, and superior supply management capability of the sourcing firm. Inhibiting attributes include a clear production cost advantage for either internal or external suppliers, volume uncertainty, or specific investments. I empirically test my propositions by surveying US metal forming firms about their sourcing decisions of production tooling and services.

**Keywords:** vertical integration, supply management, make vs. buy decisions

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## CAPABILITIES IN MOTION: NEW ORGANISATIONAL FORMS AND THE RESHAPING OF THE HOLLYWOOD MOVIE INDUSTRY

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This paper looks at the evolution of capabilities in the Hollywood movie industry in the aftermath of the transition from a studio era dominated by integrated hierarchies to a post-studio era dominated by flexible hub organisations supplied by networks of resource providers. Adopting a dynamic capabilities perspective we argue that two industry capabilities – mobilising and transforming capabilities - play a crucial role in assembling and transforming resource bundles into feature films. We further argue that the transition to new organisational forms shifts the co-evolutionary process, with practices and routines that make up mobilising capabilities changing faster and becoming more important to box office success than practices and routines that make up transforming capabilities. We test our hypotheses using a sample of 400 films split between the studio and post-studio eras. The results support our hypotheses, pointing to



organisational forms as playing an important role in mediating the relationship between learning and capability evolution. More specifically, they highlight the influence of centralised control versus dispersed access to resources. The strategy of integrated hierarchical organisations depends on ownership of resources that reduces incentives to develop mobilising capabilities, and increases incentives to develop transforming capabilities. The advent of new organisational forms, by contrast, increases returns to new practices and routines that mobilise resources at the expense of returns on exploring practices and routines that make up transforming capabilities.

**Keywords:** Dynamic capabilities, co-evolutionary processes, Cultural industries

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## TOWARDS A SEQUENCE PERSPECTIVE ON ALLIANCES: HOW ALLIANCE ORDER AND TIMING AFFECT ALLIANCE OUTCOMES

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This paper introduces and develops a sequence perspective on strategic alliances. Our main proposition is that alliance research needs to consider both how the order in which firms assemble their alliance portfolios and how they time the formation of each alliance affect the benefits they obtain from their alliance portfolios. We illustrate the importance of sequences in alliance outcomes by developing three different sets of propositions based on detailed arguments that outline why it is important to pay attention to sequences in alliance research. Specifically, we argue that the order in which firms assemble their alliance portfolios affects both their innovative potential and how external investors evaluate them and that the timing of alliances affect how much firms learn from their alliances. We finally conclude our paper by discussing different research strategies that would allow us to test the empirical value of the sequence perspective.

**Keywords:** alliance sequences, alliance order, alliance timing

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## THE "HOW" OF FIRM BOUNDARIES: COMPARING GOVERNANCE FOR INTERNAL AND EXTERNAL IT PROJECTS

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Transaction governance, and how it might vary between versus within firms, is central to the various theories of the firm. However, while much empirical work has studied which transactions take place within rather than between firms, there have been no empirical analyses of how governance varies across these two settings. In this paper I take a first step towards filling this gap, by comparing the governance of internal and outsourced IT development projects at a large financial services institution. I find that there are important differences in the mechanisms that are used to govern these projects. Outsourced projects are covered by detailed contracts that often include significant financial incentives tied to performance. Although some internal projects are governed by written agreements, these are not court enforceable, and contain no explicit incentives. This is in part due to way that the firm is organized. As cost centers, there is no accounting mechanism which will allow internal groups to incur financial penalties. I argue that these findings have two important implications for the theory of the firm. First, they indicate that we need to pay more attention to firms' internal organization in building models of firm boundaries. Secondly they suggest that the governance of transactions within the firm is very different to external governance. I argue that while this is consistent with Williamson's (1991) predictions, the roots of these differences lie in the effects of asset ownership rather than legal doctrine.

**Keywords:** Theory of the firm, Outsourcing, Transaction governance



## UNDERPERFORMANCE AND PROFIT REDISTRIBUTION IN BUSINESS GROUPS

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Business groups are a commonly used organizational form in many countries and play a dominant role in many developed as well as emerging economies. An interesting debate with respect to the existence of such groups is whether they create added value vis á vis non-group firms. This study addresses this issue by investigating the profitability of business groups in India. We find strong evidence that group firms exhibit lower profitability than independent firms. We document that one of the major factors contributing to this lower profitability arises from the influence the controlling shareholders in a group exercise in redistributing profits across affiliated firms. We also show that the profit redistribution phenomenon is more pronounced for larger groups and those groups that exhibit a greater degree of corporate control. The results of the study thus provide support for a profit redistribution explanation for the 'business group discount'.

**Keywords:** business groups, profit redistribution, emerging markets

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## CREATING CORPORATE ADVANTAGE IN TURBULENT ENVIRONMENTS

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This paper analyzes the evolution of the corporate strategy of a car components manufacturer in order to determine its influence in a company exposed to a turbulent environment. We found that the corporate level plays two key roles. First, setting the pace of the company's evolution, alternatively moving the balance of organizational initiatives between "long jump" and "local search" strategies. Successful long jump corporate strategies are carried out through limited downside strategic initiatives as real options and strategic alliances. Corporate strategies based in local search are chosen in times of stability or economic slowdown. The second source of corporate advantage is the development of an organizational architecture that promotes the recombination of units and units' self-organized engagement in intraorganizational collaboration initiatives.

**Keywords:** Multibusiness Firms, Evolutionary Theory and Complexity, Corporate Strategy

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## TWO FACES OF TRUST: EFFECTS OF CALCULUS-BASED AND IDENTIFICATION-BASED TRUST IN KNOWLEDGE TRANSFER

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As an important source of innovation and economic rents knowledge is a consequential strategic resource (Grant, 1996; Liebeskind, 1996; Winter, 1988). Due to increasing competitive, technological, and global pressures, firms are extending beyond their own boundaries and turning more towards collaborative ventures as a way to propel knowledge creation (Hamel & Prahalad, 1994). In doing so firms engaged in inter-organizational collaborative ventures face the risks of misappropriation of knowledge resources (Das & Teng, 2001; Liebeskind, 1996). Trust helps assure collaborative parties that their vulnerabilities will not be exploited (Barney & Hansen, 1994). The existence of trust therefore can facilitate knowledge transfer in inter-organizational collaborations. Using survey questionnaire data

obtained from senior executives in 180 industrial firms, we examine two distinct trust types, i.e., calculus-based trust and identification based trust (Lewicki & Wietoff, 2000) and the role each play in knowledge transfer between industrial firms and university research centers. Results showed that while both types of trust were positively associated with greater knowledge transfer, identification-based trust was more strongly associated to knowledge transfer than calculus-based trust. We also found that as knowledge became more tacit calculus-based trust became negatively associated with knowledge transfer while identification-based trust association became more strongly positive. We conclude this paper by discussing implications for management practice and future research.

**Keywords:** Knowledge, Transfer, Trust

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## WHEN MORE POWER MAKES YOU WORSE OFF: TURNING A PROFIT IN THE AMERICAN ECONOMY

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This paper seeks to outline conditions under which an increase in an actor's power leads to a decrease in benefits received. It builds on Emerson's (1962) power-dependence framework, which defines two distinct dimensions of structural power for a dyad of actors: relative power and total power. Relative power captures the difference in the power of each actor over the other. Higher relative power allows the more powerful actor to obtain a greater share of the surplus from trade. Total power captures the mutual dependence of both actors on each other. Higher total power increases the range of agreements that give both actors more benefit than would be gained from their respective alternatives, but it also creates more room for costly bargaining over the surplus from trade. We argue that these bargaining costs will be particularly high when relative power in the dyad is high, because concerns of fairness will be most pronounced. Thus, an increase in relative power has two opposing effects: (i) it allows the more powerful actor to receive a greater share of rewards, (ii) but it may reduce the overall benefit to exchange. Under conditions of high total power, the latter effect may be large enough that an increase in an actor's relative power may reduce the benefits accruing to the more powerful actor. We test this hypothesis using price-cost margins of American industries. The results support the model suggesting that both dimensions of power need to be considered simultaneously in order to understand how power determines inequality between social actors.

**Keywords:** power-dependence, dyadic analysis, price-cost margin

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## CHOICE OF DISTRIBUTION SYSTEM IN THE INTERNATIONAL INSURANCE INDUSTRY

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This article develops a theoretical analysis of how internationalization in a service industry is related to distribution channel selection by examining the determinants of the distribution system choice in the context of the international insurance diversification strategy and its implications for performance. This study suggests that the distribution system choice is related to firm performance through a contingency model of environmental, firm-specific, and strategy factors, which determine the choice of distribution system. This paper develops a conceptual framework and offer research propositions suggesting that the optimal choice of distribution system is an important decision in the process of the international diversification strategy of insurers. In turn, the decision regarding the distribution system choice will be related to control levels as well as resource commitment levels and operational risk of the international insurer.

**Keywords:** Insurance Distribution System, Foreign Entry Mode, Channel Integration

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## THE EFFECT OF BLOCKHOLDER OWNERSHIP ON FIRM VALUE

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We use Granger-tests to examine the causal relationship between blockholder ownership and value of the largest EU and US companies. Previous studies on US data have found no systematic effect, but we propose that these results may not carry over to continental Europe where ownership concentration is higher, the level of investor protection is lower and influential blockholders may have other objectives than shareholder value. In accordance with previous research we find no significant causal effects either way in the US/UK. But in continental Europe we find a negative effect of blockholder ownership on firm value. Further analysis reveals that this effect is significant only for companies with high initial levels of blockholder ownership (> 10%). We interpret this as evidence that ownership concentration in continental Europe may have been too high from a shareholder value viewpoint.

**Keywords:** Blockholder ownership, Granger causality, Firm value

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## ACQUISITION OR ALLIANCE? GOVERNANCE OF INTERFIRM RESOURCE COMBINATION

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Alliance and acquisition are alternative ways of combining resources from multiple firms to achieve many similar strategic goals. The parallel popularity of both of them raises important issues concerning the conditions under which two firms should combine their resources, and when should they use the alliance vs. the acquisition approach. This paper takes a dyadic perspective to address these issues. Specifically, we emphasize how three sets of conditions (the relatedness of two firms in business operations, combined relational capabilities of two firms and prior dyadic relationships) that are closely related to the strategic and organizational concerns in interfirm resource combination suggest when and how two firms should combine their resources. Our findings from a sample of the largest firms in the United States for the period of 1991 – 2000 indicate that these factors all increase the likelihood that two firms will combine their resources. They, however, affect the likelihood that two firms will form an alliance and the likelihood that they will engage in an acquisition differently. These findings suggest that firms can optimize their choice of an alliance versus an acquisition based on some of their dyadic characteristics. For example, when business relatedness of two firms is high, acquisition is more likely than an alliance. Our findings also suggest that certain relational knowledge is readily transferable between alliance and acquisition. Firms can benefit from their alliance capability in the future acquisition and their acquisition capability in the future alliance. Dyadic alliance experience encourages firms to form an alliance or engage in an acquisition, but dyadic acquisition experience does not affect the likelihood that two firms have an alliance, although it does make the future acquisition more likely.

**Keywords:** Alliance, Acquisition, Governance

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## THE ROLE OF COMPENSATION COMMITTEES IN CEO AND COMMITTEE COMPENSATION DECISIONS

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This study investigates the influences of various compensation committee characteristics such as shareholdings of members, committee fees and committee compositions on executive compensation

setting in newly public traded firms. The paper also explores the relationship between compensation committee characteristics and their decisions about their own compensation at the post. Our paper indicates that compensation committee members make CEO compensation decisions based on their personal stakes involved in the firm rather than simply aligning with either shareholders or CEO interests as assumed in previous researches. The paper finds that when compensation committee members are significant shareholders they tend to offer CEO less total pay and higher incentive component. In contrast, compensation committee members who are well paid are more likely to offer CEO generous compensation package with higher total pay and less incentive component. This prediction is further confirmed when it comes to the issue of compensation committee fees. Committee members with large equity stakes tend to offer themselves fewer fees, while higher percentage of CEO members in committee is related with larger fee. This paper, thereby, suggests studying the relationship between shareholders, board or its sub-committee, and management using the three-tier principal-supervisor-agent framework.

**Keywords:** executive compensation, corporate governance

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## **IMPROVISATION AND ITS IMPACT ON PERFORMANCE: INSIGHTS FROM A CITY GOVERNMENT**

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This paper proposes a multidimensional view of improvisation and defines it as the creative and spontaneous process of attempting to achieve an objective in a new way. We suggest that the relationship between improvisation and performance is equivocal and identify six factors that enhance the effectiveness of improvisation: environmental turbulence, experimental culture, real-time information and communication, memory, expertise, and teamwork skills. Hypotheses were tested in the context of a city government. The positive effects of experimental culture, real-time information and communication, and teamwork skills on the effectiveness of group improvisation were supported. Although the moderating roles of environmental turbulence, memory, and expertise were not significant, data showed some support for these effects.

**Keywords:** Performance, Emergent Strategy, Improvisation

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## **CEOS AND EFFECTIVE STRATEGIC LEADERSHIP: A MATTER OF COGNITIVE DIFFERENCES?**

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The purpose of this paper is to further research in the area of CEO characteristics by offering a theoretical framework that illustrates how self-monitoring behavior directly impacts CEO's strategic leadership practices and, when considered with organizational characteristics, holds valuable implications for firm performance. This topic is virtually unexplored in the management literature despite its relevancy to workplace outcomes (Day et al., 2002). Consequently, opportunities for future research are plentiful in this domain.

**Keywords:** self-monitoring, CEO, leadership

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## **PULLING THE PLUG: THE CAPABILITY TO MANAGE UNSUCCESSFUL INVESTMENTS AND FIRM PERFORMANCE**

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The logic of sequential investments requires that investments be terminated when they are no longer economically justified. This study proposes that due to differential forecasting abilities and managerial discipline, firms exhibit different levels of success in terminating unsuccessful investments at the right time. I attempt to test whether the capability to terminate unsuccessful investments in a timely manner results in superior performance in the U.S. venture capital industry. I hypothesize that firms differ in their capability to terminate unsuccessful investments, and a higher termination capability results in superior performance over the long run. I constructed a longitudinal data set of venture capital investments, spanning 1979-2000, and their performance outcomes. I find that there are no differences among VCs in their capability to manage successful investments. In contrast, I find that VCs differ significantly in their termination capability. This provides evidence that, ceteris paribus, the capability to terminate failing investments at the right time is a significant predictor of long-run VC performance.

**Keywords:** capabilities, sequential investments, venture capital



## ORGANIZATIONAL EVOLUTION AND INSTITUTIONAL STRUCTURE: LESSONS FROM THE EMERGENCE OF MARKETS

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How does institutional scope evolve? Rather than answering this question, the literature has focused instead on the analysis of the conditions under which market procurement is abandoned and vertical integration is favored. However, this may lead us to miss the forest for the trees. Shifting our focus to the analysis of the actual value chain structure, and in particular to the emergence of new markets in a value chain can help expand our understanding and put existing theory in context. Based on an extensive, inductive industry study, this paper explores the evolution of the mortgage banking value chain over the last twenty years and explores what drove the high degree of vertical specialization and market creation. I find that, first, gains from trade and specialization between the up- and down-stream segments motivate organizational autonomy within organizations, and then the separation of activities in different firms connected through the market. Subsequently, a learning process is set in motion; and that process works inasmuch as it standardizes coordination and information flows, which in turn lead to the reduction of transaction costs (TC) that allow the markets to arise. Thus, transaction costs are incidental to the organizationally-driven evolutionary process described in the paper; they matter, but are endogenously determined by organizational dynamics. This means that to understand institutional form we have to study the organizational structure of production and the generative processes of TC, rather than TC themselves, as well as shift the unit of analysis to the entire value chain.

**Keywords:** theory of the firm, value chain evolution, institutional structure

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## INSTITUTIONAL STRUCTURE OF PRODUCTION REVISITED: TRANSACTION COSTS, CAPABILITIES AND EVOLUTION

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Over the last few years, management researchers and business historians have come to re-consider the legacy of R.H. Coase, famed as the founder of transaction cost economics. His writings clearly show that the research program he sought to further is considerably more ambitious than that of contemporary transaction cost economics. While the latter is concerned almost exclusively with how transaction costs affect governance choices at the level of the individual firm or transacting dyad, Coase sought to understand "The Institutional Structure of Production" (ISP). The scope of this problem is not entirely clear, but it definitely encompasses the full systemic implications of transaction costs. This paper first clarifies the concept of the ISP. Given this clarification, it is seen that understanding the ISP requires complementing transaction cost considerations with a "capabilities" or "competence-based" perspective.



More importantly, the problem is best understood in a dynamic setting; the institutional framework supporting transactions co-evolves with the mix of productive activity. The paper explicates key mechanisms in this co-evolution, particularly how transaction cost reductions unleash selection forces operating on hitherto latent variety in ways of doing things. Increases in the scale and number of transactions constitute, in turn, a major stimulus promoting cost-reducing institutional change. These perspectives are partially formalized in a simple model of the evolution of vertical structure in an industry. A brief account of the evolution of the U.S. mortgage banking industry is offered by way of empirical illustration of the theory.

**Keywords:** institutional structure, capabilities, evolution

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## PRESTIGIOUS EXECUTIVES, DIRECTORS AND BACKERS OF IPOS: ENDURING ADVANTAGE OR FADING GLOSS?

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Studies in strategy, organizational theory, and finance have found evidence of substantive and symbolic effects of prestigious interorganizational ties on firm outcomes, particularly in the initial public offering (“IPO”) context. Building upon the previously documented fact that investors are drawn to IPO firms that have prestigious backers, we explore whether it is possible, in turn, that prestigious backers are drawn to IPO firms that have prestigious “upper-echelons” (officers and directors). We argue that the prestigious ties of the firm’s management team and board will attract prestigious backers (venture capital investors and underwriters). These ties, in turn, will affect a firm’s IPO valuation, and its subsequent stock performance and sales growth, especially in highly uncertain situations. We test our propositions on 128 IPOs from two industries of varying uncertainty (computer software and hotel/restaurant chains) from 1994 to 1998. We find evidence that upper-echelons’ prestigious ties attract prestigious backers, and both of these factors influence initial IPO valuation. However, prestigious ties are found to have a fading benefit, demonstrating only minor effects on post-IPO shareholder returns and no effects on sales growth. Yet, we did find one particular type of IPO in which having upper-echelons prestigious ties led to greater post-IPO valuation and sustained operational benefits – “Infant IPOs,” which were very small and young with, therefore, few tangible assets on which the market could base an assessment of future earnings potential.

**Keywords:** Upper-Echelons, Social Ties, Initial Public Offerings

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## STRATEGIZING BY FIRMS IN THE PRESENCE OF MARKETS FOR RESOURCES

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Strategizing by firms from the resource-based view is concerned with the process through which firms acquire a distinctive bundle of resources that is costly and time-consuming for competitors to duplicate or imitate. A central question facing any firm, therefore, is its strategy for accumulating the resources that underpin its production activities. In this article, the process of resource accumulation is discussed as one involving potentially both internal resource development and external resource acquisition, from the perspective of the strategic issues involved in making a choice between these options. Successful firms, it is argued, expand their options through blending internal resource accumulation with external resource leverage, thereby deepening their distinctive dynamic capabilities. The article is concerned with three major aspects of this process: first, the strategizing by firms around the “internal development” vs. “external sourcing” issue, as informed by the practices of leading firms; second, the expansion of strategic options available to firms that combine external with internal sourcing, and how this links with the deepening division of labor within the economy as a whole; and third, the potential competitive advantages as well as disadvantages to be secured by firms through the process of external sourcing (as compared with the well-known potential advantages accruing to incumbents through internal



development, such as time compression diseconomies and causal ambiguity). These issues are illustrated with cases from biotechnology and pharmaceuticals, and the emerging business of interactive digital TV.

**Keywords:** resource-based view, markets for resources, resource leverage

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## IMPLICATIONS OF MARKET CYCLE AND DIVERSIFICATION STRATEGY FOR ACQUISITION PERFORMANCE

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This paper aims to examine the impact of market cycle and diversification strategy on acquirer performance. We hypothesize that acquisitions undertaken during low market cycles will exhibit better performance than other acquisitions. We also predict that, given Singapore's institutional environment, unrelated acquisitions will create value if they are undertaken during low market cycles and they will outperform unrelated acquisitions undertaken during high market cycles. We use Cumulative Abnormal Returns (CARs) as a measure of acquirer performance. Our sample consists of 115 acquisitions by Singapore-based firms between 1990 and 1999. We find that, on the average, acquisition announcements induce a positive reaction from the stock market. We also find support for both the hypothesized relationships.

**Keywords:** Acquisitions, Market cycle, Diversification strategy

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## EXPLAINING VERTICAL INTEGRATION STRATEGIES: MARKET POWER, TRANSACTIONAL ATTRIBUTES AND RESOURCES

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This paper identifies the factors that govern vertical integration strategies related to industrial structure, transactional attributes, and firms' internal resources. Six hypotheses are proposed and tested in 155 insourcing decisions along the Spanish meat value chain, showing that firms vertically integrate to extend market power toward states that are more competitive, invest in specific assets, exploit valuable resources among several stages, and guaranty the quality of their goods. Nevertheless, this tendency is affected by the search for flexibility under constant and unpredictable demand conditions, which makes hybrid combinations of internal and market relationships more efficient. Contrary to expected, technological uncertainty was not significant.

**Keywords:** insourcing, oligopolistic stages, uncertainty

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## LEADING INNOVATION: ASSESSING THE IMPACT OF TOP MANAGEMENT TEAMS ON BOUNDARY-SPANNING INNOVATION

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The present paper relates top management team (TMT) demographic characteristics to research and development (R&D) success. While past research has linked TMT demographic attributes to R&D inputs such as budget allocation, the present research focuses on specific R&D outputs: namely, whether TMT attributes generate R&D innovations whose foundations cross technological or organizational boundaries. Prior research has demonstrated that such boundary-spanning activities results in high performance.

Level of education and heterogeneity in functional background are predicted to affect technological boundary spanning while heterogeneity in experience inside and outside the organization is predicted to affect organizational boundary spanning. These predictions are supported in an analysis of TMTs and patent citation behavior of fifty-two companies holding pharmaceutical patents over a six-year period.

**Keywords:** Innovation, TMTs, boundary-spanning

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## INTERPRETATION OF OUTWARD FDI BY CHINESE MNCs: A STRATEGIC PERSPECTIVE

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Over the past two decades, Chinese multinational corporations (MNCs) have made a huge amount of foreign direct investment (FDI) abroad and China has become a leading foreign investor in the world. However, this significant issue is seldom studied from business perspective and particularly from strategic perspective. Given the increasing prominence of Chinese MNCs to business strategy and policy, this paper intends to fill this gap by focusing on several critical questions: What are the major motivations for Chinese MNCs to invest abroad? While investing abroad, how do Chinese multinationals differ from other companies particularly from emerging countries? And how do strategic theories account for the determinants of Chinese investment abroad? To do so, we make a detailed analysis of both macro and micro data on outward FDI by Chinese MNCs. The aggregate data come from FDI/TNC database by the United Nations Conference on Trade and Development (UNCTAD) while the firm-level data are derived and synthesized from Almanac of China's Foreign Economic Relations and Trade by the Ministry of Foreign Trade and Economics Relations (MOFTEC) as well as from other publicly available sources. Based upon the in-depth analysis, we also draw an important strategic implication, that is, Chinese multinationals will be increasingly engaged in overseas FDI in the future, thereby emerging as more competitive players in the global arena.

**Keywords:** Foreign direct investment, Multinational strategy, OLI paradigm

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## PRESSURE TO PERFORM, COMPENSATION, BOARD CONTROL, AND THE PROPENSITY TO MISLEAD

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The use of stock options within executive compensation plans is being blamed for the proliferation of misleading financial disclosures, but we see the reason as being more complex than base executive greed. We test a model incorporating different sources of performance pressure that motivate executive attempts to preserve employment capital and capitalize on incomplete employment contracts by issuing misleading disclosures. We argue that these relationships also are moderated by board control. Our results indicate that performance pressure and option grants and performance pressure are positively associated with misleading disclosures. Board control, as a function of average tenure, moderates this relationship, but board stock ownership does not. Instead, board ownership also is positively related to the incidence of misleading disclosures. Our findings thus have behavioral and governance implications.

**Keywords:** Governance, Compensation, Misleading disclosures

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## RENT DISTRIBUTION IN MERGERS & ACQUISITIONS: A RESOURCE-BASED PERSPECTIVE

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This paper develops a resource based model for explaining the success and failure of mergers & acquisitions. A three-step model is proposed that identifies theoretical conditions prerequisite for deriving a competitive advantage from mergers & acquisitions. In the first step factors are evaluated that help firms to identify resource gaps and that motivate firms to search for new resources and capabilities. These factors are: heterogeneity, dynamic business environments, entrepreneurial discovery. In the second step we analyze alternative sources for new resources such as factor markets, internal development and cooperation and present a framework that explains under which conditions mergers & acquisitions are an appropriate and advantageous means for closing resource gaps. In a last step we use the resource-based logic to develop a parsimonious model of the conditions that underlie financially advantageous mergers & acquisitions strategies from the perspective of bidder firms. Here, we evaluate conditions that influence the distribution of net gains between target and bidder shareholders. To assess these conditions we consider three types of complementary resources (generic, specialized and cospecialized) and take the resource-based view back to its microeconomic roots. We can show that only if strategically valuable and cospecialized resources of the acquiring and the acquired firms are combined, both the target as well as the bidder firm can appropriate rents.

**Keywords:** M&A, resource-based view, complementary

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## STRATEGIC CHANGE AND HIGH DEPENDENCY ENVIRONMENT: THE CASE OF PHILANTHROPIC ORGANIZATIONS

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The case of philanthropies is very informative in examining high-dependency environments. Charitable organizations provide an apparently easily substitutable service for which there is ample competition. They collect funds from charitable donors to finance community-based projects. The continuity of the relationship to the resource providers, and to the community groups, both seen as "customers", is temporary, and hard to stabilize. It requires trust, yet the rarity of the encounter itself and the lack of closeness destroys trust. Surviving in such an environment is a constant challenge. Yet these organizations, like churches and universities, are long-lasting. How they manage to adapt to change and survive is the topic of this article. Based on a detailed, in-depth, study of the operations and strategic decision-making of Centraide, a charitable organisation in Greater Montreal, this article suggests that dependency on the environment can be a stimulus to organizational adaptation. Two major changes over a 10 year period are studied to show that strategic management in high dependency situations requires a continual attention to the organization's relationships and interactions with the forces in its environment, thus forcing a continuous management of the process by which change takes place. Our basic proposition is that For philanthropies, dependency is a strategy that may prove more effective in managing complex situations than autonomy, provided that more attention is given to the processes of strategic decisions rather than to their content.

**Keywords:** Dependency management, Strategic change, Institutional theory

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## THE CONTINGENCY OF PARTNERING EXPERIENCE AND THE GAINS FROM ALLIANCES

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This study examines the conditions under which prior partnering experience contributes to value creation in new alliances. It proposes that prior experience with the same partners provides greater benefits than general partnering experience. Furthermore, the effect of partner-specific experience is moderated by the extent to which the assets of the new partner differ from those of prior partners. Finally, a firm's own

technological and financial capabilities moderate the benefits of partner-specific experience. We test these propositions with comprehensive longitudinal multi-industry data on joint ventures formed among Fortune 300 firms between 1987 and 1996. Based on stock market returns to joint-venture announcements, the results provide support for the contingent value of partnering experience. The implications for managing alliances and advancing organizational learning are discussed.

**Keywords:** Alliances, Partnering experience, Value creation



## INTERNET ENTREPRENEURSHIP IN AN EMERGING MARKET: NETWORKS AND PERFORMANCE OF INTERNET STARTUPS

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This article examines the contingent value of social networks, dynamics of social networks over time, and the way in which changes in structural properties of networks affect performance of Internet startups. The industry and country context of the study is the Internet industry in the People's Republic of China. The empirical data are composed of longitudinal surveys of 94 Internet startups in Beijing. The study found that likelihood of survival of Internet firms is explained by interactions of social capital and human capital of entrepreneurs. Networking skills defined as a set recruitment methods, rituals and tricks predict changes in structural properties of networks over time. Finally, increase in networking skills and structural holes over time lead to greater firm legitimacy and employment growth. Theoretical and practical implications are discussed.

**Keywords:** Internet, entrepreneurship, China

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## WHEN DOES A NEW TECHNOLOGY SURVIVE IN THE NETWORK ECONOMY?

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We develop a computational model to address the question of when a new, incompatible technology can survive in competition with an incumbent technology in the presence of network effects. We experimented with two main variables, network topology and the timing of new-technology introduction. Like much of prior work, our study does show that the survival of the new technology depends on the timing or the installed base. But our findings suggest that network topology is more important and essential. Our study showed that delayed entries do not exclude the possibility of the new technology's sustainability when the customers' social networks are characterized by a high degree of clustering without no or few shortcuts (e.g., co-worker networks for instant messaging).

**Keywords:** Network effects, Network topology, Technology

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## CONTRACT ADJUSTMENTS IN DYADS

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Despite considerable interest in contractual aspects of interorganizational relationships the current knowledge of ex post contractual adjustments, adaptations and change is very limited. While most of the research on interorganizational relations from a contractual perspective has focused on the ex ante contractual conditions, this paper investigates how contractual governance mechanisms change over time in long-term collaborative relationships, attempting to understand why change and adaptations occur, and what the consequences are. The paper reports a longitudinal multiple case study of three

dyadic relationships in the Scandinavian retail sector. The findings suggest that contractual adjustments are both common and frequent, particularly in the early stages of interaction. While some contractual changes occur as a result of deliberate action, some changes occur unintended. While contracts clearly have constraining effects, they also represent enabling mechanisms the contracting parties might exploit in order to enhance value creation. Finally, over time the impact of observed performance and direction of the relationship (i.e. future expectations) will reinforce certain contractual aspects and change others and imply a strategic evaluation of the relationship.

**Keywords:** Interfirm, Governance, Processes

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## THE FORM OF DEPARTURE: CONSEQUENCES OF ADAPTATION OF FRANCHISING KNOWLEDGE FOR LOCAL NETWORK GROWTH

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One of the key issues in the intra-firm transfer of knowledge assets is the extent to which such assets should be adapted to fit local conditions. However, the literature has stopped short of questioning the optimal form of departure for, or initial degree of, adaptation. We explore the form of departure through an in-depth field investigation in the form of a naturally occurring, repeated-treatment quasi-experiment. We find that up-front adaptation results in poor performance while implementing a copy similar to the original practice results in good organizational performance.

**Keywords:** Knowledge Transfer, Adaptation, Franchising

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## THE RELATIONSHIP BETWEEN MNC SUBSIDIARIES AND LOCAL FIRMS: SOME EMPIRICAL EVIDENCE FROM ITALY

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Research has typically acknowledged the importance of the presence of a multinational corporation for the firms in the surrounding economic environment. However, little is said about the strategic role of local firms, which are generally conceived as purely passive actors. This study moves beyond this perspective and examines if and how the technological development and the growth of local firms can be improved by the strategic choices of individual firms. We argue that local firms improve their performance as a result of linkages supplier-client with the multinational, which are embedded in a complex chain of dependence-influence relationships. Firms positively influence their performance when they are willing to increase their relation-specific investments. Various implications of this theory - tested with OLS and logit models - are corroborated in the paper.

**Keywords:** Multinational Corporation, Relational View, Specific Investments

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## STRATEGY AND ACCOUNTING FRAUD

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Drawing from agency theory and risk-taking literature, we examine the extent to which strategic and organizational factors are associated with financial statement fraud. Based on a matched pair sample, we find that firms that have engaged in fraudulent accounting activities have younger CEOs than firms that have not engaged in such activities. These CEOs are less likely to have an MBA and have more of their compensation based on stock options than their counterparts. We also find that firms engaging in fraudulent accounting activities tend to pursue more risky acquisition strategies than firms not engaging in accounting fraud. In addition, our study results show that financial distress and the lack of external audit oversight are associated with financial statement fraud. Our results advance our understanding of the role executives play in accounting fraud, and suggest organizational and governance arrangements that provide safeguards against such fraud.

**Keywords:** accounting fraud, governance, managerial risk-taking

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## STRATEGIC DECISION MAKING: THE INFLUENCE OF INTUITION ON STRATEGIC DECISION SUCCESS

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Although research has emphasized the importance of intuition in strategic decision-making (Eisenhardt & Zbaracki, 1992), field research on the use of intuition in applied management settings is quite meager (Khatri & Ng 2000). The lack of empirical research can be attributed in part to the lack of theoretical understanding regarding the relationship between the use of intuition and specific outcomes such as strategic decision success. In this paper we present a theoretical model that aims to address this gap in the literature. In particular, we examine individual attributes such as the manager's extent of experience and tacit knowledge as well as decision specific characteristics such as the magnitude of impact, novelty, uncertainty, urgency and complexity of the decision to identify antecedents that predict the use of intuition. We also develop a number of propositions regarding the linkage between the use of intuition and strategic decision success. In essence, we argue that strategic decisions based on the use of rationality in combination with intuition are more likely to be successful than those relying on the use of intuition alone and we outline a number of decision characteristics that influence the use of procedural rationality. Finally, we discuss the implications of this theoretical model for research and practice and identify potential directions for future research.

**Keywords:** Intuition, Strategic Decision Making, Strategic Decision Success

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## POLITICAL CONNECTEDNESS AND THE FORMATION OF CROSS-BORDER ALLIANCES

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This study analyzes cross-border alliance matching in the context of weak and/or incomplete governance institutions. The goal is to identify matching patterns using the record of empirical design and the theoretical concepts from the matching market literature. This study examines cross-border alliance matching across time (1987-2000) involving firms from all industries in a major emerging economy (South Korea) and their cross-border alliance partners from across the globe (which included a set of partners from Japan, Europe and the U.S.). The study finds strong evidence of assortative alliance matching based on size and profitability. Furthermore, the Korean firms' investments in political connectedness provided the most consistent returns for securing access to cross-border resources and capabilities. These results suggest that even following multiple waves of liberalization (including Korea's admission to the WTO and the OECD), Korean firms that had invested in social and political connectedness were more likely to access market resources (including outside finance and technology) from foreign partners. Over time, liberalization combined with democratic accountability and turnover may have led to expanded opportunities for a wider distribution of firms to access these market resources.



**Keywords:** alliances, networks, nonmarket

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## TIME-BASED STRATEGIES AND FIRM PERFORMANCE

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Several recent scholarly efforts have proposed the importance of time-based competition for firm performance (Brown & Eisenhardt, 1997, 1998; Eisenhardt & Brown, 1997; Gersick 1994; Hult, 1998; Hult, Ketchen, & Nichols, 2002; Stalk, 1988; Wetherbe, 1995). Drawing on prior presentations of the time pacing and cycle time constructs, we attempt to bridge the two conceptualizations of time to empirically substantiate the proposed linkages between time-based strategies and firm performance. Consistent with recent conceptualizations of time-based strategies (i.e., time pacing, cycle time), we used a sequence of studies employing a combination of expert, pilot, and a larger web-based survey to develop measures of time-based strategies and to assess their links to firm performance across a sample of strategic business units participating in the global pulp and paper industry. Direct and indirect effects (via cycle time reduction activities) between time pacing strategies and measures of firm growth and profitability were observed. We believe the results of our study provide a more integrated understanding of the influence of time-based strategies and their consequences for profit-oriented firms.

**Keywords:** Time Pacing, Cycle Time Reduction, Firm Performance



## INDUSTRY LIFE CYCLES AND THEIR CAUSES

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Does industry competition depend largely on product-specific traits? If so, what traits matter how? A theoretical view is described in which the nature of technological opportunities in an industry affects industry evolution over long periods following the inception of a product. This view yields specific hypotheses – which can also be predicted from formal mathematical models – in which alternative industry dynamics arise depending on the degree of relevant technological opportunity. Empirical tests of the model are carried out using novel data spanning many decades for 18 matched industries in the US and the UK. The results show a surprising degree of cross-country similarity in timing and severity of shakeouts in number of producers and in entry and exit patterns. A dramatic decline in entry and longer survival by earlier entrants are shown to be characteristic in industries with substantial shakeouts but much less so in industries with little or no shakeout. Evidence on technological change also conforms to the theory, with leading early entrants dominating innovation in industries with substantial shakeouts. Taken together the evidence suggests that indeed underlying product-specific traits drive industry competitive dynamics, and that they do so at least in substantial part through a process that yields an early entry advantage in industries with high opportunity for product quality improvement and process innovation.

**Keywords:** industry dynamics, technology, cross-national comparison

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## THE ROLE OF CONDUCT IN THE STRUCTURE, CONDUCT, PERFORMANCE RELATIONSHIP

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This study integrates competitive action research from competitive dynamics with the structure-conduct-performance paradigm in industrial organization economics. Financial data from Compustat and structured content analysis for 394 firm-years of action conduct in 11 industries is used to examine the mediating role of conduct or action within the structure-conduct-performance paradigm. There are four major findings: 1) industry structure influences the magnitude and type of firm action (e.g., firms in highly concentrated industries undertake more action but less price action); 2) firm action influences firm performance (e.g., more actions and longer response lags lead to higher firm performance); 3) industry structure is related to firm performance (e.g., concentration is positively related to performance); and 4) firm action partially mediates the relationship between industry structure and firm performance. Importantly, firm action has an effect on performance, independent of industry structure.

**Keywords:** Competitive Dynamics, Industry Structure, Competition



## STRATEGY, HUMAN CAPITAL, AND PERFORMANCE IN SERVICE FIRMS: A CUSTOMER INTERACTION APPROACH

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This study employs a customer interaction approach to examine how service organizations' strategic positioning characteristics relate to their human capital, and how the interaction between strategic positioning and human capital impacts organizational performance. Results from 234 service organizations in 96 different industries indicate very strong relationships between strategic positioning choices and human capital. We also find that certain combinations of strategic positioning and human capital result in superior performance.

**Keywords:** Strategy, Service, Human Capital



## TOWARD A KNOWLEDGE-BASED VIEW OF ENTREPRENEURIAL INITIATIVES AND PERFORMANCE

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Using a three dimensional measure of a firm's knowledge-based capabilities, we propose and test a structural model that sequentially links it and a market's information carrying capacity to the sum of a firm's innovation, venturing and renewal activities. In turn, entrepreneurial initiatives serve as the mechanism that links their antecedent influences to firm performance. Survey data from the CEOs of 495 small-to-medium size firms supports the proposed model.

**Keywords:** Information capabilities, entrepreneurial initiatives, market's information carrying capacity

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## HELP OR HINDRANCE? THE EFFECT OF CORPORATE PARENTAGE ON BUSINESS MORTALITY

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Is a new business in a fast-paced industry more viable if it stands alone or if it is part of a diversified corporation? Prior research provides no clear answer, so we address this question by studying firms in the high-velocity U.S. personal computer industry. We theorize that in fast-paced settings, having a

corporate parent is helpful when parents provide access to valued resources, but harmful when parental inertia constrains a new business from moving quickly in the face of changing external demands. We further argue that the negative effects of parental inertia are moderated by business unit size, which proxies a business's ability to buffer itself and fend off misguided corporate meddling. Event history analyses supported our predictions. Children benefited if their parents had more employees, and that buffering gave corporate children an advantage over standalones. In contrast, older and more inertial parents harmed their children's survival, so most standalones fared better than corporate offspring in terms of having the freedom to move quickly. That effect, though, was lessened among larger businesses that had grown more independent of their parents. These findings highlight the evolving nature of relationships between diversified parents and their corporate children.

**Keywords:** diversification, new business, mortality

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## THE ROLES OF ABSORPTIVE CAPACITY AND NETWORK CONNECTIONS IN TECHNOLOGY INNOVATION

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Literature suggests that both absorptive capacity and network connections contribute to organizational innovation performance. Absorptive capacity determines a firm's ability to recognize, assimilate, and utilize new knowledge, while network relations affect the external opportunities to access and acquire new knowledge. Nevertheless, few studies have systematically examined their distinct and interactive roles in technology innovation. In this paper we first develop the concepts of breadth and depth of absorptive capacity and discuss how they affect a firm's internal ability to innovate. We then discuss how a firm's alliance network properties, such as centrality and efficiency, affect its external opportunity to innovate. More importantly, we analyze how a firm's absorptive capacity properties interact with its network structural attributes. We conducted a longitudinal study on global pharmaceutical industry using patent and alliance profiles. Our findings support the main effects of both absorptive capacity and network variables, and show these two sets of factors play distinct roles. In particular, the results suggest that breadth of absorptive capacity and efficient network connections are complements for one another, while depth of absorptive capacity and a firm's network centrality are substitutes for one another. Our study implies that firms can get better innovation performance by getting the right mix of appropriate absorptive capacity and network attributes.

**Keywords:** Absorptive Capacity, Alliance Networks, Innovation Performance

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## THE IMPACT OF CEO DUALITY AND PRESTIGE ON A BANKRUPT ORGANIZATION

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This study examines the darker side of organizational performance. That is, what happens after an organization files for bankruptcy protection. In particular, we focus on the influence of a Chief Executive Officer's (CEO) power, both formal and informal. Examining 194 major organizations that have filed for Chapter 11 bankruptcy protection, we found that formal power, duality, is associated with improved odds of survival and a reduced time until the organization returns to performance standards on par with the rest of its industry. However, duality is also associated with a longer time in Chapter 11 reorganization. Meanwhile, a CEO's informal power, prestige, is associated with reduced odds of survival and longer recovery times. The results support the claim that a CEO with significant real power is needed for an organization to survive but at the cost of a longer period of below standard performance. Meanwhile, CEO prestige appears to have overall negative effects of post-bankruptcy regardless of where it is examined.

**Keywords: Governance, Bankruptcy, CEO Power**

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## **PURSUING LONG TERM GROWTH: SEARCH PROCESS & RISK PROPENSITY IN CORPORATE STRATEGY**

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Corporate strategy has long been recognized as a means of long-term growth for a company. However, there is little academic research on how such choices are actually made by managers, the nature of which fundamentally impacts growth prospects. Since corporate strategy for long-term growth involves distant returns – highly uncertain sequence of choices made over a very long period of time – the search process becomes vital to our understanding of the phenomenon. Without it, considerations and choices by managers over many years often appear bewildering and random. Using comprehensive DuPont Company documents on decision-making over 1902-1922, and the recently developed “moving, anchored search” (MAS) process model for distant returns, this paper melds content and process to explain how corporate strategy considerations and choices are actually made for long-term firm growth. To deal with high uncertainty, managers begin by first selecting a broad domain for their search. Then, within it they choose a search anchor. Neither choice is necessarily obvious. Subsequent search is tethered to this anchor. Over time, shifts are made to the anchor so that further tethered search is removed from earlier choices. Two kinds of search movements are apparent: those around an anchor, and shifts of the anchors – hence, a moving, anchored search. A new conceptualization of risk propensity is also developed by combining content and process. Further, due to the involvement of multiple decision-makers, risk propensity in search is distinguished from risk propensity in the eventual making of corporate strategy choices.

**Keywords: Strategic Decision Making, Corporate Strategy, Search Process**

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## **A PEEK INTO THE BLACK BOX: THE RELATIONSHIP BETWEEN CEO TENURE AND ATTITUDE TOWARD CHANGE**

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In Strategic Management, and to a lesser extent Finance, increasing Chief Executive Officer (CEO) tenure has become synonymous with lack of organizational change. While this finding is consistent across a large number of organizational studies, few researchers have delved into the psychological processes or attitudes underlying the relationship. To increase the understanding of top executive attitude development, this study directly examines the correlation between CEO tenure and attitude toward change using survey data from 280 CEOs of non-profit organizations. Consistent with existing theory, we find that long-tenured CEOs generally have more negative attitudes toward change. We further outline implications for researchers studying top executives and the development of executive attitudes that may affect organizational outcomes.

**Keywords: CEO Tenure, Attitudes, Change**



## EXECUTIVE SUCCESSION AND ORGANIZATIONAL PERFORMANCE: TEMPORAL PACING AND THE EXPERIENCE CONTINGENCY

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This paper examines the effects of executive succession on organizational change and performance. We propose that CEO succession influences organizational performance through the greater ability of new CEOs to counter organizational inertia. The degree to which these strategic changes actually improve organizational performance is contingent on their timing and the experience of the new CEO in formulating and implementing change. We test our hypotheses with a sample of head coaches from the National Football League (NFL). The results show strong support for the hypotheses.

**Keywords:** executive succession, strategic change, timing issues in organizations

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## THE IMPACT OF MARKET ACTIONS ON FIRM REPUTATION

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Drawing from communication theory, this paper develops and tests a set of hypotheses that explain how a firm's reputation can be enhanced through market actions. We view a firm's market actions as signals that convey information about the firm, and show how different characteristics of these actions affect a firm's reputation. A firm's total market actions significantly enhance its reputation, and so do other action characteristics such as consistency and complexity of a firm's repertoire of actions. Further, we show that industry context plays an important role, and that actions are more effective in building a reputation in concentrated industries. Support for our arguments is demonstrated in a multi-industry sample of firms.

**Keywords:** reputation, market actions, industry concentration

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## CAPABILITY SOURCING FOR TECHNOLOGICAL INNOVATION: IMPLICATIONS FOR LOWER CAPABILITY FIRMS

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This paper studies the role of strategic sourcing decisions relative to that of path-dependence in the adoption of technological innovation. It investigates collaborative outsourcing in the context of Internet banking as a potential strategy for lower capability firms to catch up in the adoption of innovation. I propose that collaborative outsourcing of service implementation enables lower capability firms to substitute for their lack of technological and marketing capabilities needed to implement an innovation. Results show that capabilities strongly influence innovation and the decision to outsource. However, as predicted, strategic sourcing decisions made subsequent to adoption are important and enable some lower capability firms to catch up to higher capability firms. The findings highlight the importance of collaboration in order for firms to benefit from outsourcing. The catch-up effect is strongest for firms whose technological capabilities are low on IT strength and/or for firms whose marketing capabilities are low on marketing intensity. Overall, the findings imply that path-dependence is not the only driver of innovation implementation, but that lower capability firms can catch up by taking advantage of capabilities



in their external environment. I test the hypotheses using survey data on Internet banking activities of 220 U.S. banks spanning 1995-2002.

**Keywords:** Technological Innovation, Outsourcing, Capabilities

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## HOW VALUABLE IS A PIECE OF THE SPECTRUM? RE-EXAMINING THE NOTION OF VALUE IN RESOURCE-BASED VIEW

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The Resource-based view is a multidisciplinary perspective that coalesces many different research streams to explain differential firm performance. It has itself evolved into two branches – the Equilibrium and the ‘Processual’ approaches that help explain performance in static as well as dynamic settings. Taken together, they help address most of the traditional critique against the theory. However, there remain a few under-specified areas that could benefit from further articulation. One such area is the role of agency in identifying value ex ante and creating value ex post. Resources are not created ex nihilo, but need decision making under uncertainty. Articulating the role of agency in a process-oriented account can get around the accusation of the perspective being tautological. Equilibriums can be illusory, as firms, competitors, customers and other stakeholders are continuously sculpting resource value and studying this process can make the theory more ‘context sensitive.’ While most of the work focuses on socially constructed intangible resources, this paper purports to look at the dynamics unleashed by a quasi-tradable, property-based resource - spectrum and 3G licenses that permit its use for the next generation wireless telephony. It is a naturally scarce and valuable resource that can be leveraged with the firms’ capabilities and competencies to create performance differentials. By looking at the process how value is sculpted around this resource, both pre and post acquisition in a nascent industry and an emerging context, it is purported to provide an evolutionary account that can both inform and enrich the Resource-based perspective.

**Keywords:** Resource-based view, Wireless telephony, Quasi-tradable assets

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## EXECUTIVE PERCEPTIONS AND ENVIRONMENTAL SCANNING AMONG MANAGERS AND ENTREPRENEURS IN TWO COUNTRIES

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We endeavor to extend environmental scanning theory by supplementing and testing the predominant model of antecedents of scanning in samples of entrepreneurs and managers from the U.S. and India. The results indicate that entrepreneurs from the U.S. and India responded to perceived increases in the rate of environmental change by increasing their frequency of scanning while managers from both countries ignored perceived rate of change with respect to scanning. Entrepreneurs in both countries responded to the interaction of perceived importance and accessibility of information by increasing scanning while managers in the two countries reacted to perceived importance and accessibility independently. In the only contextually exclusive response, managers in the U.S. increased scanning when perceptions of information reliability increased while Indian managers did not. Overall, our findings indicate the importance of executive role in explaining scanning behavior in different contexts. Thus, we outline directions for future inquiry to further elucidate important differences in the scanning behaviors of entrepreneurs and managers, and the implications for their firms.

**Keywords:** environment, scanning, entrepreneur



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## CAN DIRECTORS IMPACT PERFORMANCE? A CASE BASED TEST OF THREE THEORIES OF CORPORATE GOVERNANCE

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We examine hypothesized links between the board of directors and firm performance as predicted by the three predominant theories in corporate governance research, namely agency theory, stewardship theory and resource dependence theory. By employing a pattern matching analysis of five cases, we are able to examine the hypothesized link between board demography and firm performance expected under each theory. We find that while each theory can explain a particular case, no single theory explains the general pattern of results. We conclude by endorsing recent calls for a more process-orientated approach to both theory and empirical analysis, if we are to understand how boards add value.

**Keywords:** boards of directors, firm performance, pattern matching

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## SOCIAL CAPITAL, KNOWLEDGE TRANSFER, AND COMPETITIVE ADVANTAGE

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This article contributes to the literature by investigating knowledge transfer between subsidiaries of multinational corporations (MNCs). This paper proposes a framework that can be used to direct subsidiary managers to handle internal knowledge transfer more effectively. Drawing upon social network theory and research on social capital, we systematically examine the relationship between social capital and knowledge transfer among subsidiaries of MNCs. Further, we suggest that such knowledge transfer impacts the competitive advantage of these subsidiaries.

**Keywords:** Social Capital, Knowledge Transfer, Competitive Advantage

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## THE ROLE OF MIDDLE MANAGEMENT IN STRATEGIC PROCESS AND CREATION OF COMPETITIVE ADVANTAGE

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Recognizing the vital role of middle managers, we draw on the resource-based view, human and social capital theories and social network theory to examine the relationships among middle managers' social capital, their abilities, and the strategic decision making process. Two conceptual models are developed. First, the factors of middle managers' social capital and their effects on middle managers' abilities to comprehend, translate, reconcile and initiate strategies are investigated. Second, their competence to comprehend the intended strategy, implement the deliberated strategy, reconcile the divergent perspectives, and to initiate emergent strategies are modeled. These models help to identify the factors influencing the abilities of middle managers to create and help maintain sustainable competitive advantages.

**Keywords:** Middle Manager, Strategic Decision-Making, Social Capital

## OPPORTUNISM IN SUPPLY CHAIN PARTNERSHIPS IN CHINA

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Concerns about opportunism appear to be particularly strong in partnerships between organizations. Traditionally, transaction cost theorists have proposed that opportunism develops from the zealous pursuit of self-interest. This study argues that opportunism can be understood in terms of how partners understand their self-interests are related to each other. When partners believe that their goals are competitively related, they are tempted to pursue their self-interests opportunistically; with positively related goals, their opportunism is minimized. The study also proposes that the cognitive understandings and moral values developed with a shared vision can help partners believe their goals are cooperatively related. 103 pairs of customer and supplier organizations participated in the study. Customer organization completed measures of shared vision and goal interdependence, whereas their supplying organization completed the measure of opportunism. Results support the theorizing that partnerships are not inevitably threatened by opportunism. Structural equation analysis suggested that shared vision can help partners develop cooperative goals that lead to low levels of opportunism. These results were interpreted as suggesting that a shared vision and cooperative goals are important foundations for effective organizational partnerships.

**Keywords:** Partnership, Supply, China

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## ENVIRONMENT-CORPORATE STRATEGY-PERFORMANCE LINKAGES IN AN EMERGING ECONOMY DURING ECONOMIC REFORMS

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Emerging economies, which have been charting a new path of development, popularly known as economic liberalization, have been drawing increasing attention of strategy scholars. A growing body of literature is emerging to record how firms from these economies transform themselves to adapt to this unique situation. This paper adds to this body of knowledge by presenting an analysis of the corporate strategic behavior of firms in India, a giant emerging economy undergoing economic reforms over the last one decade. Based on existing theories a multivariate model has been developed to explore the contingency linkages of environment, corporate strategy and performance. The model has been empirically verified in LISREL framework using primary and secondary data for 111 firms mainly belonging to the list of top 500 firms in India. It is observed that environment played a significant role in shaping firm strategies and performance during reforms. Environmental munificence and competitive intensity influenced firm strategies and performance as hypothesized. However, the effect of environment on firm performance was by and large moderated by firm strategies. Among the corporate strategies, scale expansion strategy was found to be most effective as it yielded superior profit and market performance. Strategy of diversification, though did not have any significant effect on profitability, resulted in poor market performance. The study did not find support to the general belief that firms, which become more focused and adopt defensive strategic orientation perform better during deregulation.

**Keywords:** Corporate Restructuring, Corporate Diversification, Contingency Theory

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## MANAGING POTENTIAL AND REALIZED ABSORPTIVE CAPACITY: ANTECEDENTS AND CONSEQUENCES

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This study examines how business units manage the ratio of realized to potential absorptive capacity and reveals how absorptive capacity drives performance differences. Results from 462 business units within 150 branches show that cross-functional interfaces, participation and job-rotation especially enhance a unit's potential absorptive capacity; formalization, routineness and socialization tactics particularly develop a unit's realized absorptive capacity. Regarding consequences of absorptive capacity, our findings support the idea that units with realized absorptive capacity approaching potential absorptive capacity sustain superior performance. Moreover, our study suggests that potential and realized absorptive capacity have different, but complementary roles in enabling explorative and exploitative adaptations. In this regard, our study shows how managing potential and realized absorptive capacity provides sources of sustainable competitive advantage.

**Keywords:** absorptive capacity, combinative capabilities, performance

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## DEVELOPING EXTERNAL PERSPECTIVE

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Commentators on strategies for organizational success emphasize the importance of incorporating an external perspective. Performing competitively now relies on a high level of customer and supply chain knowledge and on best practice operational delivery, learnt directly from experience or vicariously from competitors. Yet increased competition and shortening product and service life mean sustained advantage can only to be gained by "leapfrogging competitors" through "changing the rules of the industry's competitive game". Convergence from several theoretical perspectives indicates that successful businesses exploit "industry breakpoints", to create value and wealth in a different way. They do so by challenging received wisdom, and looking outside the industry to source innovation. However, while the perceived strategic need for an external perspective is widespread, even senior executives apparently devote insufficient time to developing it. Anecdotal evidence suggests several practices are systematically employed to develop an external perspective capability, including benchmarking, networking, and executive development. However, there is limited empirical evidence of associated benefits. A two-stage survey of senior executive experience in 13 public and private sector organizations explores the perceived value of an external perspective, examining practice and impact of various approaches to its development. The findings reveal widespread perceived value, diverse practices and differing benefits. They also demonstrate substantial lack of clarity about the concept and how it relates to organizational circumstances, thereby confounding attempts to establish the most productive development approaches. The authors create conceptual clarification, provide preliminary evaluations of approaches and benefits, and draw out implications for strategy makers and strategic research.

**Keywords:** external perspective, strategy, competitive advantage

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## BRIDGING THE STRATEGY GAP: FIRM STRATEGY AND COEVOLUTION OF CAPABILITY SPACE AND OPPORTUNITY SPACE

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In the vein of evolutionary capabilities theorizing and modeling (Dosi, Nelson & Winter, 2000), this paper tries to contribute some basic rudiments of a process framework of strategic capabilities and opportunities. First, by introducing the concepts of capability space and opportunity space, we take into account both the 'supply' and the 'demand' side of capability research. Second, by considering the coevolutionary process of capability space and opportunity space, we offer a first integration of the capabilities' two sides. Third, by arguing that this coevolutionary process uncovers the 'strategy gap' (i.e., the extant adaptation chasm between strategic capability and opportunity), we pave the way to the detection of the black box of the strategic capability process. Fourth, we advance the idea that firm strategy is directed to bridging the gap between opportunity space and capability space. In order to bridge the gulf between potential and realized strategy, this strategy process consists of three basic interacting components or metacapabilities (i.e., foresight, judgment, mindfulness), and one haphazard and uncontrolled factor (i.e., luck). Finally, we gather and discuss some implication for evolutionary economics and strategic management and suggest a few hints for future research and extensions.

**Keywords:** Capability Space, Opportunity Space, Strategy gap

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## ANTECEDENTS OF TOP MANAGEMENT SUCCESSOR ORIGIN IN CHINA

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An examination of 172 top management successions in P. R. China firms during 2001 reveals that external successions are more likely in firms with poor performance, in firms with low inside director proportion on board, in firms with outside dominant shareholder, and in firms with less internal successor candidates. Dominant shareholder is found to have great influence upon the type of successor chosen, and the result has implications for corporate governance structure not only in Chinese transitional context but also in Western market economies.

**Keywords:** top management succession, antecedents, transitional economy

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## WHY DO MIDDLE MANAGERS PERCEIVE ORGANIZATIONAL PRIORITIES DIFFERENTLY?

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It has been argued that successfully implementing organizational goals requires employees to know, understand and be committed to the organizational priorities. Middle-managers' awareness and understanding of organizational priorities is thus a key factor for successful plan implementation and thus for planning to have a positive impact on organizational performance. However, while the few studies that exist show that involving middle managers' involvement and their consensus are related, the direction of causality is questionable. Furthermore, the role of ex-post communication of goals has not been explored. We apply the multitrait-multimethod analysis to examine the extent to which middle managers' assessment of organizational priorities are a manifestation of organizational goals, their managerial position, planning process attributes (involvement and communication) and measurement error. We find that inferring the importance of a specific goal from a single informant is not recommended, because managerial position and random error strongly manifest themselves in the measures. We further find that

some characteristics of the strategic planning process have an effect on the degree of convergence among different managers' assessment of the organizational priorities.

**Keywords:** strategy implementation, middle management, confirmatory factor analysis

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## STRATEGIES FOR MANAGING A PORTFOLIO OF ALLIANCES

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Interorganizational relationships are recognized as an increasingly important source of competitive advantage. Hence, goal-oriented management of the alliance portfolio—all the alliances of the focal firm—plays a decisive role for company performance. Consequently, at the corporate level, the configuration and development of the alliance portfolio become important “strategic issues.” In light of that, we present the results of a cross-sectional and a longitudinal study that seek to clarify what determines the configuration and evolution of an alliance portfolio and what kind of relevant strategies a firm can implement at corporate and business levels. Building on a co-evolutionary framework we were able to identify three distinctive types of portfolio strategies at business level and to illustrate how they interact with the development of the business unit strategy and the business environment. At corporate level we were able to clarify the content of a firm's overall alliance policy and how it influences the development of the whole alliance portfolio of the firm. Furthermore our research shows that besides evaluating the performance of individual alliances, companies also institutionalize control loops for monitoring alliance strategies at business level and alliance policy at corporate level. Our results emphasize that the development of the alliance portfolio—guided by the alliance policy at the corporate level and the alliance strategies at the business level—co-evolves with the development of corporate and business strategies and is altered by major environmental changes.

**Keywords:** Strategic Alliances, Interorganizational Relationships, Alliance Portfolios

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## IS DYNAMIC COMPETITION GREATER IN TECHNOLOGY-INTENSIVE INDUSTRIES?

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Many scholars in strategic management and related fields argued that the 1980s and 1990s saw greater dynamic competition in technology-intensive industries, with increasing industry and business performance instability as principal consequences. We test for evidence of these consequences in 11,626 observations of annual operating results posted by US business units from 1978-1997 in 33 industries with high average R&D expenditure-to-sales ratios. Over this 20-year period, we observe neither sustained changes in operating performance stability within the sample, nor significant differences in operating performance stability when comparing the sample to another sample of businesses operating in non-technology-intensive industries. Our results suggest that researchers would benefit from closer scrutiny of broadly unfounded claims about increasing dynamic competition across technology-intensive industries and businesses, including those most closely associated with “new economy” technologies. Managers should continue developing a diversified portfolio of strategies useful in competitive environments exhibiting varying levels of dynamism over time.

**Keywords:** technology, dynamism, performance



## THE EFFECT OF MARKET AND INTERNAL FAILURES ON CAPABILITY SOURCING CHOICES

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This paper studies firms' choice between internal and external sources of new capabilities. We use multiple conceptual lenses to identify institutional failures – including both market failures and internal failures – that influence a firm's capability sourcing choices. The market failure arguments address problems that arise for either opportunism or coordination needs. The internal failures encompass capability gaps, social conflict, and lack of exchange governance skills. Together, this set of arguments offers an integrated perspective on institutional failures – including failures that arise across firm boundaries and those that arise within a firm's boundaries – and how they affect firm's incentives for where to obtain new capabilities. We then examine whether a firm's conformity with the institutional failure incentives influences the effectiveness of its internal sourcing.

**Keywords:** sourcing, capability, telecom

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## ABSORPTIVE CAPACITY AS REAL OPTIONS

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This paper uses real options theory to present a new and useful approach to consider absorptive capacity investments as real options. Firms interested in investments for creating and developing absorptive capacity face major decisions regarding the costs associated with absorptive capacity investments. With this in mind, the decision to invest in absorptive capacity of a firm involves significant risks because of irreversibility of investment decisions, uncertain environments, and related managerial discretion. Conventional investment valuation methods assume that investments are fully reversible and therefore do not incorporate the idiosyncrasies of absorptive capacity investments as these are path dependent and irreversible. However, real options theory provides managers the ability to consider irreversibility, uncertainty and managerial discretion in investment decisions. We portray absorptive capacity as real options as a convenient means for managers to more correctly value absorptive capacity investment decisions. We contribute to the absorptive capacity literature in two ways. First, we identify parallels shared by absorptive capacity and real options constructs. Second, we develop a theoretical model in which each stage of absorptive capacity is considered as a different real option category in order to better sustain competitive advantage.

**Keywords:** Absorptive Capacity, Real Options, Sustained Competitive Advantage

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## INTERNAL AND EXTERNAL KNOWLEDGE SOURCING AND FIRM PERFORMANCE: A LATENT CLASS ESTIMATION

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The present research examines the differential impact of the importance of internally and externally sourced information and knowledge and its relationship to absorptive capacity and firm performance. In addition, this analysis deals directly with the unobservable heterogeneity amongst firms that is generally viewed as the *raison d'être* for a unique resource based perspective of organizational performance. Latent class finite mixture regression models are used that show that a single model relating knowledge sourcing, absorptive capacity and firm performance is inadequate in explaining even a minor portion of the variation between firms that is seen.

**Keywords:** Knowledge Sourcing, Absorptive Capacity, Latent Class Modeling





## THE ECONOMIC AND SOCIAL EMBEDDEDNESS OF RELATIONAL GOVERNANCE: AN EMPIRICAL STUDY

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This empirical study examines both social and economic perspectives on the origin and effectiveness of relational governance in inter-organizational exchanges. Our results show that duplicity of origins, both economic and social, underlies the use and effectiveness of relational governance. Consistent with the social logic, managers deepen relational quality through investments in relational governance with long-standing social ties. Our results, however, did not support previous theory and findings that managers choose relational governance to safeguard exchanges from hazards arising from exchange characteristics. Instead, we find relational governance increases in response to long-term contracts, and in doing so mitigates the performance losses arising from such contracts. Second, we find that the effectiveness of relational governance can be dampened due to heightened levels of exchange hazards, namely asset specificity and measurement difficulty. This finding conditions previous empirical findings regarding the effectiveness of relational governance and also suggests, contrary to the social logic that managers, as social actors, appear to sway from cooperative behavior when self-interested opportunities arise. That is, consistent with the transaction cost logic, managers can be inherently calculative when determining whether to be cooperative or opportunistic. Third, our results extend existing social theory by showing a downside to long-standing social ties, an overlooked, yet important issue. In particular, we find that while long-standing social ties negatively impact exchange outcomes, relational governance can reverse such outcomes because the social behaviors in place foster adaptation and thus exchange outcomes.

**Keywords:** relational governance, transaction cost economics, embeddedness

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## GOVERNANCE, INDUCEMENTS-CONTRIBUTIONS AND ORGANIZATIONAL CAPABILITIES

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This paper links three ideas to develop a framework for understanding how corporate governance influences capability development. First, we describe how governance embodies distinct patterns of incentives, authority and legitimization and develop a typology of systems. Second, propositions are developed to explain how these systems condition the quality and quantity of inducements provided to, and contributions supplied from resource suppliers (Barnard, 1938). Thirdly, we build on Eisenhardt and Martin's (2000) notion of dynamic capabilities and explain how patterns of inducements-contributions inherent in systems of governance effect capability development through their influence on how organizations acquire, dispose, integrate and recombine resources.

**Keywords:** Corporate Governance, Capabilities, Inducements-Contributions

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## OUTSIDE DIRECTOR EQUITY INCENTIVES: EMPIRICAL EVIDENCE USING UK DATA

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We investigate two research questions. First, do outside directors have incentives to perform their monitoring function? Second, does the distribution of outside director ownership have consequences for the provision of incentives for inside executive directors? We answer these questions using data on the

population of UK publicly traded firms. The results first establish that outside director's incentives are greater in the presence of diffuse external ownership and where the firm has significant growth opportunities. Second, we find that insiders have fewer incentives the more concentrated is share ownership by outside directors. Overall, the results indicate that incentives and monitoring capabilities are substitute corporate governance mechanisms.

**Keywords:** outside director, incentives, governance

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## DECISION-MAKING MODEL BASED ON REGULATORY FOCUS PRINCIPLE

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The paper proposes a model and taxonomy for the decision-making process, based on regulatory focus principle and signal detection theory. The proposed model is designed as a way to cope effectively with complex decisions, in conditions of uncertainty and ambiguity. The model suggests that, at the beginning of the decision-making process, individuals make mental representations of the end-state that would result from adopting a certain decision. The end-states of the decisional process – that is what the decision-makers want to accomplish – are viewed as guides and determinants of the entire decision-making. Using the regulatory focus principle of motivation, the model suggests that the representation and characteristics of the decisional situation's end-state, independent of decision-making process, are capable of inducing a temporary state of regulatory focus that influences decision-makers' subsequent behavior. Based on signal detection theory, the paper proposes a taxonomy including four potential outcomes of the decisional process. Accordingly, prognosis of the outcomes of the decision-making process can be made. As an example, I have considered the application of the model in the context of strategic issue diagnosis.

**Keywords:** regulatory focus, end state, decision making

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## OUTCOMES OF STRATEGIC LEARNING

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Strategic Learning is action-oriented knowledge or learning applied to a firm's strategic goals with intent to increase firm value. Given this definition, it is clear that not all organizational learning is strategic or necessarily beneficial to firms. Arguments from the resource-based view, the core competencies perspective, and the dynamic capabilities view unite in predicting that Strategic Learning will, in fact, yield value for firms. We report a multi-industry, multi-year investigation of 82 firms that implemented Strategic Learning in the mid-1990s. Results provide preliminary evidence for the performance effects of Strategic Learning. The data indicate firms adopting Strategic Learning experience reductions in cost-of-goods-sold ratios and improvements in both profit margin and market valuation. There is an indication that revenue growth is not helped, but may be hurt, at least for some forms of Strategic Learning and at least over the time period examined here. The counter-hypothesized changes in revenues may reflect initial costs not yet offset by new revenue streams. Theory is silent about the time required to move from initiation of Strategic Learning to achievement of effective dynamic capabilities that can be leveraged in new product-markets. Changes in sales-and-general expense ratios similarly reflect results that are contrary (although not significantly) to those expected. Counter-hypothesized changes in SGA may reflect initial costs associated with reorganizing and reshaping culture. It does appear that the stock market responds favorably to the adoption of Strategic Learning. This would be consistent with the characterization of stock price as anticipating future (currently unrealized) revenue streams.

**Keywords:** Strategic Learning, Organizational performance, Dynamic capabilities

## STRATEGIC HETEROGENEITY AND INDUSTRY EVOLUTION

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How do industries change over time? Many researchers believe that the times we live in are more complex and uncertain than ever before. Other researchers advocate theories suggesting that, at the industry level, the environment is becoming simpler, less diverse, and more stable. Still others hold that the rate of change and uncertainty varies in an irregular fashion. This research effort attempts to examine this question in a very exploratory manner. The data presented suggest that industries become less heterogeneous over time and that firm strategies tend to converge.

**Keywords:** strategy, industry evolution, heterogeneity

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## STRATEGIC FOCUS AND PERFORMANCE: AN EMPIRICAL EVALUATION OF PORTER'S GENERIC STRATEGIES

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This paper is an empirical examination of Porter's general proposition that firms with a focused strategy will outperform those that are "stuck in the middle" between being clearly differentiated or possessed of a cost advantage. The critical dimension in this research is not the specific emphasis a firm puts on either cost or differentiation, but rather the relative degree of focus and the interplay between focus and action. Longitudinal, proportionately weighted survey data from 5172 Canadian firms is used to examine the effects of firm strategy in 1999 on change in operating margins from 1999-2000. The data generally confirm our expectation that firms "in-the-middle" are at a competitive disadvantage relative to their more focused contemporaries.

**Keywords:** Strategy, Focus, Performance

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## META-ANALYSES OF TOP MANAGEMENT TEAM DEMOGRAPHICS: DO TOP EXECUTIVES MATTER?

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A considerable amount of research has investigated the linkage between top management team (TMT) characteristics and firm financial performance. The vast majority of this research relies on demographic data or data that are available through secondary sources such as annual proxy filings. While these data are generally reliable and accessible, they do not yield consistent findings. We provide a meta-analysis of the more common TMT measures and firm financial performance. These results provide modest support for direct relationships but do indicate the presence of moderating influences. We include post-hoc analyses of potential moderators based on data available through published studies.

**Keywords:** Top management teams, Top executives, Meta-analysis

## STRATEGIC CHANGE ACROSS CEO TENURE -- THE IMPACT ON ORGANIZATION PERFORMANCE AND CEO TURNOVER

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With data on tenures of 206 predecessor CEOs in manufacturing industries who left the CEO position during the period of 1993-1997, we examined firm strategic change across these CEOs' tenures and the associated consequences for the firms as well as for these CEOs. We found that CEO tenure is negatively related to strategic change. As strategic change is positively related to sales growth, such a positive relationship becomes weaker as CEO tenure increases. As strategic change is negatively related to short-term profitability, such a negative relationship becomes stronger as CEO tenure increases. In addition, we found that sales growth and short-term profitability reduce the likelihood of CEO turnover. The impact of short-term profitability on CEO turnover is stronger as strategic change becomes small.

**Keywords:** strategic change, CEO tenure, CEO turnover

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## MEASURING SUSTAINED SUPERIOR PERFORMANCE AT THE FIRM LEVEL

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This paper proposes a two-dimensional Strategic Performance Measure (SPM) to evaluate the achievement of sustained superior performance. This proposal builds primarily on the fact that, under the strategic management perspective, a firm's prevalent objective is the pursuit of sustained superior performance. Three basic conceptual dimensions stem from this objective: relativity, sign dependence, and dynamism. These are the foundations of the SPM, which carries out a separate evaluation of the attained superior performance and of its sustainability over time. In contrast to existing measures of performance, the SPM provides: (i) a dynamic approach by considering the progress or regress in performance over time, and (ii) a cardinal measurement of performance differences and its changes over time. The paper also proposes an axiomatic framework that a measure of strategic performance should comply with to be theoretically and managerially sound. Finally, an empirical illustration of the Spanish banking sector during 1987-1999 is herein provided by discussing some relevant cases.

**Keywords:** Sustained superior performance, Persistent performance, competitive advantage

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## TRANSFORMATION OF ORGANIZATIONAL ENVIRONMENT AND STRATEGIES: A LONGITUDINAL STUDY OF CHINESE SOES

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The controlled process of economic reform in China has attracted growing attention from around the world due to its significance for theory and practice. What has been missing in the literature is the temporal dimension, i.e., the changes over time in key variables such as organizational environment, firm strategic adaptations, and the performance implications, since Chinese reform officially began in 1978. Taking a dynamic systems perspective, and drawing literature from organizational study and thermodynamics, we follow the "staged model" of economic transition and undertake this study to the changes in organizational environment and firm strategies over the last two decades. We decompose the 24 years of Chinese transition process into three periods, namely the start of reform in 1978 (T1), the

year following the tragic event in Tiananmen Square (1990, T2), and the year immediately following China's glorious entry into WTO (2002, T3). We then examine the changes of Chinese SOEs in two distinctive stages. Results based on data from two periods reveal that 1), environmental characteristics have become more conducive to entrepreneurial activities, 2) firms responded with more willingness to take risk and innovate, 3) such changes are related to improved performance, and 4) such relationship was moderated by the stage during transition in which firms were founded. Specifically, firms founded since 1990 are more proactive and innovative. Implications for research and practice are discussed. And finally, such strategic changes have been associated with improved performance. Implications for research and practice are discussed.

**Keywords: Environment, Strategy, Performance**

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## ORGANIZATIONAL SLACK AND FIRM PERFORMANCE IN TURBULENT ENVIRONMENT: IS IT A BLESSING OR A CURSE?

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Literature on organizational slack has offered inconclusive and contradictory results. While organization theory posits that organizational slack has a positive impact on firm performance, agency theory suggests that slack breeds value-destroying agency problems. The empirical evidence to date, largely based on samples of firms in Western market economies, has been inconclusive. In this paper, we join the debate by undertaking the first empirical study on the role of slack in Chinese transitional economy. The study finds support for the organization theory perspective in the case of more liquid slack. On the other hand, agency theory also receives mild support for slack already committed to factors of production. The contradictory results reveal that whether slack enhances performance or destroys value depends on the degree to which it is absorbed into the production process. Furthermore we extend the test for the organizational theory-based argument and find that the second-order effects of slack variables are negative, suggesting that such performance enhancing impact is curvilinear, resembling inverse U-shaped curves. The results reveal that organizational slack may have a positive impact on firm performance only within an optimal range. Beyond a certain limit, the cost of maintaining slack overwhelms the uncertainty buffering and performance enhancing/smoothing effect, and performance starts to decline. Research and practical implications raised by these results are discussed.

**Keywords: Strategy, Slack, Performance**

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## THE IMPACT OF GENERAL AND PARTNER-SPECIFIC ALLIANCE EXPERIENCE ON COLLABORATIVE R&D PERFORMANCE

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We study the impact of alliance experience on alliance performance. Our focus is on firm-level general alliance experience obtained from alliances across a diverse set of partners and partner-specific alliance experience stemming from repeated ties with the same partner. To understand the influence of these two types of alliance experience on alliance performance, we leverage a unique dataset that captures alliance performance at the project level between large pharmaceutical firms that are attempting to leverage the new biotechnology, and their partner organizations. These data are augmented with information on firms' prior alliance activity within the biotechnology industry between 1980 and 1998. We posit that overall alliance experience and partner-specific alliance experience positively contribute to alliance performance, but at a declining rate. We find that the general alliance experience of the biotechnology partner, but not



the pharmaceutical firm, appears to be critical to collaborative success. The extent of partner-specific experience was not significant for subsequent alliance performance.

**Keywords:** learning within and across alliances, alliance performance, pharmaceutical industry

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## SEQUENTIAL OPTIONS, CAPABILITIES, AND THE TIMING OF TECHNOLOGY INVESTMENTS

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An options approach in combination with evolutionary perspectives on dynamic capabilities and learning is used to examine the effect of speed and timing of exploratory technology investments, an aspect of decision-making generally underemphasized. We develop a framework and suggest that accelerating irreversible technology investments is critical, not only to appropriate the gains from technology and first mover advantages, but also to initiate capability building through learning-by-doing. Moreover, viewing uncertain technology investments as sequential options instead of using the conventional net present value approach shifts the focus of the investment decision to a series of incremental investments, thereby inducing long-term, evolutionary commitment of resources to exploration and strategic change.

**Keywords:** options, technology, capabilities

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## SHAREHOLDER ACTIVISM IN THE 21ST CENTURY: TOWARDS A MODEL OF CORPORATE DEMOCRACY

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Democracy in organizations takes on many different forms with varying consequences for management, employees, and outside stakeholders. For corporate shareholders, democracy refers to the role of the owners in managing the affairs of the company. Throughout most of the 20th century, corporate democracy in this regard was minimal at best. An upsurge in shareholder activism in the 1980's and 1990's hints to an establishment of a greater democratic process in corporate management, allowing for a larger shareholder voice in activities previously viewed as solely within the province of the directors and officers of the corporation. This paper examines the emergence of a stronger corporate democracy through shareholder activism and suggests implications for researchers and managers.

**Keywords:** corporate democracy, shareholder activism, corporate governance

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## ADJUSTMENT COSTS, THE THEORY OF INVESTMENT, AND SUSTAINED COMPETITIVE ADVANTAGE

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This study examines both the theoretical possibility and the empirical fact that investment adjustment costs create sustainable competitive advantage. The theoretical models draw from the theory of investment in the 1960s economics literature. We particularly examine the work of Uzawa, who himself drew from Penrose. We apply a modified version of the Uzawa-Penrose model of investment to the US pharmaceutical industry during 1970 to 1998. Our empirical investigation finds significant support in particular for the Uzawa-Penrose model, and in general for the notion that the accumulation process for strategic assets creates and sustains competitive advantage.



**Keywords:** Competitive Advantage, Adjustment Costs

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## **CORPORATE INVESTMENT DECISIONS AND THE VALUE OF GROWTH OPTIONS**

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Recent applications of real options theory in strategy research have examined investment decisions framed as the purchase or exercise of particular options, but research has not investigated whether firms actually capture option value from such investments. We empirically estimate the portion of firm value attributable to growth options and then identify several potential sources of growth options value. The analysis focuses on firms' internal and external corporate development activities. Results obtained from a panel of over three hundred manufacturing firms indicate that investments in R&D and joint ventures increase the value of the firm attributable to growth options, capital expenditures decrease this value, and investments in acquisitions have no effect in general.

**Keywords:** Corporate investment decisions, Growth options, Real options theory

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## **AGGLOMERATION EFFECTS AND COMPETITIVE STRATEGY IN THE U.S. HOTEL INDUSTRY**

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Agglomeration, the geographic clustering of competitors, may result in economic benefits as well as hazards. The hazards, such as increased competition for resources and intensified rivalry for customers, are well understood. However, the literature on agglomeration economics suggests that geographic clustering in an industry may lead to higher performance because of improved production and/or heightened demand. In the hotel industry, co-location can reduce search costs for consumers, as well as enhancing market demand by making a location more attractive overall. Although all hotels may benefit somewhat from the preferred status of an area, some hotels are likely to benefit more than others. The difference may be a result of the dynamics of competition within the market. Specifically, we hypothesize that hotels benefit from participation in markets with a higher proportion of higher-quality competitors. In other words, while the costs of differentiation are absorbed by higher-end hotels, lower-quality competitors are able to enjoy many of the benefits. We confirm this hypothesis with a sample of 13,605 hotels located throughout the United States. These findings have implications with regard to the attractiveness of pursuing leader vs. follower or differentiation vs. cost leadership strategies.

**Keywords:** competitive dynamics, competitive strategy, agglomeration

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## **THE INFLUENCE OF TRANSACTION ATTRIBUTES AND RELATIONSHIP HISTORY ON CONTRACT DESIGN**

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Contracts, by providing the framework to guide exchange, play an important strategic role in interfirm relationships. The purpose of this paper is to examine one aspect of contracts—the effort the parties put into planning for contingencies that might arise during the execution of a project. Using a dataset of 397 contracts from the information technology services industry, we examine how transaction attributes and

prior relationships between the transacting parties influence the level of contingency planning. We show that the extent of contingency planning increases with the need to protect proprietary technology, the level of interorganizational dependence, the number of previous contracts between the parties that included contingency planning, and the development of a relationship between the parties. Contingency planning decreases as the cost of specifying the contingencies or identifying when contingencies have occurred increases, and with the number of previous contracts between the parties that have lacked contingency planning. These findings show that contracts are structured to facilitate efficient interorganizational exchange and point to the symbiotic development of repeated exchange relationships and contingency planning.

**Keywords:** Contracts, Transaction Cost Economics, Interorganizational Relationships



## MANAGING POSITIVE AND NEGATIVE SPILLOVERS: EVIDENCE FROM INFORMATION TECHNOLOGY

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Spillovers refer to potential costs and benefits to a firm outside the scope of an individual transaction. This paper examines whether the type of spillover, positive or negative, involved in the transaction impacts how the firm will govern that transaction. Two aspects of governance are considered: the detail in the customer-supplier contract and whether the supplier chooses to use employees or a subcontractor to complete the project. We examine the management of spillovers using newly collected data on 396 information technology (IT) services projects covering 1986 – 1997 that were collected from a large IT firm. We show that projects with the potential for positive spillovers, innovation that could potentially be re-used for other projects, lead to a more detailed contract between the buyer and supplier, but do not impact whether the supplier will subcontract the project. However, projects with the potential for negative spillovers, damage to the firm's reputation, have no impact on the detail in the contract, but lead to a strong preference for suppliers to use employees rather than subcontractors to complete the project. The findings suggest that not only the potential for spillovers but also the type of spillover influence how a firm will govern a transaction.

**Keywords:** Spillovers, Transaction Cost Economics, Contracts

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## A CONTINGENCY THEORY OF CEO SUCCESSOR CHOICE AND POST-BANKRUPTCY STRATEGIC CHANGE

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This study examines the effect of successor choice, CEO power, and TMT tenure on an organization's post-bankruptcy strategic change. A sample of 47 major organizations that filed for Chapter 11 bankruptcy protection and replaced their CEO is examined. Results indicate that there is a three-way interaction between CEO origin, TMT tenure, and CEO duality, such that post-bankruptcy strategic change will be highest for firms where an outsider has been hired as CEO, the outsider is given duality, and the TMT has long tenure.

**Keywords:** Strategic Change, Bankruptcy, CEO Turnover

## **POWER AND INSTITUTIONALIZED RULES OF CEO SUCCESSION AT U. S. INDUSTRIAL CORPORATIONS, 1975- 1994**

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CEO choice is an important political decision, yet it is also an outcome of institutionalized rule following by boards of directors. These two accounts of CEO choice, however, are incomplete as separate explanations. Here, it is posited, tested, and confirmed that institutionalized rules for choosing corporate CEOs are, in turn, an outcome of power and competing interests. First, a model is developed to establish that CEO succession rules are institutionalized at the organizations studied here. It incorporates power and institutionalized rules as separate, competing explanations for selection of insiders or outsiders as CEO. Then a model is developed to explain firm-level adoption of the succession rules examined as an institutionalized constraint over CEO choice in the first model. This second model posits power as an explanation for ongoing firm-level institutionalization. It inserts interests and agency into the process of institutionalization; in so doing, it moves beyond the weakness inherent in institutional explanations that tend to overlook the role of powerful managers. Both models are tested on data regarding the 100 largest publicly-traded U. S. industrial firms from 1975 to 1994. The first model confirms that rules are likely institutionalized as a predictor of CEO selection, and suggests that power has little direct influence over actual CEO choice. The second model examines explanations for firm-level adoption of institutionalized succession rules. Power is a significant explanation for the use of rules in choosing CEOs. The finding contributes to and links theoretical literatures on institutionalization, power, agency, corporate governance, and CEO succession.

**Keywords:** CEO, Governance, Power

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## **SETTLING UP WITH DIRECTORS FOLLOWING MAJOR FAILURES: A SOCIO-ECONOMIC ANALYSIS**

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This study develops and tests a socio-economic model of settling up in director labor markets following major board failures. Two issues are examined. First, whether settling up in external director labor markets does occur following major failures? And second, what factors determine the severity of settling up losses? The study's contributions are twofold. First, empirical evidence is provided supporting the untested, but critically important contention that settling up does occur in external director labor markets following board failures. And second, a comprehensive socio-economic model that considers a far broader range of determinants of settling up losses than suggested by pure agency theory models is developed and empirically tested. Results indicate that settling up in director labor markets does occur following board failures. Further, the findings suggest that director labor markets do discriminate among poorly performing directors. However, contrary to agency theory predictions, this discrimination does not appear to be based on the economic performance of the firm. Instead, the evidence suggests that perceptions about individual director role-responsibilities and social buffering available to directors with high prestige and social connections are the dominant determinants of settling up losses in director labor markets.

**Keywords:** director labor markets, board of directors, settling up

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## **THE ROLE OF EXPERIENCE AND NETWORK EFFECTS IN ALLIANCE TERMINATION**

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In this paper, we examine the impact of the following two factors on alliance termination: termination experience of partners and the strength of their alliance networks. We hypothesize that prior terminations may be a valuable source of learning and hence will reduce the likelihood of termination of a focal alliance. In addition, we hypothesize that asymmetry in termination experience across partners will open up the possibilities of opportunism by the more experienced partner, and hence increase the likelihood of alliance termination. We also argue that if the alliance partners are part of extensive alliance networks, the alliance is less likely to be terminated. We employ the case control methodology to test the hypotheses in a multivariate setting. Based on an analysis of 198 alliances (99 unplanned terminations and an equal number of matching surviving alliances) drawn from the global Biotechnology industry over the period 1980-99, we find partial support for the hypothesized relationships.

**Keywords:** Alliance termination, Termination experience, Alliance networks

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## HUMAN AND SOCIAL CAPITAL AS MARKET SIGNALS: IMPLICATIONS FOR CEO SELECTION

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The corporate governance environment of the late 1990s is marked by increased CEO accountability for shareholder performance and attendant disciplinary action – CEO dismissal – in the absence of positive results. During this period CEO dismissals occur with increased frequency in the Fortune 500, more than doubling from the rate observed in the 1980s. This changed corporate governance climate, together with the increased visibility and ramification of CEO appointments, highlights new aspects of CEO succession that deserve further study. In this empirical study, we use market signaling theory to explore these phenomena. We argue that the selection of the replacement CEO sends a signal to Wall Street, and that the nature of this signal is related to both the type of CEO succession event which it follows, as well as the firm's prior performance. We test and find support for this hypothesis using a sample of succession events that occurred during the late 1990s at large, publicly-held firms. The firms in the sample are covered extensively by financial analysts and have considerable institutional holdings, supporting the argument that these firms attend to the market signals a CEO succession event sends regarding the future direction of the company. The empirical investigation conducted here provides new insights on the phenomenon of CEO succession by examining the importance of human and social capital factors as market signals in the selection of CEO replacements.

**Keywords:** CEO Succession, CEO Replacement, Social Capital

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## TRUST AS INFORMAL SAFEGUARDS IN INTER-FIRM COOPERATION

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Both trust and contractual safeguards are important features of inter-firm cooperation but their relationship on performance is far from clear. Integrating transaction cost theory and relational exchange theory in this paper, we conceptualize trust as a form of informal safeguards and delineate a model that specifies the interaction effect of goodwill trust and competence trust with contractual safeguards. We test our hypotheses with data collected from 233 architect-contractor partnerships. The results suggest that while a high level of competence trust strengthens the positive relationship of contractual safeguards and cooperation performance, a high level of goodwill trust weakens the same relationship. These findings point to the importance of the social context in which the inter-firm cooperation contract is embedded. Theoretical and managerial implications are drawn.

**Keywords:** contract, trust, inter-firm cooperation

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## STRATEGY FORMATION EFFECTS ON MANAGERIAL ACTION: STRATEGY IN THE BACK OF YOUR MIND

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This paper examines the relationship between strategy formation and managerial action. It focuses on the effects strategy-making has on middle managers, exploring the factors that make strategy useful to them. The present paper reports on a qualitative case study at a major Barcelona-based company, operating in the automobile service industry with an aggressive expansion strategy. The study, of exploratory character, analyzes the evolution of thirteen strategic initiatives, building on the Bower-Burgelman model (Bower, 1970; Burgelman 1983). In addition, internal and external contexts for the evolution of strategic initiatives are examined. Of particular interest was that strategy-making took place on a stable participate basis, an outcome of which was creating a shared frame of reference among participating managers. This frame subsequently provided guidance to carry out strategic initiatives, in an induced manner. Its guiding character was enforced by a legitimizing mechanism. We also found that complementary administrative systems were used to ensure that strategic conversation took place on an ongoing basis. This strategic conversation at middle level kept managerial action coupled with strategy. From this analysis, propositions for future research are drawn and a revised conceptual framework is presented.

**Keywords:** Strategy making process, Middle managers, Managerial action

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## IN CONTRACTS WE TRUST: TRUST AND CONTROL IN STRATEGIC ALLIANCES IN THE TELECOMMUNICATIONS INDUSTRY

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The rationale of strategic alliances from a resource-based perspective is to give access to other firms' valuable resources as well as to gain greater efficiency in the use of own resources. Despite the obvious relevance, the resource-based view has not been applied systematically to strategic alliances (Das/Teng, 2000). More specifically, its theoretical and empirical application to the management of alliances is deficient. In this study we examine the influence of strategic resources and trust on the monitoring and control of strategic alliances. We look at two distinct forms of trust, namely process-based trust and institutional-based trust, and propose that the relationship between trust and control varies with the different modes of trust production. We tested our hypothesis on data from 83 companies of the German telecommunications industry using multiple regression analysis. Our empirical results indicate that companies manage their alliances in dependence on the resources transferred to the cooperation. Furthermore, the study shows that with increasing institutional-based trust monitoring and control intensifies. In contrast, we could not support our hypothesis that process-based trust reduces the intensity of monitoring and control in strategic alliances. Finally, the results indicate that the control variables, namely number of alliance partners, nationality of alliance partner, partner fit, alliance experience, and knowledge of the partner, have no influence on the monitoring- and control-intensity.

**Keywords:** Strategic Alliances, Trust, Resource-based View



## CORPORATE VENTURE CAPITAL AND RECOGNITION OF TECHNOLOGICAL DISCONTINUITIES

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Established companies often fail to recognize technological discontinuities. This study posits that corporate venture capital (CVC), defined as equity investments established companies make in external start-ups, enhances learning about emerging technologies. This longitudinal study examines the effect of CVC on the speed of recognition of technological discontinuities in information and communications technology sectors. The results indicate that established companies' membership and position in venture capital networks are important for the early recognition of technological discontinuities. Firms' absorptive capacity also plays a key role in this process. The findings also contribute to recent attempts to reconcile the structural hole and centrality arguments advanced by social network theory scholars.

**Keywords:** corporate venture capital, networks, technological discontinuity

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## MANAGING KNOWLEDGE EAGERNESS: LINKING KNOWLEDGE-BASED AND INFORMATION PROCESSING VIEWS OF THE FIRM

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The knowledge-based view has become a prominent view in the field of strategic management to explain performance of the firm. The view argues that a firm's competitive advantage depends on its ability to transfer and integrate knowledge-based resources. Accordingly, researchers have assumed a positive linear relationship between knowledge transfer and firm performance. In this paper, we introduce the concept of knowledge eagerness to refer to the avid dedication to invest capital, personnel and time in transferring knowledge both within and between organizations. Whether knowledge eagerness leads to better performance depends on task and organizational characteristics, as well as the complexity of the firm's external environment. This paper emphasizes the benefits and costs of knowledge transfer, and calls for a synthesis of the knowledge-based and information-processing views of the firm. A contingency-based model of knowledge transfer is developed that aims to give some clarification to the relationship between knowledge transfer and firm performance.

**Keywords:** Knowledge Transfer, Firm performance, Information Processing

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## AGENCY PROBLEMS IN THE MERGERS AND ACQUISITIONS PROCESS: AN INCENTIVE ASYMMETRY PERSPECTIVE

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Incentive asymmetries are central in the development of agency problems along the mergers and acquisitions (M&A) process. Based on a model of the agency problem, we develop propositions regarding key agency relationships, types of incentive asymmetries, antecedents for these asymmetries and their possible influences on M&A outcomes along the phases of the M&A process. Most importantly, we



propose that pre-merger incentive asymmetries are predominantly contingent on information asymmetry and post-merger incentive asymmetries on 'pure' self-interest.

**Keywords:** agency theory, M&A, incentive asymmetry

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## TWO LEARNING MECHANISMS BEHIND THE LEARNING CURVE

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The study investigates strategic timing patterns and their effects on the learning curve, and recasts the implication of learning curves in strategic contexts. In a turbulent market, firms seem to strategically choose a good time, i.e., when market is generally more munificent, less risky, neither crowded nor sparse, when fewer withdrawals occurs, or when they are more experienced. In addition, firm's purposive strategic action such as strategic timing disturbs the taken-for-granted shape of the learning curve. With the distinction made between strategic learning and operational learning, the new implication of the learning curve in strategic contexts is suggested. Considering temporal endogeneity is critical to investigating the learning curve hypothesis in strategic actions. As an empirical evidence, the study shows how banks' timing decisions influence the estimated learning curve in U.S. investment banks' offering IPOs. The result suggests that empirical findings of nonlinear relationship in prior studies on the learning curve in strategic contexts may reflect the existence of puzzling learning mechanism in strategic timing.

**Keywords:** Strategic Timing, Learning Curves, Initial Public Offering

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## RESOURCE SHARING AND CONTROL IN DIVERSIFIED FIRMS

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Inter-subsidary resource sharing may have an important bearing on the design of headquarters-subsidary relationships in diversified firms. For example, resource sharing may influence subsidiary autonomy, the use of horizontal integration mechanisms, and the adoption of strategic controls. However, within one firm, not all subsidiaries have to be equally involved in resource sharing with other subsidiaries. Therefore, corporate headquarters may have to differentiate its control practices to fit intra-firm differences in resource sharing. Accordingly, we develop two sets of hypotheses. The first set involves the influence of the degree of resource sharing on several dimensions of corporate control. The second set addresses the influence of differences in resource sharing on differences in the corporate control dimensions. In a study of 206 subsidiaries of Belgian, Dutch, and German corporations, all hypotheses of the first set are supported, while the hypotheses of the second set receive only partial support. Specifically, the degree of resource sharing turns out to affect all distinguished dimensions of corporate control. However, whereas intra-firm differences in resource sharing lead to differences in the use of horizontal integration mechanisms, subsidiary autonomy and the adoption of strategic controls appear to be more standardized across subsidiaries, despite differences in resource sharing. In fact, the findings suggest that the last two control dimensions may be differentiated to cope with differences in other characteristics of subsidiaries. An important implication is that differentiation of corporate control within firms does occur, but different dimensions of corporate control are used to tailor control to different subsidiary characteristics.

**Keywords:** resource sharing, headquarters-subsidary relations, control differentiation

## GOOD TIMES, BAD TIMES: SYMMETRIC OR ASYMMETRIC ADJUSTMENT TO CYCLE MOVEMENTS

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Divestments and reorganizations are downsizing strategies to (re)establish a fit between the firm and its environment. These actions can have severe consequences for both societal welfare at large and the personal well-being of individuals involved in such processes. A negative alteration in a business position (through an assets or workforce reduction) is often presented to the outside world as an inevitable action caused by unfavorable external forces such as industry over-capacity. The central question in this examination is whether or not firms adjust their internal position (assets and personnel) to changing environmental munificence of resources in a symmetrical or asymmetrical way. We distinguish three levels of indicators of changing resources: (1) the stage of the macro cycle of the economy at large, (2) the stage of the industrial or meso cycle, and (3) changing firm profitability or micro cycle stage. We have found evidence of symmetrical adjustment to macro, meso and micro cycles. The results provide evidence for influences of all cycle movements on adjustment patterns in the paper and pulp industry. However, the profitability position of the firm (micro level) itself seems to be of more importance than the macro or meso cycle stage.

**Keywords:** cycles, strategy, downsizing

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## TOP MANAGEMENT TEAMS AND STRATEGIC CHANGE: EMPIRICAL EVIDENCE FROM THE GERMAN BREWERY INDUSTRY

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This paper reports the results of a study which examined the relationship between top management team attributes and change in corporate strategy. Hypotheses based on the upper-echelons perspective were tested in a sample of 56 German breweries. In accordance with prior research our results suggest that low average age, shorter average organizational tenure, high age heterogeneity, and high average education level are associated with greater levels of strategic change. Contrary to earlier findings we discovered that low top management team tenure and high homogeneity of organizational tenure and educational specialization positively affected change in strategy. In addition to previous research we added firm resources as an independent variable and could demonstrate that firm resources have a significantly negative effect on strategic change. Accordingly firms with a stronger resource base are more reluctant to change their corporate strategy. These results imply that a top management team's demographic attributes, reflecting cognitive and social perceptions, influence whether a team changes corporate strategy. But the results also show that the explanation of change in corporate strategy can be enhanced significantly when top management team variables are supplemented by firm resource variables. Therefore resource-based view arguments are supported.

**Keywords:** Top Management Team, Strategic change, Resource-based view

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## A DYNAMIC THEORY OF WHY FIRMS DIFFER IN THEIR R&D PROJECT SELECTION RULES

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While the project finance literature instructs managers to undertake or continue any R&D project with a positive expected value (EV), casual observation suggests that R&D project selection rules differ vastly even for firms within the same industry. In this paper we develop a dynamic model that explains why firms vary in their R&D project selection rules. The novelty and value of our model derives from the central insight that some firms invest in downstream co-specialized activities that would incur substantial adjustment costs if R&D efforts are unsuccessful while others have no such investment. These investments lead to state-contingent adjustment costs that, when present, create a dynamic interdependency between downstream activities and R&D activities. The existence of a dynamic interdependency fundamentally implies that a firm's current decision will affect future state conditions and future profit. We model this dynamic interdependency by using dynamic programming techniques. This method helps us to identify the optimal thresholds that a forward-looking rational agent would choose, contingent on state conditions. When adjustment costs cannot exist, our analysis is identical to the project finance literature; hence, the standard project finance model can be viewed as a special case of our dynamic model. We discuss the implications of our model and modeling approach for the management of R&D, and provide some results from simulations. We conclude by identifying the strengths and weaknesses of our model, which helps us identify several additional research questions associated with R&D portfolio management, and by outlining a research program to address these questions.

**Keywords:** R&D, asset specificity, decision rules

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## THE ROLE OF CEO CHARACTERISTICS AND INCENTIVES IN CORPORATE DISCLOSURES: AN EMPIRICAL EXAMINATION

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This study investigates how three CEO-specific variables, namely, the percentage of stockholdings, the relative mix of long to short-term compensation, and how long the CEO has been on the job relative to his overall tenure, influence the frequency of voluntary earnings-related forecasts and analyst ratings of the disclosure policies of the firm. Based on a sample of 30 CEOs from 28 different firms over the period 1980 to 1994, we find that CEO specific characteristics are able to explain significant amount of cross-sectional variation in voluntary disclosure policies. Specifically, after controlling for a variety of industry and firm attributes identified in prior research, we find that CEOs who have more of their compensation tied to long-term incentives, who are in the later stages of their career, and who have a smaller fraction of their company's stock disclose significantly more information than their peers who have fewer long-term incentives, are in the early stages of their career and those who hold a high fraction of company's stock. We also find that CEOs who are in later stages of their tenure make more good news forecasts when compared to the CEOs who are in the early stages of their tenure. Further, CEOs who are paid relatively more through long-term compensation make more bad news forecasts and are in later stages of their tenure when compared to those whose compensation is more short-term oriented and those who are in the early stages of their tenure.

**Keywords:** CEO characteristics, managerial incentives, corporate disclosure

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## EXECUTIVE COMPENSATION AND FIRM COMPETITIVE BEHAVIOR: AN EMPIRICAL INVESTIGATION

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Competitive behavior is increasingly important in the development and execution of firm strategy. Not surprisingly, any understanding into the determinants of firm competitive behavior is of particular value. Drawing on the upper-echelon perspective and several behavioral theories, we examine the relationship

between executive compensation and firm competitive behavior. Specifically, we investigate how certain variants of fixed and variable components of compensation relate to both competitive activity and competitive variety. The results suggest that both fixed (salary) and variable portions of pay (short and long term incentives) of TMT and CEO are positively related to competitive activity, and long term incentives of TMT are positively related to the variety of a firm's competitive repertoire. Couched within the U.S. Pharmaceutical industry, this study addresses two perplexing questions in the literature. First and foremost, it reveals that executive compensation may be a worthy variable in explaining and understanding firm competitive behavior. Second, this study takes an initial step in addressing why prior research has found only a weak or non-significant linkage between pay systems and firm outcomes. Consequently, this study takes the preliminary steps in laying the foundation for future research between executive compensatory practices and firm competitive behavior.

**Keywords:** competitive behavior, executive compensation, top management teams

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## MAKING THE MOST OF GLOBAL REACH: TOWARD A MODEL OF THE IMPACT OF NATIONAL CULTURE ON ISSUE SELLING

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Past research has shown that middle managers enhance organizational performance by selling strategic issues to top management. While issue selling in multinational corporations is essential to creating strategy that is responsive to local market conditions and capitalizes upon global reach, little is currently known about the role of national culture in shaping managers' willingness to sell issues or their choice of selling strategies. In this paper, we draw upon national culture theories and the issue selling literature to propose an acculturated view of the issue selling process.

**Keywords:** issue selling, national culture, multinational corporation



## CROSS-BUSINESS SYNERGY: RECOMBINATION, MODULARITY AND THE MULTI-BUSINESS TEAM

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The pursuit of synergy is at the heart of the rationale for the existence of the multi-business organization. Indeed, the promise of synergies is the primary logic behind strategic moves like diversification and acquisitions. Despite this promise, their realization remains an elusive goal for many corporations. This inductive study of 12 cross-business synergy initiatives in 6 multi-business firms in the global software industry examines the processes by which potential synergies are realized. We find that high-performing synergy initiatives originate within business units, not corporate. They are shaped by experimentation not planning, and are chosen through high conflict negotiation, not corporate fiat. High-performing initiatives are then implemented through significant resource recombination into a loosely coupled, modular organization. More broadly, we highlight corporate entrepreneurship via a changed role for the corporate center and an emerging role, the multi-business team. In terms of organization theory, we suggest an alternative rationale for the M-form based on a logic of innovative recombination and the coevolution of the business-units and market, and perhaps a grounded view of complexity theory's N-K model. In terms of theories of strategy, we indicate a view that is sympathetic to an Austrian view of how advantage is derived from frequently seeking new opportunities, rather than from establishing sustained positional advantages, or leveraging resource competencies.

**Keywords:** Cross-Business Synergy, Corporate Strategy, Corporate Entrepreneurship

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## THE EVOLUTIONARY PROCESS OF NEW CAPABILITY BUILDING

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The study investigates the evolutionary process of underwriter's capability building in the context of underwriting Internet firm's Initial Public Offering (IPO) within the U.S. investment banking industry. During the period of 1996-2000, investment banks increased drastically the composition of Internet firms in underwriting IPOs. This study investigates the question of how investment banks could build their capabilities to underwrite Internet firms' IPOs successfully. Specifically, the study investigates questions such as whether prior experience plays as dynamic capabilities or as static experience, whether learning curve exists in the newer business, and whether firms learn from other firms. The result implies that some environment factors and initial experience of Internet IPO together have a major influence on banks' choosing of new business of Internet IPOs, and that neither prior experience of non-Internet IPO nor new experience of Internet IPO contributes to enhancing the capability of underwriting Internet IPO. In making Internet IPO successful, the mechanism of social learning among banks seems to be influential.

**Keywords:** Capability Building, Evolutionary Process, Internet Firms

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## EXPLORING LINKAGES BETWEEN CHOICE OF INTEGRATION APPROACH AND M&A PROCESS MANAGEMENT

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The purpose of this study is to examine differences in M&A process management across three commonly utilized integration approaches – Absorption, Symbiotic, and Transformation. Using a unique co-plotting technique and focusing our attention on large, related M&As involving firms of similar size, we find that the level of several process dimensions differ significantly depending upon the combined firm's choice of integration approach. Consistent with our predictions, target firm management was involved in decision-making activities of the combined firm at greater levels with the symbiotic approach, moderate levels with the transformation approach, and lower levels with the absorption approach. In addition, a transition management structure was used more extensively when firms chose a transformation approach and less extensively when they selected an absorption approach. However, contrary to our predictions, there was no significant difference in preliminary planning activities and speed of integration activities across the three primary integration approaches. Finally, while the level of strategic fit varied across integration approaches, there were no systematic differences in the degree of organizational fit. Collectively, our results provide initial empirical support for some long-held beliefs about differences in process management across integration approaches, which before now have been based primarily on prescriptive M&A literature derived from case study research and/or anecdotal evidence.

**Keywords:** Integration Approaches, Process Management, M&As

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## STRATEGIC LEARNING, ENVIRONMENTAL FIT AND FINANCIAL PERFORMANCE

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This study develops and tests a model that profiles organizations' strategic capabilities along a single path dependent continuum. Next, the performance implications of fit between strategic capability and



environmental dynamism, heterogeneity and hostility are assessed. Both 'methodical' and 'emergent' strategic capabilities are found to belong to a common continuum. Further, methodical capabilities appear to be preconditions for emergent capabilities. Each environmental condition also significantly moderated the associations between strategic capabilities and firms' financial performance.

**Keywords:** Strategy, Organizational learning, Health care

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## STRATEGY-MAKING IN NOVEL AND COMPLEX WORLDS: THE POWER OF ANALOGY

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We examine how firms use analogies to discover effective competitive positions in worlds that are novel and complex. In such settings, neither rational deduction nor local search is likely to lead a firm to a successful array of choices. Analogical reasoning, however, may allow managers to transfer useful wisdom from similar settings they have experienced in the past. We conceive of analogical reasoning as a classification scheme: from a long list of observable industry characteristics, analogizing managers choose a subset they believe distinguishes similar industries from different ones. Faced with a novel industry, they seek a familiar industry which matches the novel one along that subset of characteristics. They then transfer from the matching industry high-level policies that guide search in the novel industry. We create an agent-based simulation that embodies this conceptualization of analogy, and we use it to examine the impact of managerial and structural characteristics on the effectiveness of analogical reasoning. We find that analogies, even poor ones, can provide valuable guidance when interpreted broadly. However, taking an analogy, even a good one, too literally can be dysfunctional. We also discover that effective analogies help managers address the architecture of strategic problems: a well-informed analogy is particularly powerful when the underlying decision problem is not modular, that is, in situations where groupings of decisions are not decoupled from one another. Overall, the results shed light on a form of managerial reasoning that is prevalent among practicing strategists yet largely absent from scholarly analysis of strategy.

**Keywords:** analogy, cognition, origins of strategy

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## DIVERSIFICATION AND CEO COMPENSATION: DIRECT EFFECTS AND THE MODERATING EFFECTS OF CEO POWER

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This study examines the effects that unrelated and related diversification strategies have on CEO compensation. In addition, it examines the moderating effects of CEO power on the diversification-compensation relationship. Hypotheses were tested using a sample of 112 Fortune 1000 firms and their CEOs. Results suggest that unrelated diversification has a direct and significant effect on CEO compensation, and that the effects of unrelated diversification on CEO compensation appear to be contingent on the percentage of outsiders serving on the board of directors. CEO duality was also found to play a marginally significant moderating role.

**Keywords:** compensation, agency theory, CEO-board power



## A ROAD LESS TRAVELED: INVESTIGATING THOSE WHO JOIN AMERICA'S CORPORATE BOARDS AS OUTSIDE DIRECTORS

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The role of outside directors in the corporate governance process has received attention from academic research, the business/financial press, and politicians. To better understand the board-governance process, we examine those who serve as outside directors. Using human capital theory and social capital theory, we investigate the circumstances surrounding outside director appointments and identify why certain executives join boards as outside directors while others do not. We examine the phenomenon of outside directorships through an executive's home firm career and prestigious affiliations. In general, we find that an executive's home firm career is influential in joining an outside board. In contrast, we find little evidence to support the theory-based prediction that outside directorship appointments are influenced by the executive's prestigious education or family status.

**Keywords:** governance, boards of directors, human & social capital

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## SUBSTITUTABILITY AND COMPLEMENTARITY OF GOVERNANCE MECHANISMS UNDER CONDITIONS OF POOR PERFORMANCE

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Research on corporate governance mechanisms that reduce the agency problem have focused on the contingencies which facilitate or constrain the substitutability or complementarity of these mechanisms. In this paper, we extend the theory of bundles of corporate governance mechanisms that address the agency problem. We propose that performance is a critical contingency in determining the substitutability or complementarity of governance mechanisms such as monitoring and incentive alignment. Further, we propose that outside monitoring by an activist shareholder group can complement (but not substitute for) internal monitoring by boards of directors. Specifically, we focus on 119 poor performing companies placed on the Focus List of the Council of Institutional Investors (CII) from 1994-1999. We find that investors avoid listed companies that have extremely poor incentive alignment and weak monitoring, even after they have been targeted by the CII. However, we find that the external monitoring provided by CII is effective at complementing internal monitoring and incentive alignment in those firms that exhibit some minimal level of appropriate corporate governance prior to targeting by CII. In particular, for those firms with some accountability to its shareholders as evidenced by their greater tendency towards effective governance prior to targeting, we find that both incentive alignment and monitoring increase, demonstrating complementarity between these mechanisms under the observed conditions.

**Keywords:** Corporate Governance, Agency Theory, Governance Bundles

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## THE INFLUENCE OF BUSINESS UNIT MANAGERS ON THE FORMULATION OF CORPORATE STRATEGY: AN EMPIRICAL TEST

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The focus of this paper is on business unit managers, and their role in corporate level strategy. In the traditional view of the strategic management process, corporate level strategy is formulated by the Chief Executive Officer (CEO) and other inhabitants of the corporate office, and then implemented at lower levels, including the level of business unit manager. Hence in this view, business unit managers are implementers, rather than formulators, of corporate level strategy. In our view, business unit managers exert "upward influence" within corporations—including influence on the formulation of corporate strategy. We identify antecedents of business unit manager influence on corporate strategy. We test the strength of each of four antecedents. The results indicate that the business unit managers who exert most influence on corporate strategy are those who report directly to the CEO, and those who manage business units that are large relative to the corporation itself. Hence the significant antecedents of upward influence are attributes of the corporation's organizational structure. In contrast, business unit manager influence on corporate strategy does not appear to be significantly affected by corporate strategy itself, or by business unit performance.

**Keywords:** Corporate strategy, Strategic process, Organizational structure

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## CONFIGURATIONS OF INTER- AND INTRA-FIRM NETWORKS AND THEIR IMPACT ON ALLIANCE SUCCESS

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In this paper we argue that the success of a firm's learning alliances is not only influenced by the organization's external linkages to other firms, but also by the structure of its internal linkages. While previous research has examined these two effects separately, we cross-fertilize the alliance, social capital, and social network research streams by proposing a model of social networks within and between organizations. Using constructs from research on social capital and embeddedness, we analyze several configurations of inter- and intra-firm networks in terms of their impact on alliance success. More specifically, we concentrate on dimensions of structural and relational social capital (tie strength, density, centrality, and trust) and show that certain inter- and intra-firm configurations along these dimensions are more beneficial for alliance success than others.

**Keywords:** network theory, alliances and networks, managing strategic alliances

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## MANAGING INTERDEPENDENCE: AN AGENT-BASED MODEL OF ADAPTATION BY CENTRAL AND DECENTRALIZED SYSTEMS

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This paper compares the adaptability of centralized and decentralized coordination of production. I present an agent-based model in which agents produce a single product and search for opportunities to cooperate by specializing in parts of the production process. In the model, decentralized agents exploit local opportunities for cooperation more fully than centralized agents and reach higher average utility. The two coordination systems also lead to very different patterns of trade: the decentralized system leads to broadly connected trading networks, in which almost any two agents are indirectly linked, while centralized coordination leads to small connected subgroups that are isolated from one another. The broadly connected trading topology of the decentralized system makes it less adaptive when changes disrupt the trading network or require mutual adjustment in production. When agent turnover is introduced in the model, the decentralized system achieves lower average welfare because it exhibits greater disruption when agents exit the trading network. The model illustrates an adaptive advantage of central coordination in dynamic settings. Centralized systems minimize the interdependence of agents, which reduces the information processing and mutual adjustment that must be made to adapt production to a changing environment. The model suggests that to overcome the brittleness inherent in deeply

interdependent trading networks, decentralized systems may require slack resources to allow them to adapt in dynamic settings. This runs counter to the conventional wisdom that decentralized markets are lean while centralized organizations operate with a high level of slack resources.

**Keywords:** Coordination, Adaptation, Decentralization

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## THE IMPACT OF R&D SCOPE ON FIRM PRODUCTIVITY IN SYSTEMIC INDUSTRIES

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A central research question in strategic management is what determines the scope of the firm. While significant research attention is devoted to understanding issues of product, vertical, and geographic scope respectively, there is little theoretical or empirical research examining decisions about R&D scope. There is often an implicit assumption that R&D scope decisions are derived from the firm's product or vertical scope decisions. The present study seeks to challenge this assumption. I argue that in systemic industries (e.g., PC), where component technologies and product-markets may be largely unrelated but they jointly provide value to the end-user, some diversity in R&D activity may be necessary even if firms are focused in the product-market sense. Using a 22-year panel dataset, spanning 104 firms in five component industries that make up the PC, I estimate productivity growth as a function of the depth and breadth of R&D activity. After controlling for other important input-side differences between firms, the regression results indicate that both depth and breadth of R&D activity contribute positively to firm productivity. However, there are significant decreasing returns at high levels of depth and breadth. A highly depth driven R&D strategy exposes firms to unanticipated changes in the broader technological system. Conversely, a highly diversified R&D activity spreads resources too thin and leaves firms unable to exploit returns to their R&D. A plot of the regression results supports the conclusion that firms adopting a balanced strategy of moderate levels of depth and breadth respectively in their R&D activity tend to outperform firms at either extremes, i.e., excessive depth or breadth.

**Keywords:** R&D scope, firm productivity, technology strategy

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## UNLOCKING THE 'BLACK BOX' IN THE RESOURCE-BASED VIEW: RESOURCES, STRATEGIC ACTIONS, AND PERFORMANCE

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Critics of the resource-based view contend that the process by which strategic resources enhance performance is hidden within a conceptual 'black box.' We argue that strategic actions are one key element of the process. Using data from the restaurant industry, we investigate the performance effects of interactions among strategic resources and strategic actions. The results offer some support for our prediction that strategic actions moderate the strategic resource-firm performance relationship.

**Keywords:** Resource-based view, Competitive Advantage, Contingency

## STRATEGIC INVOLVEMENT, ORGANIZATIONAL COMMITMENT, AND KNOWLEDGE OF STRATEGY

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A three-component construct of strategic involvement - including relevance of strategy, participation in strategy, and exposure to strategy communication - is proposed and evaluated. Hypotheses linking strategic involvement with three types of organizational commitment and with strategy knowledge are tested using survey methodology and regression analysis. Strategic involvement is shown to be significantly associated with affective commitment and knowledge of strategy. No relationship is evident with continuance commitment and a weak link is seen with normative commitment. Interesting differences are evident in the relative importance of each component of strategic involvement in these relationships, especially the communication components. Discussion highlights contributions to the literature, implications for managers, and future research.

**Keywords:** strategy process, strategy implementation, strategic involvement

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## ADAPTATION AND REPLICATION IN KNOWLEDGE TRANSFER RELATIONSHIPS AMONG INTERNATIONAL TELECOM FIRMS

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This paper presents a study of knowledge transfer between source and receiving firms. I explore the mechanisms of transfer and their impact on transfer and performance. Two fundamental attributes of knowledge in organizations – causal ambiguity and context-dependence – suggest two key mechanisms of transfer: replication of knowledge from a source and adaptation of knowledge to the recipient's setting. I hypothesize that replication and adaptation will both contribute to knowledge transfer. In addition, I propose that adaptation is a process of recombination that will contribute to the long-term performance of the receiving firm by increasing its ability to recombine and innovate in the future. I find that both replication and adaptation contribute to knowledge transfer and that the two mechanisms are positively correlated, suggesting that firms often use both mechanisms in the transfer process. I find that adaptation by the source firm has a positive direct impact on the performance of the receiving firm. These results have two implications. First, context-dependence is an important aspect of knowledge in organizations, and thus adaptation is an essential mechanism for knowledge transfer. Second, the source firm plays an important role in adaptation. Adaptation by the source firm contributes positively to performance, suggesting that adaptation by the source firm may transfer some portion of the highly tacit capabilities required for recombination and innovation.

**Keywords:** Knowledge Transfer, Knowledge, Adaptation

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## DO CEO STOCK OPTIONS PREVENT OR PROMOTE CORPORATE ACCOUNTING IRREGULARITIES?

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We contrast the traditional view – that corporate governance mechanisms like CEO stock options reduce CEO moral hazard – with an “unprincipled agent” view, which proposes that short-term CEO stock options may actually subvert sound corporate governance. Both views are tested using 60 matched pairs of the largest 950 public U.S. firms that either 1) have or have not restated their accounts between 1999 and 2002 or 2) have or have not certified their 2001-2002 financial results by the current CEO. Our results

support the unprincipled agent view that large CEO stock options are later associated with a greater incidence of discovery of corporate accounting irregularities. We discuss the implications of these findings for corporate governance.

**Keywords:** Corporate Governance, Stock Options, Agency Theory

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## **RACING: PERFORMANCE CONSEQUENCES FOR INTERNET COMPANIES**

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To exploit first mover advantages, pioneers may race to acquire customers before rivals enter. Likewise, in new markets that exhibit increasing returns due to network effects or static scale economies, companies have incentives to invest aggressively in customer acquisition. Finally, access to capital may influence racing behavior: firms otherwise motivated to invest preemptively might lack the financial resources to do so. Based on econometric analysis using a sample of Internet companies, this research examines factors that encouraged racing behavior, and analyzes the long term economic consequences of racing to acquire customers. Results indicate that first movers spent more on marketing than non-pioneers. Likewise, firms with strong cash balances spent more heavily than "cash poor" companies. Contrary to expectations, firms in markets that exhibited increasing returns did not spend more on customer acquisition than other sample companies. The relationship between long term returns and racing had an inverted "U" shape: when firms raced too hard, or not hard enough, they earned lower returns. Most sample companies invested in customer acquisition efforts at or close to value maximizing levels. However, firms in markets subject to increasing returns tended to under-invest in marketing, relative to optimal levels. The typical Internet company destroyed value for investors, after spending nearly half of its capital on marketing. Although racing clearly dissipated rents at the sector level, it was often rational for individual companies. When competitors are locked in a race, unilateral moves to deescalate may not succeed unless rivals follow suit.

**Keywords:** Business-level strategy, Digital/Internet strategies, Competitive dynamics

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## **IS PUBLIC OWNERSHIP BAD FOR PROFESSIONAL SERVICE FIRMS? EVIDENCE FROM ADVERTISING AGENCIES**

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The rise of publicly traded professional service firms is puzzling. Where skilled human capital is critical and physical assets are minimal, theory suggests that insiders, not investors, should own firms-i.e. the partnership model is optimal. Both theory and industry anecdotes imply that public ownership reduces the ability to recruit and induce high-quality human capital. This shifts the basis of the firm's competitiveness, leading it to a strategic position of scale and standardization rather than an elite reputation for high-quality work. This paper tests those assumptions by analyzing the experience of the advertising industry, where there have been both public and private agencies since the 1960s and where an important human-capital-intensive output "creativity" can be measured through the industry's annual awards. At issue is whether public agencies were less competitive than private agencies and whether public agencies were associated with a strategy of scale and low creativity. Far from being uncompetitive, public agencies have come to dominate the industry. And they have been no less creative than private agencies. These results believe the notion that professional service firms are best operated through exclusive inside ownership. The current dominance of publicly traded ad agencies suggests that public ownership may pervade other professional services as well, including strategy consulting and even law.

**Keywords:** professional services, ownership, creativity



## INTEREST ALIGNMENT RENTS AND COMPETITIVE ADVANTAGE

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Our current understanding of creation and sustainability of economic rents relies to a large extent on a resource-based rationale, which links rents to superior resource positions. This paper proposes an alternative rationale for how economic rents can be created, which is independent of changes in the asset and capability base of a company. We see a superior degree of interest alignment between the individual and the organization as the basis for this type of economic rent. We identify, how organizations can achieve such an increased interest alignment through a well-balanced adjustment of reward system and socialization regimes. As they are organization-specific, these alignment rents are protected from imitation. However, environmental change or emulation by the competition limit the sustainability of alignment rents. In this context, we analyze the possibilities for organizations to create and sustain such "Alignment Rents" and identify three distinct and organization-specific capabilities that can lead to alignment rents. These capabilities, which can be both static and dynamic in nature, represent a new type of capability, which does not influence resources or other capabilities, but impacts interest alignment as an organizational attribute.

**Keywords:** Competitive Advantage, Intrinsic Motivation, Incentive Systems



## DOES THE LEFT FOOT FOLLOW THE RIGHT GOING DOWNHILL? EXTENDING STRATEGY AND STRUCTURAL DYNAMICS

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This study examined the strategy-structure relationship for firms decreasing diversification and decreasing structural differentiation. An event history was recorded for a sample of 365 firms during the period of 1979 to 1993. Results from the study suggest that decreases in structural differentiation lead to decreases in diversification, while decreases in diversification do not significantly increase the likelihood of decreases in decentralization. These findings suggest that, unlike walking uphill, when walking downhill, the left foot does not necessarily follow the right.

**Keywords:** Downscoping, Strategy, Structure

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## STRATEGIC DIVERSIFICATION: MULTI-MARKET COMPETITION, MARKET STRUCTURATION AND PERFORMANCE

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This paper suggests that research into the effects of diversification upon organizational performance has been unduly limited because it has restricted attention to one set of competitive benefits. We examine three sets of benefits. Traditional research focuses upon competitive advantages gained from capturing synergies arising from economies of scope in the use of factors of production. More recently, a separate literature has looked at benefits arising from multi-market competition, often a consequence of diversification. Multi-market competition is associated with mutual forbearance between firms, elevating their performance as the rigors of market forces are restrained. Mutual forbearance, we suggest in this paper, is especially likely to occur if rivals are similar to each other and therefore sensitive to each other's



strategic moves. A third set of benefits arise from the pattern of multi-market competition. Specifically, we propose that the degree of relatedness among different market niches affects the extent to which structuration processes are likely to occur. As more firms simultaneously operate in a similar set of markets, the degree of relatedness among these market niches increases through social processes of professionalism, inter-firm learning and legitimation. These processes are referred to as market structuration. Market structuration affects performance advantageously. Our theory thus combines economic, behavioral and sociological explanations of why diversification provides competitive advantage. We test our theoretical model using data from the Canadian general insurance industry. We find that mutual forbearance provides competitive advantage under specified conditions, that market structuration also provides advantages, but that diversification per se does not.

**Keywords:** performance, multi-market competition, market structuration

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## FOREIGN INVESTORS' EQUITY OWNERSHIP, AGENCY COSTS AND FIRM VALUE: EVIDENCE OF KOREAN FIRMS

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We examine the relationship between foreign investors' equity ownership and managerial perquisite consumption using 4,721 firm-year observations of industrial firms listed in the Korea Stock Exchange between 1992 and 2001. We use entertainment costs, secret expenses, and advertisement costs as the proxy for agency costs since this kind of expenses depends on managerial discretion and can be regarded as lavish  $\bar{\text{perk}}$  consumption in Korea rather than as investment for future growth. We find evidence supporting that to some extent foreign investors in Korea efficiently monitor management and reduce entertainment-like-expenses. The findings also suggest that the relationship between firm value measured by Tobin's Q and foreign ownership will be inverted U-shape and, consistent with the conjecture, we find evidence supporting the hypothesis. Our findings imply that inducing foreign investors to hold equity ownership may improve firm value by reducing agency costs, especially in jurisdictions where internal and external governance systems are not well functioning.

**Keywords:** Foreign Ownership, Agency Costs, Firm Value

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## MORE DIRECT MEASUREMENT OF MANAGERIAL DISCRETION: A LEADERSHIP INFLUENCE APPROACH

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Although managerial discretion perspective in Strategic Management provides a middle-ground answer to the dispute of whether individual managers have influence on organizational performance, the measurement of discretion has not been extensively tested. This paper briefly reviews the theoretical construct of managerial discretion and issues surrounding its measurement, we then provide an alternative method by measuring the discretion at industry level through the influence of CEOs on performance. The influence of CEOs is determined by examining the amount of performance variance explained by CEOs in within-industry pooled time series samples of firms from 14 industries. The convergent validity of the measure is also examined by comparing our results for various industries with the industry discretion scores reported by Hambrick and Abrahamson (1995) that were based on expert panel ratings. We conclude the paper by discussing the merits of a direct measure on industry-level managerial discretion.

**Keywords:** measurement of Influence, Managerial Discretion, Organizational Performance

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## INVEST OR EXIT: HOW DO ORGNIZATIONS RESPOND TO POOR PERFORMANCE?

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Under changing environments and competition, organizations are often faced with performance decline. Then, how do organizations respond to poor performance? On the one hand, organizations can invest to increase its competitiveness. On the other hand, organizations may want to exit from or restructure some of the current commitments. Drawing on the literature in strategy, institutional theory, and managerial hubris, we create a dynamic model of organizational response to stock price decline. We test the hypotheses derived from the model by examining the longitudinal investment/exit behaviors of 21 Fortune 500 firms for 20 years between 1980 and 1999.

**Keywords:** Performance Decline, Hubris, Symbolic behavior

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## LOOK BEFORE YOU LEAP:DYNAMICS OF MULTIMARKET COMPETITION IN THE CANADIAN DAILY NEWSPAPER INDUSTRY

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In this study I examine the dynamics of multimarket competition by studying the impact of Multimarket Contact on the circulation figures of newspapers in the Canadian daily newspaper industry from the years 1970-1992. I studied an industry that has hitherto not been examined for the occurrence of mutual forbearance even though newspapers vie for customers and indeed actively seek the customers of their rival papers. For newspapers, their circulation (newspaper sales) reflects their market reach and hence the amount of advertisements that they can attract. They thus compete fiercely with one another to increase their circulation. While past studies have found both prices and profits to increase as a result of the operation of mutual forbearance arising from multimarket contact among firms, the influence on firm sales is less explicit. I examined whether there existed an U shaped relationship between multimarket contact and change in newspaper circulation as has been predicted by past studies on multimarket competition while also studying the impact of changes in multimarket competitors on changes in newspaper circulation. I found that MMC bears a U shaped relationship with changes in circulation while changes in competitors has a negative impact.

**Keywords:** competitive dynamics, Multimarket competition, newspaper circulation

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## DIVERSIFICATION & ASIAN CRISIS: A LONGITUDINAL STUDY OF DIVERSIFICATION OF SINGAPOREAN FIRMS

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The Asian financial crisis of 1997/98 badly affected countries and businesses in the region. This longitudinal study investigates the effect of corporate strategy of Singapore firms on firm performance before and after the crisis. Firms are viewed as managing a portfolio of products and geographic regions. Each product and geographic portfolio consists of related and unrelated clusters. Based on resource-based view, organizational learning and managerial control theories, we expected firms that have greater product related (after accounting for unrelated) diversification to perform better than firms with lower product related diversification before and after the financial crisis and firms with greater geographic related (i.e. regional) diversification to fare better before the crisis. However, we postulated that firms with lower geographic related (i.e. international) diversification will perform better after the crisis, since the

Asian crisis negatively affected business units that were operating mainly in the region. We also hypothesized a positive interaction effect of related product and related geographic diversification on performance before the crisis, and a negative interaction after the crisis. We examined our hypotheses empirically with an original dataset containing fine-grained data on business and geographic segments of publicly-listed Singaporean companies from 1995-2000. The findings indicate that diversification did indeed have an effect on performance of Singaporean firms before and after the crisis. We offer plausible explanations for the empirical findings of the effects of pre-crisis geographic diversification and the interaction effect of post-crisis product and geographic diversification on performance.

**Keywords:** diversification, Asian crisis, Singaporean firms

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## EFFECTS OF EXTERNAL LINKAGES ON INNOVATION, A MULTI-DIMENSIONAL STUDY

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This paper examines the multi-dimensions of external linkages and their effects on innovation. Using Taiwan as the empirical setting, we look at how the effects of external linkages on both patents and R&D vary across different types and geographic sources of linkages as well as different types of innovation. Two recent econometric approaches for causal inferences are applied in order to tackle the possible endogeneity between external linkages and innovation. Our evidences suggest that external linkages have positive effect on innovation and the effects may vary with the linkages' ability to exploiting specific complementary assets. These results are robust to a variety of statistical techniques and measures.

**Keywords:** External Linkages, Innovation, Business groups



## STRATEGIC ALLIANCES AS CONTRACTUAL FORMS

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We examine the incidence and antecedents of various contractual provisions in strategic alliance contracts. In contrast to prior work examining particular provisions appearing in contracts or highly aggregated constructs such as contractual complexity, we find two underlying dimensions of alliance contracts. The first is related to weaker provisions for monitoring and control, and the second captures more stringent provisions concerning partners' commitments to one another outside the alliance. Alliances that are strategically important and involve transaction specific investments tend to have more complex contracts. Fewer provisions for monitoring and control appear for alliances between firms that have previously collaborated. Time-bound alliances tend to rely less on such provisions, but more on safeguards concerning confidential and proprietary information, alliance termination, and the adjudication of disputes by third parties.

**Keywords:** strategic alliances, transaction cost theory, contracts

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## A PROCESS VIEW OF OUTSOURCING

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This paper reviews the current research into the outsourcing phenomenon and posits that a process view of outsourcing is neglected. The paper attempts to rectify this position with a longitudinal study of nine outsourcing programmes from the initial decision to the outcome of the programme. It was concluded that

the process view of outsourcing has four stages in common, decision, evaluation, management and outcome. Furthermore, outsourcing programmes following a process view were more successful than those that did not adopt a process view.

**Keywords:** outsourcing, process, decision making

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## NATIONAL INSTITUTIONAL FACTORS AND THE PERSISTENCE OF FIRM PERFORMANCE

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We use an institutional economics perspective to test the implicit assumption of institutional efficiency of past research on performance persistence by examining the impact of country institutional differences on the persistence of firm performance. We first estimated performance persistence of firms from 35 countries of which 18 are developed economies and 17 are emerging economies. We then examined the impact of three specific aspects of market supporting institutions of these countries, namely, efficiency of the judicial system, efficiency of the market for corporate control and the rigidity of labor markets, on the persistence of firm performance. We provide robust evidence that the efficiency of the judicial system and the efficiency of the market for corporate control have a significant negative effect on the persistence of firm performance, while labor market rigidities did not have an effect. Our evidence suggests that institutional inefficiencies are an important source of persistence of firm performance that complement traditional drivers such as industry structure and firm resources and capabilities. The key implication for managers is that they are much better served by developing strategies that fit the particular institutional context in which their firm is embedded, rather than blindly adopting strategies that were developed in different, possibly more advanced contexts

**Keywords:** Performance persistence, Institutional effects, Emerging economies

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## TOWARD APPROACH TO MODELING MARKETS: APPLICATIONS OF CATASTROPHE THEORY

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This article introduces a new kind of modeling based on Catastrophe Theory.. In traditional market studies, an abstract formalism is used on the data with various classical numerical methods. The main risk is to ignore the nature of the phenomena since such data only capture and treat discrete aspects. The morphogenetic approach of Catastrophe Theory provides an holistic basis on which to appreciate global aspects of the market, and to capture qualitative changes of its general form. This approach is more geometrical than numerical: the data present behavioral transitions, continuity breakings or sudden variations. To these critical phenomena, Catastrophe Theory associates basic generic geometrical forms. The interpretation of these forms provides a way to understand the market through its main tendencies. It also provides an appraisal element by setting zones of stability and instability in its evolution. Here, these ideas are developed in the case of a market set by two parameters with the "Cusp" Catastrophe mathematical model . This type of data processing is applied to the example of a dry goods product on the French market. I highlight the qualitative aspect of this approach which represent its principle interest of the method. In a final discussion concerning the various approaches in marketing science, I discuss the arguments for subordinating quantitative approaches to qualitative ones.

**Keywords:** modeling markets, applications, catastrophe theory

## WHAT MAKES A TOP MANAGEMENT GROUP A TOP MANAGEMENT TEAM?

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Researchers have commonly used the label “top management team” (“TMT”) when studying the upper echelon of the organization. The problem is that many TMTs lack team-like properties and instead, are loose constellations of executives pulled in different directions, spending much of their time running organizational subunits and little time with fellow TMT members (Hambrick, 1994). As a result, many TMTs are unable to realize the benefits of “teamness” in which they engage in mutual and collective interaction and synthesize their knowledge and expertise to make better decisions resulting in stronger performance. In this paper, I refer to TMTs as top management groups (TMGs) and examine the factors that impact a TMG’s “teamness”, referred to in the literature as “behavioral integration” (Hambrick, 1994). In a study of 42 TMGs of large public organizations, I confirm Hambrick’s (1994) argument that behavioral integration is largely determined by contextual conditions, including firm size, firm strategy, and organizational slack. I also find a strong association between TMG homogeneity and behavioral integration. Implications for these findings for researchers and practitioners are discussed.

**Keywords:** Top Management Teams, TMT Process, TMT Decision Making

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## SPINOFFS AS ENTRY DETERRENTS: A STRATEGIC BENEFIT OF RADICAL INNOVATION

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We argue that there is a strategic reason why commercial innovations that differ greatly from a firm’s core offerings should be “spun off” or otherwise divested. In addition to established benefits [changing the capital characteristics of the core firm, establishing a separate management structure or physical business location to avoid inappropriate transfer of the core businesses’ management practices to the spinoff, or insulating of the subsidiary’s business policy from undue influence of current customers] the incumbent also achieves a strategic benefit affecting the incentives of future prospective entrants. The new competitive entity will have incentives to compete “tough” against all comers, including the incumbent’s existing wholly-owned locations as well as potential third-party entrants. A commitment to such tough competition can deter otherwise inevitable entry, tipping the balance in favor of leaving the incumbent undisturbed. Having the critical product space occupied by an independent – or semi-independent – competitive entity can thus serve as a more effective deterrent to entry by a third party than a wholly-owned subsidiary. Such a strategic spinoff can even lose money on its own operations if the deterrence effect is strong enough to protect profitability in the company’s main market. Our theory is thus particularly relevant to spinoffs of electronic commerce subsidiaries, radical technological advances, and other subsidiaries which offer markedly different products or services from those offered by the parent company. If the spinoff is too close to the incumbent’s core business, the ensuing cannibalization will depress profits more than the entry deterrence will increase them.

**Keywords:** spinoffs, entry, deterrence

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## YOU SAY YOU WANT A REVOLUTION? MANAGING INTELLECTUAL ASSET FLOWS IN THE INFORMATION SECTOR

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Information and knowledge management play an increasingly important role in the development of sustainable competitive advantage. This paper examines the challenges posed by advances in communication and information technology to the value appropriation strategies of information firms. The scarcity of information products can be managed by intervening in intellectual asset flows. Different intervention modes and important contingency considerations are identified and a number of propositions are developed.

**Keywords:** Information Management, Intellectual Asset Flows, Information Firms

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## THE EMERGENCE, EVOLUTION, AND DISSOLUTION OF A NETWORK SYSTEM: A COMPLEXITY THEORY PERSPECTIVE

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We examine the evolution of a network system from emergence to dissolution. To accomplish this, we present the results obtained from real time, longitudinal fieldwork conducted at AT&T Unisource, a global network system in the telecommunications industry. Our analysis is based on grounded theory, participant observation, internal documents, and feedback sessions. We focus on four distinct developmental phases each characterized by a set of theoretical constructs. To further interpret and explain the evolutionary development process of the network system we draw on complexity theory, here in particular on literature pertaining to complex adaptive systems. We attempt to enrich and extend this line of thinking through its application to a dynamic network system.

**Keywords:** network evolution, complex adaptive system, qualitative research

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## ANNOUNCEMENTS AS REAL OPTIONS: A FRAMEWORK FOR UNDERSTANDING STRATEGIC SIGNALLING

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This paper sets out to identify and provide a framework for an important option available to firms - the option of making an announcement about strategic decisions - which has been almost entirely ignored in the strategy literature. Although the option to announce has not been previously seen as a valuable option on its own independent of an actual strategic choice, it is an obvious and key part of many firms' overall strategies. This paper proposes a novel way of understanding overall firm strategy by unbundling strategic choices into two distinct components: actions and announcements. The action comprises the actual choice made while the announcement is what sends signals about it to the external environment. Considered both independently and in relation to each other, the correct management of announcements as well as actions can augment the success of the firm's strategy as a whole. This problem is analyzed as a compound option whose two basic components can be exercised in either order. Such a real options approach inverts the usual thinking about absorbing uncertainty found in organization literature. The examples in the paper are taken from the banking industry; however the framework applies to other industries.

**Keywords:** Real Options, Market Signaling, Announcements

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## RHYTHM OF STRATEGIC CHANGE: INTERACTING DETERMINANTS OF CHANGE IN PRODUCT DIVERSITY

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This paper proposes and tests a model of the rhythm of strategic change in organizations. The hypotheses predict that a more irregular pattern of strategic change in product diversity will be driven more by adversity—the threat of industry scarcity and poor financial performance—than by opportunities and occur primarily when company assets are flexible. We examine this model using data gathered from a random sample of 100 manufacturing firms between 1985-1990. Analyses using independent variables from 1978-1984 support the general model. The results of the study suggest that industry scarcity, prior firm performance, and asset flexibility have varying main as well as interactive relationships with the rhythm of related versus unrelated product diversification. It appears that the rhythm of change in related diversity is largely driven by two-way interactions among the three variables under study, whereas the rhythm of change in unrelated diversity needs a confluence of all the three variables acting simultaneously. More specifically, results show: a) Asset flexibility is associated with more irregular rhythm of change in related product diversity; b) Industry scarcity amplifies the effect of asset flexibility and leads to a more irregular pattern of change in related product diversity; c) Similarly, low financial performance amplifies the effect of asset flexibility and results into a more irregular pattern of change in related product diversity; d) The three-way interaction of industry scarcity, financial performance and asset flexibility with the rhythm of change in unrelated diversity is significant.

**Keywords:** Interactive effects, Rhythm of Change, Prior Financial Performance

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## A TEMPORAL PERSPECTIVE ON FIRM HETEROGENEITY

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This paper extends the assumption of resource heterogeneity of RBV in the context of high-velocity markets. Countering some challenges to the validity of this assumption in high-velocity markets, I argue that resource heterogeneity in this particular context has to be understood on the temporal dimension. That is, whereas firm assets or resources may become homogeneous, the processes and the speeds at which firms accumulate these resources are heterogeneous and firm-specific. This firm-specific speed gives rise to firm heterogeneity in high-velocity markets. The hypothesis was tested with a sample of 22 semiconductor firms that annually filed patents from 1976 to 1998. Results show that these firms reconfigure their capabilities at significantly different speeds.

**Keywords:** firm heterogeneity, dynamic capabilities, resource-based view

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## THE RELATIONSHIP BETWEEN A MAGAZINE'S DIGITAL AND PRINT CONTENT: COMPLEMENTS OR SUBSTITUTES?

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This paper examines the magazine publisher's decision to offer digital content, and considers the following question: How does a magazine's free digital content affect demand for its print content? I examine this question using a panel dataset of US consumer magazines. I use a searchable archive of websites to measure each magazine's digital content. The results show that free digital content from the current print magazine cannibalizes print circulation, while digital content that is not offered in the current print magazine does not reduce, and may increase print circulation. These results indicate that consumers view some digital content as a substitute for the print version, while other content is complementary.

**Keywords:** digital content, Internet, cannibalization

## COEVOLUTION, KNOWLEDGE AND COMPETITIVE ADVANTAGE: TOWARDS A COEVOLUTIONARY OF THE MULTINATIONAL FIRM

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This paper examines the multinational firms from a coevolutionary lens. The coevolutionary process encompasses both macrocoevolution with the (external) environment and microcoevolution among the parts and the whole, i.e. the internal environment. We argue that coevolutionary pressures differ at the macro and micro levels, which can result in differences in the speed of coevolution. The MNC's coevolution has an impact on both causal ambiguity, which creates barriers to knowledge transfer, and absorptive capacity, which produces mixed effects on knowledge transfer. In this regard, fitness with the host environment enhances outward-looking absorptive capacity and helps increase the speed of macrocoevolution whereas fitness among the parts and the whole increases inward-looking absorptive capacity and helps increase the speed of microcoevolution. Managing the balance between the two is critical and can result in coevolutionary advantage and coevolutionary rents.

**Keywords:** coevolution, multinational firm

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## DEREGULATION, EFFICIENCY AND GOVERNANCE STRUCTURES: THE U.S. ELECTRIC UTILITY SECTOR

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This paper is an empirical assessment of the comparative efficiency of governance structures in an environment marked by high environmental uncertainty. We analyze the short-term impact of retail deregulation on the productive efficiency of electric utilities in the United States. We argue that there is uncertainty and transitory costs linked to the process of deregulation. The strategy literature suggests different governance structures to cope with uncertainty linked to changing environments. Transaction cost economics suggests that firms may reduce their exposure to the uncertainty created by the process of deregulation by adopting vertical integration strategies. Organizational scholars suggest that firms vertically disintegrate and adopt flexible governance structures to increase their adaptability to the new conditions. Our analysis is based on 177 investor-owned electric utilities representing 83% of the total U.S. electricity production by utilities from 1998-2001. Our results show that deregulation has a negative short-term impact on firms' efficiency. However, on the continuum from vertical integration generation strategies to contracting, both extremes are more efficient than firms that are relying on both market and hierarchy.

**Keywords:** Transaction costs, Deregulation, Governance Structures

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## A MULTI-LEVEL FRAMEWORK OF STUDYING COMPETITIVE RESPONSES: INFORMATION PROCESSING AND RESOURCES

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In this paper, I view competitive responses as the key to understanding competitive dynamics, which has long been an important subject of research in the field of strategic management. Researchers have laid out at least two major theoretical approaches—game theory and action-reaction analysis—to address this topic. The latter one, which incorporates the notion of information-communication, identifies three factors in determining response characteristics, i.e., awareness, incentive, and capability. This framework has offered researchers great convenience in analyzing competitive interactions. However, research in this

regard is usually piecemeal rather than carried out systematically. In fact, focusing on only one dimension of the factors is neither consistent with real-world practices nor providing sound theoretical arguments. I argue that linking information processing theory and the resource-based view is an efficient way of magnifying the merit of the awareness-incentive-capability framework. This approach helps integrate several sets of factors that can influence competitive reaction decisions. A multi-level model of studying competitive response characteristics—speed, magnitude, and diversity—has been built by virtue of combining information processing and resource-based arguments. Some distinguishing constructs such as information-resource consistency are introduced. Implications and concerns on further empirical tests are also discussed.

**Keywords:** Competitive Dynamics, Information Processing, Resource-Based View

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## STRATEGIC PLANNING FLEXIBILITY AND FIRM PERFORMANCE UNDER DISTINCT COMPETITIVE STRATEGY CHOICES

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In this paper we present results from our research on the strategic planning processes and competitive business-level strategies employed by firms in the forest products industry. We begin by developing a strategic planning process model that includes variables for business strategy choice, external and internal strategic change triggers, capacity for strategic flexibility, strategic planning process, firm growth, and firm profitability. Using structural equation modeling to analyze the 200 responses to our mail survey from top management team members, we found support for our model for each competitive strategy tested. However not all parameter relationships were significant in all cases. Specifically, while we did find a positive and significant performance impact for planning processes with specific means and objectives outcomes for all types of competitive strategy choice, the planning flexibility parameters were only significant for a subset of business-level strategies. In our discussion we address why this might be the case and identify useful lessons for managers in firms outside the forest products industry to consider when designing strategic planning processes, particularly with regard to managing strategic flexibility.

**Keywords:** Business-Level Strategy, Strategic Flexibility, Strategic Planning

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## THE BENEFITS AND DRAWBACKS OF LARGE BLOCK OWNERSHIP BEFORE AND DURING THE EAST ASIAN CRISIS

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Large block ownership provides benefits from unity of control as well as drawbacks from potential entrenchment and expropriation of minority shareholders. The effect of large block ownership on performance is equivocal because it is difficult to determine when and under what conditions the benefits exceed the drawbacks. We examine the effects of ownership structure on performance in Asian companies before and during the Asian crisis of 1997 and show that the economic downturn is a useful contingency for understanding the benefits and drawbacks of large block ownership.

**Keywords:** governance, ownership, performance

## ORGANIZATIONAL HOMOGENEITY AND HETEROGENEITY: INCORPORATING THE STRATEGIC DECISION-MAKER

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How can we explain the phenomenon of organizational homogeneity and heterogeneity? What causes the variability in degrees of homogeneity and heterogeneity in organizational forms and practices in the process of strategic changes? This study is triggered by these questions, which have yet to be completely answered by existing theory. We deductively identify homogeneity and heterogeneity forces in the strategic decision environment affecting decision-making behavior. A model and several propositions are developed to help better understand the mechanisms and processes underlying the organizational diversity phenomenon. Implications for strategic decision research are discussed.

**Keywords:** homogeneity, heterogeneity, Decision-making

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## A RESOURCE-BASED EXAMINATION OF ALLIANCE STRUCTURAL INTEGRATION

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Strategic alliances are formed with different levels of structural integration, which includes both equity integration and process integration. This paper develops and tests a resource-based framework of alliance structural integration. An analysis of 765 alliances formed between 1994 and 1997 finds this approach to be highly significant. A high level of alliance structural integration is encouraged by less prior alliance experience, international alliances, joint R&D, and joint marketing objectives in alliances.

**Keywords:** Strategic Alliances, Resource-based View, Alliance Structure

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## LEADER SUCCESSION: AN EXAMINATION USING COACHES AND GENERAL MANAGERS IN THE NATIONAL HOCKEY LEAGUE

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This paper examines the impact of coach and general manager succession on organizational performance using a sixty-year data set (1942/1943 to 2001/2002) from the National Hockey League (NHL). Previous studies using data from the National Football League, the National Basketball Association and major league baseball teams suggest that when there is a coaching change between seasons, there is no succession effect with respect to performance. The analysis of data from the NHL confirms these findings. In addition, research has suggested that within season successions are associated with worse performance. This study confirms these findings as well. However, when successions in the previous season are included the impact of previous season successions is positively significant. Our findings suggest that when successions occur is a more important question than which theory explains the impact of succession on performance.

**Keywords:** Leader Succession, Sports teams, NHL

## AN INFORMATION-BASED ANALYSIS OF PROFESSIONAL SERVICE FIRMS

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In this paper I present an information-based analysis of professional service firms. I argue that professional service firms can do things to standardize or homogenize the quality of services their providers offer, which can help them develop particular □brand identities□ or reputations, and these reputations can provide information to consumers. I apply this reasoning to the health care industry. Health care organizations can do things to homogenize or standardize the quality of care provided by their physicians, and in so doing, can develop □brand identities□ or reputations. An implication is that consumers might be able to use what they know about an organization to make an inference about a physician who practices in the organization. To evaluate this reasoning empirically, I argue that if the type of learning described above matters, then it should matter more when consumers know less about individual physicians. Using proxies for consumer uncertainty and organizations' brand identities, I test whether physicians who consumers are more uncertain about benefit more from practicing in organizations that have reputations for quality than physicians who consumers are less uncertain about. I find evidence that is consistent with this proposition.

**Keywords:** Reputation, Compensation, Uncertainty

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## SHARING VALUES DIFFERENTLY: MANAGERS' INTERPRETATION OF CORPORATE VALUES

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The predominant assumption in the management literature is that corporate values are internalized into organizational members' personal values systems. Corporate values thus perform a controlling role in organizations, consistent with the characteristics of a deliberate strategy perspective. Theories concerning the nature of personal values challenge this assumption of corporate value internalization, but there is a lack of empirical research in the management field investigating the relationship between the two value systems. The qualitative research study investigates the relationship between senior managers' personal values and their interpretation of their organization's corporate values in three commercial organizations. We explore how managers interpret their organization's corporate values through the description and meaning they give to value terms, and elicit their personal values by using an adaptation of the laddering technique, and by inferring values revealed in managers' career histories. We found that managers hold different personal value priorities, and also interpret their organization's corporate values in different ways. The variation in personal value priorities broadly matches the variation in interpretation of corporate values. At the same time, however, the same managers think that they share their organization's corporate values with their own. The findings have implications for the role of corporate values in organizations. They challenge the notion that corporate values are effective substitutes for other forms of normative control. Conversely, corporate values may have a greater role in legitimizing the worldview of managers, thus enabling differences to be accommodated within a broad framework of shared values.

**Keywords:** Corporate values, Strategic control, Interpretive Research

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## CLARIFYING THE RELATION BETWEEN FORMALIZATION AND PERFORMANCE IN INTERORGANIZATIONAL RELATIONSHIPS

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The relationship between formalization and performance in interorganizational relationships is unclear (Heckman, 1999; Luo, 2002a). Comparative studies have shown that both positive and negative influences of formalization on performance have been proposed (Scott, 2003), and several authors have argued that the influence of formalization on performance is dependent on contextual factors and time (Karina, 1998; Nooteboom, 2000). In this conceptual paper based on extant literature, we develop a framework with which we attempt to clarify the influence of formalization on performance in interorganizational relationships. We distinguish between formalization of outcomes and formalization of processes and between performance measurement in terms of outcomes and in terms of processes (Ariño, 2003). Furthermore, we derive six mediating factors of the relationship between formalization and performance from existing literature. These factors include, amongst others, the objective of formalization (Adler and Borys, 1996), the degree of exploitation or exploration (Koza and Lewin, 1998; March, 1991; McGrath, 2001), and the degree of interdependency between partners (Kumar and Van Dissel, 1996; Thompson, 1967). Our conceptual framework and the corresponding propositions contribute to clarifying the relationship between formalization and performance in interorganizational relationships. In addition, our analysis helps to reconcile some seemingly contradictory perspectives on formalization found in existing literature.

**Keywords:** Interorganizational relationships, Performance, Formalization

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## INFLUENCE OF AMERICAN MODELS: THE EVOLUTION OF CORPORATE NETWORKS IN THE EUROPEAN PC INDUSTRY

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This paper highlights the impact of the American models of corporate network within the European personal computer industry and discusses the value of individualism upon isomorphic changes among foreign firms. The evolution of corporate network in the European personal computer industry has been driven by the traditional American and the new American model. The traditional American model represents the legacy of the mainframe and minicomputer era and supports the use of internal component suppliers and sales teams. The new American model emerged from practices of youthful US firms and suggests that competitive advantages can be obtained by complete reliance on networks of independent suppliers for components inputs and innovative practices in marketing. This paper draws from the organizational concept of isomorphism and cross-cultural conformity to assess the relationship between the value of individualism and (1) the replication of the emergent efficient new American model among industry participants and (2) the sequential pattern of changes among the corporate networks between established US and Far East firms. Using data of the corporate network pattern among 18 US and Far East firms during the period between 1977-99, I found that the convergence towards the traditional and the new American models of corporate network is inter-twinned with the degree of individualism where the firms originated; in particular, the differences of isomorphic processes among collective Far East and individualistic US firms. It is suggested that established US firms are more inclined towards competitive isomorphism while Far East firms are more influenced towards mimetic isomorphism.

**Keywords:** American models of corporate network, individualism, isomorphic processes

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## ACQUIRING KNOWLEDGE RESOURCES: COMPETITIVE ADVANTAGE OR COPING?

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In a recent study of acquisition characteristics, Coff (1999) suggested that acquirers operating within knowledge-intensive industries adopt coping strategies to address the increased uncertainty associated with the purchase of knowledge resources. Those coping strategies include discounted premiums, paying less of the purchase price in cash, and avoiding tender offers. He also found that acquisitions in knowledge-intensive industries took longer to negotiate and complete. These research findings are

surprising, as they contradict both predictions from resource-based theory as well as anecdotal evidence reported by the business press. To examine this seeming contradiction, we undertook a finer-grained study of the relations between resource type that motivate acquisitions and acquisition premiums, this time at the firm and transaction level. Our sample was drawn from two industries that were among the most prolific acquirers in the 1990's: health care and software. One of these, software, falls into Coff's high knowledge-intensive category while the other industry, health care, does not. Contrary to Coff's industry-level findings, we found not only that firms in both industries performed similarly on the dimensions tested, but that the relation between acquired knowledge resources and premiums was significantly positive in the direction opposite of Coff's findings. As such, our results support resource-based theories of acquisitions and are consistent with evidence from the business press. Possible reasons for the differences in findings are discussed. We also describe the development of a resource typology used to examine the types of resources that motivate acquisitions.

**Keywords:** acquisition, resources, knowledge

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## **FLAT STRUCTURES AND HIDDEN HIERARCHIES – A COMPARATIVE STUDY OF RESOURCE DEVELOPMENT**

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This paper takes a critical view towards the resource-based view of competences as given assets. To understand ex ante processes of how competences are developed, a shift is needed from a firm to an individual level analysis. Building on a qualitative inquiry with individuals representing a variety of backgrounds and positions in four professional service firms (PSFs), we found that perceptions across the PSFs were highly similar. However, between senior and junior employees, the perceptions differed radically. A 'hidden hierarchy' emerged, that is more and less "visible" to different people. Quite reverse to American RBV studies treating managers as an aggregate of the firm, competence development is perceived differently by people at different levels. This suggests that data should be interpreted from individual and pluralist perspectives.

**Keywords:** competence development, resource development (intangibles), hidden hierarchy

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## **ORGANIZATIONAL FACTORS AS DETERMINANT OF INTERNATIONAL STRATEGIC ALLIANCES PERFORMANCE**

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The goal of this paper is to identify what are the more important organizational factors to explain success, associated with the implementation phase of strategic alliances. So, we have tested the direct and indirect effects of trust, commitment, communication, coordination, conflict, control and dependence on the success in a sample of 136 international alliances from the research and development European program Eureka employing structural equation modelling.

**Keywords:** cooperation, alliances, performance

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## **WHY DO FIRMS PARTICIPATE IN MULTIPLE-PARTNER ALLIANCES?**

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In this paper, we examine the strategic motives for firms' decision to join multiple-partner alliances (i.e. alliance constellations). We extend previous research on dyadic alliances by examining if similar predictors of alliances between two firms would also lead to the formation of multiple-partner alliances. Based on resource dependence theory and social network perspective, we suggest that both economic and social factors will influence a focal firm's choice of partners in joining multiple-partner alliances. We propose that economic factors such as the level of interdependence, and social factors, such as direct ties, indirect ties, and relative size differences between the focal firm and other industry players are the main predictors of firm's choice of partners in multiple-partner alliances. We also propose that the impact of social factors on a firm's choice of partners will be moderated by the exogenous economic factors. Specifically, we study a unique type of collaborative venture in the new information economy: industry-sponsored e-marketplaces (ISMs) in the late 1990s. Our findings are quite suggestive, indicating that (1) the resource dependence of a focal firm on other founding members of ISMs, prior alliance relationship, and the relative size differences between the focal firm and its ISM partners are important determinants of a focal firm's choice of partners in founding an ISM; (2) In addition, the impact of social relationship factors (i.e. prior ties and relative firm size differences) on focal firm's choice of partners in founding ISM is moderated by exogenous economic factors (i.e. resource interdependence).

**Keywords:** industry sponsored e-marketplaces, multiple-partner alliances, social networks

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## BEYOND MUTUAL FORBEARANCE: MULTIMARKET COMPETITION FROM A NETWORK PERSPECTIVE

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This paper extends prior research on dyadic interfirm competition by analyzing the structure of the entire network of multimarket competition. Drawing on a social network perspective, we investigate the effects of structural embeddedness on tacit cooperation through price coalition between competing firms in the US airline industry. We identify two dimensions of structural embeddedness: structural equivalence and third party embeddedness. Structural equivalence refers to the extent to which two firms have multimarket competitive relationships with the same set of other firms. Third party embeddedness refers to the extent to which two firms' contacts are interconnected in the multimarket competitive network. The results of our analysis of the airline industry show that structural equivalence reduces the likelihood of tacit cooperation whereas third party embeddedness increases the likelihood of tacit cooperation between airlines that are competing in the same routes.

**Keywords:** Social Networks, Multimarket Competition

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## DIVERSIFICATION AS LEARNING

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Business diversification is a contested issue. However, most studies that examined the diversification-performance relationship have not considered the role of diversification as an adaptation mechanism and, more specifically, as a means to learning new competences. In this paper I propose a contextual theory of corporate profitability which extends March's (1991) learning theory of adaptation to the corporate level. In particular, I posit that firms which combine corporate exploitation and corporate exploration prior to environmental changes will sustain superior profitability across different environmental periods. Specifically, I argue that while, under environmental stability, corporate exploitation has a positive effect on performance, under environmental change, past corporate exploitation will have a detrimental impact. Conversely, corporate exploration has a negative effect on corporate profitability under stable environments, but it yields positive returns once the environment changes. From the contingent effects of these two types of corporate learning activities, I predict the ranking of their four possible combinations as corporate learning strategies, under environmental stability and change. Using panel techniques I test

these hypotheses in a sample of US-incorporated public firms active in the phone industry from 1979 to 2000, a period in which this industry was subject to substantial deregulation. The results partially confirm the hypotheses, showing that, under environmental stability, exclusively focusing on corporate exploitation is the best corporate learning strategy and that the combination of corporate exploitation and corporate exploration is the second best. However, a prior focus on corporate exploration does not yield the expected benefits under a shifting environment.

**Keywords:** Diversification, Organizational learning, Corporate strategy

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## IMPACT OF RISK AND UNCERTAINTY ON RATIONALITY: EVIDENCE FROM CAPITAL INVESTMENT DECISION PROCESSES

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Decision making under risk or uncertainty has received a lot of attention in the literature. Prospect theory and behavioral decision theory are central to these prior studies. Prior research has demonstrated: (1) individuals may violate the principles of economic rationality due to uncertainty; and (2) individuals may be risk-seeking or risk-avoiding based on performance relative to targets and environmental conditions. This study builds upon these streams of research by proposing and testing a decision-making model that incorporates the effects of both risk and uncertainty. Specifically, this paper explores how perceptions of risk and uncertainty, and their interaction, affect the process of decision making. The decision-making process is measured using rationality measures that capture both substantive (economic) rationality and procedural rationality. Hypotheses derived from the perspectives of behavioral theory and information-processing theory are tested within the context of the capital investment decision processes of 130 public companies. The findings suggest that as risk increases, the rationality of the decision process also increases. In contrast, as uncertainty increases, the decision process becomes less rational. The evidence of direct effects appears to support behavioral theory perspectives. The results also provide evidence of the existence of interaction effects between risk and uncertainty. It appears that the effects of uncertainty dominate the effects of risk. These results have strong implications for our understanding of the decision-making process, particularly with regard to these interaction effects.

**Keywords:** uncertainty, risk, decision making

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## FIRM HETEROGENEITY, MARKET HETEROGENEITY AND AGGLOMERATION

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We analyze firms' market entry choices, in particular whether they choose to agglomerate – whether they collocate with existing firms. One motivation for collocation is the possibility of obtaining positive spillovers from existing firms. We propose that entrants will locate near others possessing resources necessary to contribute to spillovers, but will avoid locations where existing firms will exploit spillovers without contributing. To test these propositions, we analyze the location decisions of 570 new hotels in Texas between 1992 and 2000. We find that hotels are attracted to markets with larger and high quality hotels. Further, we find that owners of larger and high quality hotels avoid markets with hotels without similar resources.

**Keywords:** market entry, agglomeration, resources

## RESPONDING TO RIVALRY: LINK AND SCALE ALLIANCE FORMATION IN THE COMMUNICATIONS EQUIPMENT INDUSTRY

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Despite a substantial literature in the area of alliance formation, studies have not focused on how industry competitive dynamics affect resource combinations in alliances, that is, the choice of scale or link alliances. Data for this study were obtained for 230 alliances among 109 competitor firms in the global communications equipment industry over a ten-year period from 1988 through 1997. Results show that the strategic similarity of partners and the level of industry rivalry have independent and interactive effects on partners' decisions to form scale and link alliances.

**Keywords:** alliances, rivalry, strategic groups

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## THE EFFECT OF COMPENSATION DESIGN ON EXECUTIVE INFORMATION SEEKING

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This study examines whether the use of incentive pay in hi-tech firms affects the information processing behavior of executives during strategic decision making. Our data from a sample of CEOs and top executives in software and non hi-tech firms (control sample) shows that the use of long term and short term incentives influences executive information seeking in hi-tech firms but not in our control sample. While the amount of long-term incentives does not influence information seeking, shorter vestment periods (time for which executives must remain with the firm before availing long term incentives) increase information seeking behaviors. However, as the amount of long-term incentives increases the role of vestment periods becomes less important. We also find that short-term incentives can significantly increase information seeking when executives' fixed pay levels are low. Further, linking short-term incentives to either individual or to organizational forms increases information seeking; however using a combination of the two links is not as beneficial.

**Keywords:** Knowledge, Compensation, TMT

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## EFFECTS OF PSYCHOLOGICAL BIASES ON RESOURCE COMMITMENT AND PERFORMANCE OF COLLABORATIVE MARKET ENTRY

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This paper combines theories of foreign market entry and psychological biases and develops hypotheses that (1) inexperienced firms do not make smaller resource commitments than more experienced firms when entering new markets via collaborative agreements, but that (2) the relationship between experience and success is moderated by resource commitment. The first hypothesis makes a contribution by explaining the mixed support received to date by the famous hypothesis of incremental foreign market entry. The second contributes by filling a gap in knowledge about the effect on success of resource commitment levels within collaborative agreements. Both of these hypotheses receive empirical support.

**Keywords:** foreign market entry, collaboration, psychological biases





## WHEN DO IDEAS SURVIVE IN ORGANIZATIONS? RELATEDNESS AND FRAMING OF THE INTRAPRENEUR

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Entrepreneurial ideas are often the wellspring for new strategies of established organizations. In this conceptual paper we generate a number of hypotheses about predictors for the fates of such entrepreneurial ideas in established organizations. Within behavioural, knowledge and resource-based perspectives on the firm it is generally assumed that organizations exhibit three biases in their resource allocation decisions: uncertainty avoidance, myopia, and related search and diversification. Despite the sharp conflict between these biases and the requirements of the entrepreneurial process, entrepreneurship frequently happens inside the large firm. This is a puzzle. Three mechanisms which might allow us to resolve this puzzle are proposed. We start by suggesting that new ideas only survive within organizations if they are strongly related to the existing knowledge and resources of the mother organization. However, we extend this prediction, which is largely in line with behavioural, knowledge and resource-based perspectives, by two important mechanisms which have been largely ignored within these perspectives. First, based on the literature on variable organizational risk-preferences we argue that demands on relatedness vary as a function of the performance history of the mother organization. Second, we suggest that the intrapreneur, by exploiting internal information asymmetries and the ambiguous nature of relatedness, can shape the fate of new ideas by framing the idea in a way that makes it more congruent with organizational demands than it otherwise would be the case. Implications for the literature on organizational adaptiveness to technological changes and the diversification literature are discussed.

**Keywords:** Relatedness, Diversification, Intrapreneurship

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## THE EMBEDDEDNESS OF THE ACQUISITION PROCESS

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Using grounded theory development, we explore the role of the social embeddedness in the acquisition process. By considering the facilitating and constraining role of prior social ties between the managers of acquiring and target companies in the acquisition and implementation process, we not only show how embeddedness affects different aspects of the M&A process, a context in which embeddedness has not been studied, but also present a picture of the M&A process that is at odds with the under-embedded models prevalent in both the strategy and the finance literatures. Far from being a comprehensive process, even in the pre-acquisition stage, our study reveals that bounded rationality pervades the M&A process – and that the constraints on hyper rationality stem from social ties or social embeddedness. More specifically, we examine the role of personal ties, friendship and trust in the context of acquisitions and develop propositions about how they affect elements of the overall M&A process, based on interviews with executives involved in eight acquisition cases selected to maximize variance, from a variety of industries. We pay special attention to the pre-acquisition phase of the M&A process and examine how prior relationships affect search, due diligence, and negotiation processes. In addition, we introduce and develop the concept of internalized embeddedness, which is the internalization of prior interpersonal relationships that comes about when target managers are retained, and explore its mostly negative consequences for acquisition implementation and effectiveness.

**Keywords:** Mergers and acquisitions, Relationships, Embeddedness

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## EFFECTS OF MODE AND STRENGTH OF THE FIRM'S TIES TO INVESTMENT BANKS ON ITS ACQUISITION PERFORMANCE

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This study examines the acquisition performance of the acquiring firm from the information transfer perspective. The acquisition decision-making is information-intensive, and non-financial firms often turn to the investment banking community for the transaction-specific acquisition information. I argue that both the number and strength of arm's-length ties between the firm and the investment banks affect the amount of information the acquirer can gather prior to making an acquisition, thus influencing the acquisition performance. I find that the firms that build exclusive relationship with one investment bank and the firms that follow transactional approach by choosing the bank with the lowest bid for each investment transaction, on average make poorer acquisitions than the firms that maintain strong but not exclusive relationship with one or a few banks. This result becomes stronger when the firm acquires a less related target. I also find that the strength of the tie between the firm and its lead financial advisor doesn't significantly affect the acquisition performance.

**Keywords:** mergers and acquisitions, network theory, information processing

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## ENABLING PROCESSES FOR BRIDGING KNOWLEDGE DIVERSITY IN DISTRIBUTED MULTIDISCIPLINARY TEAMS

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The key to obtaining long-term competitiveness is no longer limited to administrating and managing existing knowledge and it increasingly depends on the ability to constantly generate new knowledge about products and services. One way to achieve this is through geographically distributed multidisciplinary teams as these can encompass diverse knowledge sources. The uniqueness of multidisciplinary teamwork is in its potential to integrate different bodies of knowledge into a new synergy. However, previous empirical studies have shown that member heterogeneity and geographic separation hinder effective sharing and use of team knowledge. The paper explores how such teams interact to overcome the barriers and take advantage of their "built in" knowledge diversity. The empirical data for this study was gathered through multi-method field research of five dispersed multidisciplinary teams. The findings indicate that often teams lack common background knowledge at the beginning of the projects and in order to resolve differences members rely on their external intellectual and social communities. The reported research establishes a positive correlation between team members' participation in multiple professional and social networks and teams' abilities to successfully build on their knowledge diversity. The findings also suggest a need to reconceptualise the boundaries of multidisciplinary teams and to consider the processes of sharing diverse knowledge in a wider social context.

**Keywords:** Multidisciplinary Teams, Knowledge Diversity, Team knowledge

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## COMPETITIVE NETWORK AND COMPETITIVE BEHAVIOR: A STUDY OF THE U.S. AIRLINE INDUSTRY

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Drawing upon embeddedness perspective, multi-point competition, and resource-based view, we conceptualize the competitive network based on multi-market contact and resource homogeneity. A competitor analysis should not only remain at the dyadic level, but also expands to the whole competitive network. Based on our conceptual model of network competitor analysis, we hypothesize the effects of a firm's position in the markets network and resources network on its competitive behavior. Specifically, the

more central a firm is in the competitive network, then the more competitive activities the firm will conduct and the more intense the rivalry experienced by the firm. Also, the more structurally constraint a firm is in the competitive network, then the less competitive activities will be conducted by the firm and the less intense the rivalry experienced by the firm. We also hypothesize the effects of competitive behavior on organizational performance. Competitive activities and intensity of rivalry will negatively affect the organizational performance. Using network analysis, we empirically tested these hypotheses for the case of the U.S. scheduled airline industry during the period of 1998 to 2000. The results support our arguments. This study is the first exploration of competitor analysis at the network level. Our theoretical conceptualization and empirical test will advance an integrated understanding of the embeddedness perspective, multi-point competition, and resource-based view.

**Keywords:** competitive network, competitive behavior, embeddedness

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## SEGMENTATION VERSUS EMERGING ARCHETYPES IN THE MARKET MAPPING PROCESS

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The hypothesis developed in the paper is that current trends in marketing may favour the utilization of alternative categories, distinct from the traditional idea of segmentation, in the market mapping process conducted by corporate policy makers. Discussion will focus on the nature of the market mapping process. Based on the results of secondary research, several conceptual categories - "community of consumers", "fragmented demand", "self-selection of target customers" - will be analyzed as alternative archetypes to the "market segment". The results thereby obtained will support the initial assumption. Further implications are presented in the concluding part of the paper.

**Keywords:** segmentation, marketing, community

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## RESOURCE BASED AND STRATEGIC GROUP INFLUENCES ON PERFORMANCE: A COMPARISON OF EMPIRICAL APPROACHES

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The resource-based view of the firm and strategic groups research are two of the most investigated frameworks in strategic management. The resource-based view of the firm argues that sustained competitive advantage can be attained by resource procurement, while strategic groups research argues that a number of firms within the same industry can achieve sustained profitability with strategies that are similar to one other, but distinct from other industry members. The two views focus on different levels of analysis and each largely ignores the other's focal level, yet neither offers any propositions that are incompatible with the tenets of the other. Thus, conceptual and empirical integration that crosses levels of analysis is possible and potentially fruitful. Using a sample of 1,163 firms in 48 strategic groups from 12 industries, we use hierarchical linear modeling to test the effects of firm resources on performance under different theoretical and empirical assumptions. The first estimation in this study follows the assumptions of ordinary least squares regression without regard as to the effect of strategic group and industry membership. The second estimation uses a hierarchical linear model based on the assumption that strategic group and industry membership are important contextual influences on performance. The third estimation involves a hierarchical linear model testing the effects of firm resources in comparison to the resources held by other members of their strategic group. Our findings suggest that interpretations about the efficacy of resource influences on performance vary considerably based on the assumptions operationalized in multilevel tests.

**Keywords:** multilevel, resource-based view, strategic groups

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## THE SIGNIFICANCE OF CAPABILITY DISTRIBUTION IN THE RACE TO ENTER EMERGING PRODUCT MARKETS

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The objective of the paper is to explain the effect of a firm's capabilities on the speed at which the firm enters an emerging product market, when the firm is under the pressure of technological convergence, as the boundaries between initially distinct industries become blurred. This paper develops a theoretical framework and a general methodology to build a dynamic model and analyze the evolution of a firm's product portfolio, so as to estimate the probability of firm entry and the amount of time it takes a firm to enter an emerging product market that result from technological convergence. Three important questions addressed are: (1) which emerging product markets should a firm enter? (2) from what industries do potential entrants arise? and (3) why do some firms enter an emerging market faster than others? The basic proposition is that the heterogeneity of firms' timing of market entry can be explained by the firms' capabilities inferred from their pre-entry product portfolio. Using a multi-population panel of firms over a thirteen-year period from 1989 to 2001, I found strong empirical support for my hypotheses in the case of technological convergence between telephony communications and computer networking technologies.

**Keywords:** Firm Capabilities, Emerging Technologies, Diversifying Entry

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## WHERE DO INDIRECT NETWORK EFFECTS COME FROM? EMPIRICAL TEST OF THE US VIDEO GAME INDUSTRY, 1976-2002

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Networks have become an important focus of inquiry within strategic management as scholars recognize that a firm's competitive advantage is based on its internal resources and on its ability to obtain complementary resources in the broader business network. The criticality of networks is amplified as information and communication technology impacts the strategic characteristics of many industries—thus highlighting the salience of network effects. This paper focuses on one type of network effects, namely: indirect network effects accrued to a platform due to the strength of complements available for it. We develop a conceptual model of the determinants of indirect effects by focusing on the choices made by independent complementors to support a particular platform. We draw upon recent work in three converging streams of work: (a) vertical disaggregation and modularity; (b) the role of specific complementors that support one platform relative to another; and (c) network effects in system-based competition. We derive a set of five hypotheses explaining the indirect network effects using concepts from strategy, economics, sociology and information technology. We subsequently test the hypotheses on a primary database that of 2455 strategic actions by 669 firms acting as complementors in the US video game industry over a 26-year period. We find strong support for four hypotheses, thus providing first set of empirical findings on platform-complementor interactions. We develop a set of implications for further research towards developing implications for strategic management in a network-era that is based on powerful integrative theories and strong empirical research.

**Keywords:** Network effects, Platforms, Video games

## KNOWLEDGE TRANSLATION AS A SOURCE OF COMPETITIVE ADVANTAGE

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Organizational learning (OL) and knowledge management (KM) are widely cited as potential sources of competitive advantage. Currently a 'black box' exists in OL/KM theory which becomes apparent in the move from theory to practice. This paper introduces and positions the concept of knowledge translation (KT) as a relatively unexplored link in those processes. KT is a core issue facing managers precisely because it provides the catalyst that enables organizations to realize the potential of organizational learning and knowledge management for competitive advantage. KT is described and differentiated from interpretation and sense-making both of which are necessary but insufficient for organizations to realize knowledge-based potentials in processes of internal or external knowledge transfers. Knowledge translation is relevant for value generation at three critical points for organizations: learning and knowledge creation, knowledge sharing, and the valuable application of knowledge. KT provides a promising conceptual framework for extending research in knowledge-based advantages, and one which provides a mechanism and focus for identifying how knowledge management and organizational learning can – in practical terms – enable organizations to generate sustainable competitive advantages. Knowledge translation complements the resource-based move to knowledge-based competencies and contributes to an ontological model of superior performance.

**Keywords:** Knowledge-based View, Competitive Advantage, Organizational Learning

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## DETERMINANTS OF TECHNOLOGICAL SEARCH BEHAVIOR OF THE FIRM

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Technological advance has been regarded as the driving force of firm growth and industry evolution. This research investigates the determinants of technological search intensity in established firms. It develops a testable framework that integrates the different theoretical arguments from threat rigidity theory, organizational inertia research, and the behavioral theory of the firm. By examining the R&D expenditures of U.S. manufacturing firms from 1980 to 2001, this paper explores how past performance, aspirations, slack resources and organizational inertia determine the search behavior of firms.

**Keywords:** Search, behavioral theory of the firm, aspirations

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## FACTORS AFFECTING AUSTRALIAN SMES' DECISION TO ACCESS GOVERNMENT PROGRAMS PROMOTING COLLABORATION

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This case study of one region examined firstly, the factors that affect how government field officers deliver economic programs promoting business collaboration within a region. Secondly, the paper examined the factors affecting the decision by SMEs to access government program(s) promoting business collaboration. This study provides some insight as to the reasons for the relatively low take-up of government programs promoting business collaboration in particular and economic assistance programs more generally. The study has identified the important role of micro factors such as trust-building in the



decision by SMEs to access government program. Moreover, the findings suggest that the credibility of the field officer is an important ingredient in the decision by SMEs to trust field officers. The findings identify the important issue of SMEs requiring time to develop a trust-building relationship with a field officer before deciding to access government assistance. The implications of the research is that scarce government resources devoted to the implementation of a government program needs to consider factors affecting the decision-making of the target client group in order to improve the take-up of their programs.

**Keywords:** government assistance programs, Small median sized enterprises (SMEs), trust-building

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## THE FORMATION OF GREEN STRATEGIES IN CHINESE FIRMS

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This study examines how Chinese firms began responding to worsening environmental concerns in the mid 1990s. Combining predictions from control theory, escalation of commitment, and goal theory, we seek to explain how leaders' cognitions stimulate the formation of novel responses to the value-laden issue of corporate greening. We propose a model that links leaders' values and principles with corporate actions and test it using survey data gathered from 360 firms. The model views strategy organically, as a set of adaptive behaviors of corporate leaders. It highlights the feedback loop between perceived performance and leaders' commitment to environmental protection. We find that perceptions of satisfactory performance strengthen leaders' efforts while perceptions of unsatisfactory performance diminish them. This feedback relationship is invariant throughout favorable or unfavorable expectancies of success, contrary to the contingent prediction of control theory. The model further shows how firms can temporarily maintain a positive momentum of change when leaders' efforts decline in the face of unsatisfactory performance feedback.

**Keywords:** environmental performance, control theory, adaptive responses



## THE LICENSING DILEMMA

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Why firms are licensing or not, and their propensity to license can be explained by the interplay of two effects that licensing generates on the licensor profits: the profit dissipation effect and the revenue effect. Licensing and royalty revenues net of transaction costs (the "revenue effect") have to be balanced against the lower price-cost margins and reduced market share that the increased competition (the "profit dissipation effect") from the licensee implies. The presence of other potential licensors might trigger licensing even when the profit dissipation effect outweighs the revenue effect, i.e. licensing is not privately profitable. We test this theoretical framework by using an extensive data set on technology licensing in the chemical industry during the period 1981-1991. We find that licensing propensity is positively associated to the number of potential technology suppliers, although at a decaying rate, negatively related to the degree of product differentiation and to licensor's market share. Our findings suggest that, in the presence of a market for technology, an industry rush towards licensing might increase competition in the product market and ultimately result in lower profits, at least at the industry level.

**Keywords:** Licensing, Competition, Chemicals

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## FORCES AND FORMS OF ORGANIZATIONAL FORGETTING

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How organizations mobilize knowledge has been the focus of intensive investigation by management researchers. However, one aspect – organizational forgetting – has received comparatively little attention. In this article, we explore how and why organizations forget. We discuss the role of forgetting in the dynamics of organizational knowledge, and present a typology of types of organizational forgetting.

**Keywords:** forgetting, knowledge, learning

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## **SURVIVAL AND THE INTRODUCTION OF NEW TECHNOLOGY**

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By utilizing a database that contains all U. S. patents issued to integrated circuit manufacturers between 1975 and 1994, we analyze a firm's decision to pursue a technology across varying levels of technological turbulence. The sample consists of 295 unique manufacturers of ICs, 2,235 firm-year observations, and 163 occurrences of exit. We examine the effects of the value of a firm's technological advancement, the newness of its technology, and the effects of industry turbulence on the probability of failure. Our findings indicate that during periods of low technological turbulence, firms that utilize new technologies to create inventions that become significant technological advances within the industry, face a higher probability of failure. During periods of high technological turbulence, firms that use new or old technology to develop inventions that significantly advance technology within the industry face low probabilities of failure.

**Keywords:** innovation, patents, survival

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## **THE FUTURE SHAPE OF STRATEGY**

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Despite substantial research into the changing shape of organizations, preconceived views amongst executives are largely rooted in the structures assumed by strategy's foundational works of the 1960s. These views now limit the way people tend to view strategy. We argue that there is a need to reconfigure these mental frames to better appreciate how today's multi-business or multi-product firms can compete more effectively by balancing economies of scale with a need for maintaining unique identities in the marketplace. We propose new frameworks for thinking that we, and the executives that we work with here in Europe and Australasia, have found particularly useful for guiding coherent strategic and structural choices. These frameworks, which emerge from an over-turning of traditional structures for thinking strategically, seek to integrate some of the best aspects of strategic classics, such as the value chain and the resource based view, with the analogies of the chimera – a creature with a single body and many, quite different, heads.

**Keywords:** strategy, structure, design

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## **VALUE CHAIN ENVY: EXPLAINING NEW ENTRY AND VERTICAL INTEGRATION IN POPULAR MUSIC**

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The concepts of value creation, capture, and protection within value systems are employed to explain the dynamic processes of new entry and vertical integration. The introduction of new information

communication technologies (ICT) to the music industries are considered to have a profound impact on the way in which value is created, captured, and protected. The ensuing changes are posited to elicit strategic responses in terms of new entry and vertical integration, affecting the stage of music publishing in particular. Over the course of the 20th century the value created at the stage of music publishing diminished steadily, while the value captured remained high, making this stage highly desirable. With the advent of ICT the means to effectively protect this stage against competitive imitation gradually dwindled and accordingly one would expect that heightened levels of new entry by newcomers to the music industries as well as vertical integration by artist-entrepreneurs into publishing could be observed. Secondary data from the Dutch music industries show a significant increase of newly founded firms, especially within music publishing. Results of a survey among 146 companies active in the music industries corroborate this finding, and confirm that after the introduction of ICT significantly higher levels of forward integration by artist-entrepreneurs could be observed, thereby providing support for the arguments advanced.

**Keywords:** vertical integration, value theory, music industry

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## INTERACTION OF INDUSTRY AND FIRM LEVEL RISK: CONFLICT BETWEEN FINANCIAL THEORY AND BEHAVIORAL THEORY

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Scholars have found a strong linkage between organizational risk and strategic actions. Much of this prior research has focused on behavioral and prospect theory explanations for strategic choices and the existence of negative risk-return relationships under certain conditions. The effects of industry factors have received much less attention in the risk literature. Industry factors, such as volatility and concentration, would seem to have a large impact on organizational risk and the effectiveness of strategic actions. This study examines the interaction of industry factors and organizational risk and their relationship with performance. Financial theory posits that investors diversify their holdings into various industries to balance risk and return. For example, investors will invest in firms in high-risk industries in search of higher returns. However, in those same high-risk industries, behavioral theory suggests that managers would try to reduce organizational risk. This conflict between investor and managerial preferences has strong implications for the firm's organizational performance in terms of value creation. Hypotheses are developed by comparing and contrasting financial theory and behavioral theory. Using various measures of organizational risk and industry-level risk factors, these hypotheses are tested using a panel data set of 452 firms over 6 years. The results indicate that the interaction between industry risk and organizational risk have significant effects on market performance for one type of organizational risk—downside risk, representing partial support for our main hypothesis. Additional implications for the risk and behavioral theory literature are also discussed.

**Keywords:** financial theory, behavioral theory, risk

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## RECONCEPTUALIZING THE COMPETITION-COOPERATION RELATIONSHIP

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Researchers have devoted considerable attention to competition and cooperation as individual constructs. Each is recognized as playing an integral role in firm strategy, but the relationship between the two has largely been left unexplored. In general, theorists have taken the view that competition and cooperation are independent and oppositional constructs that should be examined in isolation. This paper argues that there are some elemental organizational activities that can be at once competitive and cooperative. By challenging the assumption of exclusivity and investigating the relationship between

competition and cooperation through the lens of interdependence, the paper provides a means for transcending conventional notions of opposition. The integrative framework it puts forth goes beyond previous research efforts by allowing the conceptualization of relationships of both independence and interdependence between competition and cooperation. The paper contributes to the strategy literature by building a link between these two vital strategy constructs. Ultimately, it aims to stimulate and guide research in the areas of both competition and cooperation.

**Keywords:** competition, cooperation, competitive dynamics

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## ENTREPRENEURSHIP IN EMERGING ECONOMIES: ENTRY STRATEGIES FOR LOW INCOME MARKETS

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Multinational corporations (MNCs) are beginning to enter low income markets in developing countries. The four billion people at the bottom of the economic pyramid offer a massive and growing opportunity for firms looking for new markets. These markets, however, pose unique entry challenges to MNCs, as traditional assumptions about entry strategies and entrepreneurship may be incorrect. How MNCs can successfully enter these low income markets has not been effectively addressed in the literature on global expansion, subsidiary entrepreneurship, or strategies in emerging economies. An exploratory analysis, involving archival material, case studies, and interviews with MNC managers, indicates that successful entry strategies require recognizing that Western-style patterns of economic development may not apply. The success of these MNC initiatives is also enhanced by developing relationships with non-traditional partners, creating entrepreneurial opportunities outside the firm, and building local capacity.

**Keywords:** emerging economies, new initiatives, low income markets

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## BRIDGING TIE DECAY: THE SUSTAINABILITY OF NETWORK-BASED COMPETITIVE ADVANTAGE

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Bridging ties are relationships that cast a social actor across structural holes. In many contexts, interfirm bridging ties create firm-level competitive advantage because they facilitate superior access to and control of timely information. However, network research, at the individual-level at least, suggests that the advantage conferred by bridging ties is not sustainable because these linkages are predisposed to premature decay relative to non-bridging ties. Non-bridging ties are more durable because the embedded structure surrounding them acts as a governance mechanism which (1) reduces partnership costs, and (2) develops a partner selection routine strengthening and stabilizing partnerships. This paper studies the under-researched issue of interfirm bridging tie decay. Tie decay is an unobservable construct and depends on firm-specific characteristics such as its carrying capacity for interfirm ties, and hence each firm may have a unique base rate of tie decay. Moreover, each dyad may have a dyad-specific base rate from those of other dyads. We explicitly address the issue of tie decay base rates by using a set of firm-specific and dyad-specific control variables. We find evidence from a longitudinal network study of the U.S. investment banking industry that interfirm bridging ties decay relatively quickly, suggesting that network-based advantages are not sustainable. However, our results also suggest that three factors – past success, bridging tie experience and role heterogeneity – dampen this decay rate by increasing the partners' economic incentives, awareness of network benefits and trust, respectively.

**Keywords:** Interfirm networks, Competitive advantage, Network evolution

## MESO-LOGIC: RECONCILING A FIRM'S MACRO AND MICRO MENTAL MODELS TO IMPROVE PERFORMANCE

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Strategy research has identified several macro-level shared mental models that influence managerial decision making within and across firms (national culture, administrative heritage, dominant logic). Other literatures have found more micro-level shared mental models that focus on occupational or professional activities (communities of practice, routines). We propose that managers of organizational units face conflicting perceptions, beliefs, and norms at the boundary between these two sets of models: the interface between a unit's community of practice (CoP) and the firm's dominant logic. Such conflicts can undercut strategic consensus and can hurt firm performance. The risk of CoP-dominant logic conflict is the greatest for firms in knowledge intensive service industries, but the risk is still material for other firms whose managers consider themselves to be members of an external CoP. We propose that CoP-dominant logic conflicts are reconciled through a within unit sensemaking process that results in a unique shared mental model which we term a unit's meso-logic, the portion of a unit's subculture that deals with the strategic roles and decisions of the unit's leaders. It consist of the unit managers' (a) perceptions of their unit's objectives and strategic role, (b) beliefs about how its routines should be organized, performed, and evaluated, and (c) norms for coordinating its routines with other units in the firm and with other organizations. Propositions are offered on factors influencing meso-logic development and the role of meso-logics in firm performance and strategic renewal. Applications of the meso-logic construct to other strategic and organizational phenomena are explored.

**Keywords:** dominant logic, community of practice, strategic renewal

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## MANAGING THE FIRM'S RESOURCES IN ORDER TO ACHIEVE AND MAINTAIN A COMPETITIVE ADVANTAGE

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The resource-based view of the firm has become a dominant perspective in strategic management research. Yet, it has received significant criticism for deficits in the theory and research to date. For example, much of the research on the RBV ignores how resources can be managed in order to achieve a competitive advantage. Therefore, this work develops and explains a model of resource management. The model includes three important dimensions of resource management, configuring the resource portfolio, building resource bundles to develop capabilities and leveraging the capabilities. Using the Ricardian logic base of the RBV and the Schumpeterian logic base of research on dynamic capabilities, each of these managerial actions is examined. Furthermore, the RBV has been criticized for being focused solely on the internal firm characteristics and ignoring the environmental context. The resource management model presented herein integrates competitive dynamics in the environment as an important contingency. Resource management actions based on the environmental contingencies of industry recipes, environmental shocks (e.g., disruptive technologies) and market demand are discussed. Important research questions are presented to future studies on managing resources. Therefore, the model presented contributes to the conversation on the importance of firm resources for creating firm value and serves as a catalyst for future research on resource management.

**Keywords:** Resource Management, Environmental Effects, Competitive Advantage

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## R&D OUTSOURCING AND INNOVATION: KNOWLEDGE EXCHANGE AS MODERATOR

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Innovation in organizations is rarely an individual undertaking. This paper calls attention to the interactions among a firm's different departments and units, and argues that these interactions are essential in understanding the effect of R&D outsourcing on innovation. Specifically, the paper has tried to show that the choice of R&D sourcing mode has an impact on the firm's innovation capability and ultimately its ability to compete in its field of business. I propose that the relationship between R&D outsourcing and innovation is moderated by the nature of knowledge exchanges that link the R&D department to other functions of the firm, and those that exist between different R&D subunits. Based on the resource-based approach, the knowledge exchanges are further analyzed from the aspects of social complexity and tacitness. The paper argues that complex exchanges facilitate the firm's knowledge exploration by channeling intellectual diversity into new ideas and products. Thus outsourcing an R&D department or unit involved in such exchanges reduces the firm's ability to sustain innovation. The paper also argues that exchanges relying heavily on the tacit dimension make it difficult to transfer innovative ideas to outsiders, thus the firm may lose its potential for developing future innovations by outsourcing an R&D department or unit involved in tacit exchanges. In summary, social complexity and tacitness of knowledge exchanges reduce the amount of sustainable innovation that a firm can acquire after implementing the R&D outsourcing strategy.

**Keywords:** outsourcing, innovation, knowledge exchange

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## ESTABLISHING THE INNOVATION PERFORMANCE LINK: AN EMPIRICAL STUDY ON THE BIOTECH INDUSTRY

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A central theme of research on strategy and innovation is the notion that firms that can consistently introduce new technologies are more likely to achieve higher levels of performance. Exploring the determinants of new inventions, therefore, provides valuable insight into the key factors underlying performance differences among firms (Rumelt, 1984; Barney, 1991). Studies to date, however, have been built on the premise that innovations are positively related to superior financial performance. The taken for granted assumption is that innovations indeed result in superior performance in an economically meaningful way. While an innovation has the advantage of being a more direct consequence of inventive activity than the other indicators of performance such as profits, productivity or sales of new products, there is relatively few empirical evidence of its impact on financial performance. To examine the relationship between innovations and performance, this paper investigates how key patent attributes, as measures of the firm's investment in innovative activities, influence stock market value of the firm. In particular, we seek to test the idea that firms that are more innovative are favorably evaluated by the market. To this end, we establish a typology of different degrees of innovativeness and delineate their relationship with financial performance respectively.

**Keywords:** Returns to Innovation, financial performance, innovation

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## GROWTH OPTIONS: THE GOOD, THE BAD, AND THE CONTINGENCY

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Whenever an investment is characterized by both high uncertainty and the potential to exercise future managerial discretion, it may have very valuable “real options” embedded in it. In fact, many strategic investments are justified largely by the value of the growth options that come with the investment. We propose that growth options will have the greatest strategic value to firms that are competing on the basis of innovation. However, it is exceedingly difficult to precisely calculate the value of real options, which in turn makes it difficult for outsiders to evaluate the wisdom of investments whose value is largely predicated on growth options. Thus, although investments in growth options can potentially have great strategic value, they may also serve as convenient vehicles for overinvestment in firms with agency problems. In this paper, we propose that growth options will influence the investment behavior of firms, especially firms that have agency problems and firms that are attempting to be innovators. Furthermore, we also consider that firm investment in growth options will be strongly moderated by the availability of financial slack. We test our hypotheses on a sample of 35,007 instances in which firms made investments by purchasing the equity of other firms. We find strong evidence that both agency-prone firms and innovator firms are particularly attracted to growth options, and that financial slack may be a key moderator of a firm’s tendency to purchase growth options.

**Keywords:** Growth options, Innovators, Agency

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## WHEN DOES STRATEGIC GROUP MEMBERSHIP IMPACT FIRM PERFORMANCE? THE ROLE OF ALLIANCE NETWORKS

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This study examines the role played by the structure of alliance networks in moderating the relationship between strategic group membership and firm-level performance. Drawing from structural embeddedness and social network literature, we argue that the strength of the performance effects of strategic group membership is contingent upon the density of ties maintained among group members as well as their role equivalence. Empirical support for this argument is drawn from the international airline industry over the period 1993-1998.

**Keywords:** Strategic groups, Strategic networks, Airline industry

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## ORGANIZATIONAL SIZE AND CEO COMPENSATION: THE MODERATING EFFECT OF CORPORATE STRATEGY

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The purpose of this paper is to extend upon research devoted to the areas of organizational size and chief executive (CEO) compensation. The thrust of this study holds that diversification moderates the relationship between organizational size and CEO compensation. While research has consistently found a positive relationship between size and compensation, in addition to traditional agency theory arguments, we propose that information-processing is a determinant of CEO pay and that downscoping increases information processing demands. As such, it is suggested that downscoping leads to increases in cash and total CEO compensation even as firms decrease size. Thus, corporate strategy moderates the relationship between organizational size and CEO compensation. Analysis of 60 downscoping firms supports these arguments.

**Keywords:** CEO, Compensation, Downscoping

## TRANSFORMATION BY ROUTINES: AN EMPIRICAL INVESTIGATION OF THE STRATEGY-MAKING IN HSBC (UK)

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This paper aims at exploring the role of routines in the organizational transformation. Based on Nelson and Winter (1982) argument on the role of routines in the development of a firm, we focus in this paper on the routines that are responsible for the long-term transformation of the firm, or the strategizing routines. In the paper, we proclaim that while there is some empirical evidence for the influence of the operational routines on the firm's performance, the existing knowledge as to the way routines shape the firm's strategy-making is insufficient. These routines have already been conceptualized and some of their typical features have been mapped. However, there has so far been no systematic attempt to analyze the way they contribute to the strategic development of the firm. This paper seeks to fill this gap. The research design is based on multiple locales of actions that relate to the strategic development of one organization, HSBC Plc In the UK. From the different locales we identify the repetitive actions as routines. The findings section, presents four of the strategizing routines of HSBC (UK). The paper ends with several theoretical implications of the strategizing routines concept, which the main one is that they have two major roles in the firm's transformation. The first one is in shaping the effectiveness of the operational routines, and the second one is in navigating the firm into new areas, an area that traditionally was considered as part of the non-routinized managerial work.

**Keywords:** strategizing, routines, evolution

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## FORMAL AND INFORMAL INSTITUTIONS: EFFECTS OF GOVERNMENT AND BUSINESS GROUP ON ENTREPRENEURIAL GROWTH

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This study draws attention to how reorganization and control systems combined with institutional reform and legacy facilitate corporate entrepreneurial intensity during an institutional transition stage. Through analyzing archival and perceptual data from China, we found that business groups, as an emerging organizational form based on informal institutions, enhanced corporate entrepreneurial intensity via their control mechanisms. We also found that government, as an enforcing agent of formal institution, imposed negative effects via its administrative and ownership heritage, and positive effects via reform policy on corporate entrepreneurial intensity.

**Keywords:** Institutional Theory, Business Groups, Corporate Entrepreneurship

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## EMPLOYEE INCENTIVES TO SPECIALIZE AND FIRM RENTS: THE ROLE OF RISK TO CORE RESOURCE VALUE

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In this paper, a firm is viewed as a web of employee human capital investments specialized to a non-tradable core resource owned by the firm. This paper extends the resource-based view of the firm to analyze the incentives of a firm's employees to make specific human capital investments and the effect of these incentives on rent generation. It is argued that the incentives for employees to make specific human capital investments are directly affected by the risk to the value of the core resource, which is in turn determined by the factors in the product market where the resource is deployed. Furthermore, the paper argues that a firm's effort to deploy its core resource across multiple product markets helps the firm

reduce the risk to the value of the core resource. It then follows that this type of diversification has a positive effect on employees' incentives to make specific investments and generate rents. The resulting framework has important implications for the resource-based view of the firm and theories of corporate diversification.

**Keywords:** Resource-based View, specific human capital, related diversification

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## GOVERNMENT TRADE POLICY AND MULTINATIONAL RIVALRY

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Our study highlights the significant influence that a government can exert on the competitive interaction between MNEs. Utilizing competitive dynamics research from strategic management and strategic trade theory from international economics, we argue that it is in a country's interest to adopt trade policies under certain circumstances. Further, MNEs can influence and use their home government's trade policies to improve their competitive positions versus rivals. Different trade policies affect competitive intensity between MNEs differently.

**Keywords:** Government Policy, Multinational Firm, Competition

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## NETWORK TIES AS SOURCES OF ACTION (NON)CONFORMITY

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Theories of isomorphism do not predict firms will do something different or improve on their partners' experiences within an institutional context. In this paper, we explore the effects of institutional forces on a firm's competitive strategy through the analysis of networking effects on its strategic decisions. Several types of network, including both institutional and interlocking ties, their forms and contents, were examined as the nexus of information exchange whereby influencing the extent of (non)conformity in a firm's competitive strategies. Contrary to institutional theory's prediction of a convergent (normative or mimetic) pressure in strategy formulation, we find that whether a firm conforms to their competitors, or not, depends on the types of network tie it possessed and the depth and spread of information it gained from these ties. Hence, different sets of competitive actions are developed.

**Keywords:** Interorganizational relations, Network analysis, Competitive strategy

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## THE DETERMINANTS OF INTER-PARTNER LEARNING IN ALLIANCES - AN EMPIRICAL STUDY IN E-COMMERCE

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In this paper, we propose that a firm's capacity to control the transfer of resources in alliances is driven by two essential abilities: a coordination ability and a protection ability. To explain learning in alliances, previous research has focused on a wide range of rather diverse factors, such as the firm's alliance experience, its knowledge base, its intent to learn, the alliance content and governance, or the tacitness and embeddedness of the targeted resource, among others. We argue that many of these factors overlap

and that a shift to the micro-level of analysis is necessary to realize that they are components of one or both abilities. Focusing on these abilities suggests the existence of a series of other factors that have been ignored in the literature to date. In particular, the model we develop hypothesizes that the interface between the firm and the alliance, as well as the individuals involved in the partnership, have a significant influence on both the learning and leakage that takes place. The micro-level determinants we identify are either specific to the firm (interface, experience, and intent) or specific to each alliance (alliance characteristics, personnel characteristics, and governance structure). The empirical setting consists of a database of internet alliances, collected through a web-based questionnaire. We find support for the coordination and protection abilities, and we find a third distinct ability, the ability to simultaneously coordinate and protect. These abilities significantly explain the actual transfer of resources in alliances.

**Keywords:** Alliances, Learning, Protecting

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## WHO ACQUIRES WHOM? THE EFFECTS OF ALLIANCE NETWORKS AND TECHNOLOGICAL SIMILARITY ON ACQUISITIONS

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This paper examines the effects of alliance networks and technological similarity on the choice of acquisition targets. It is hypothesized that network connectedness and technological similarity are positively related to acquisition likelihood. Empirical testing is conducted on a dyadic level with data on alliances, acquisitions, asset sales, and patents. The sample comprises pharmaceutical companies that carried out acquisitions or were targets of acquisitions during 1992-1995. Quantitative analysis is performed using structural network measures and common statistical methods. The similarity of a dyad's technological resources is determined by measuring patent citation and primary patent class overlaps. The findings show that mutual alliances are positively related to the likelihood of acquisitions. Contrary to expectation, however, the empirical analysis does not provide support for our network connectedness hypothesis. Beyond direct alliances the distance of companies and the number of common partners do not seem to relate to acquisition likelihood. Our hypothesis on technological similarity receives support. Technological similarity is strongly positively related to acquisition likelihood in company dyads.

**Keywords:** acquisitions, networks, technological similarity

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## COMPETITIVE UNCERTAINTY AND ENVIRONMENTAL SCANNING: THE ROLE OF STRATEGIC – INNOCENT EQUIVOCALITY

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Coping with uncertainty in competitive environment is one of the critical tasks of top management of organizations. Those decision makers perceive threats from emergent and potential competitors and therefore, being uncertain about the competitors urges them to gain more information and knowledge about the competitive environment. Environmental scanning is one of the indispensable actions to gain the information and knowledge about competitive environment. In spite of the importance, the researches on strategic management have not paid sufficient attention to how decision makers perceive competitive uncertainty and how they cope with it by scanning competitive environment. This article develops an empirically testable theory explaining the relation between competitive uncertainty and environmental scanning. I argue a uniqueness of perceived competitive environment is the equivocality that it is perceived either as a state of nature or a cluster of economic actors. Depending on the interpretation of equivocality, decision makers perceive strategic and innocent uncertainty in different magnitude from the competitive environment, and subsequently commit to environmental scanning differently. I propose the



interpretation is significantly influenced by the two factors: perceived reactivity and influence reciprocity. A set of hypotheses is presented.

**Keywords:** competitive uncertainty, environmental scanning, environmental perception

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## NETWORK DEPENDENCE, RESOURCE DEPTH, AND SUPPLIER PERFORMANCE DURING INDUSTRY DOWNTURN

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This paper examines the effects of network dependence and resource depth on the performance of suppliers during industry downturn. A resource-based model of supplier performance is put forward and tested with a sample of telecommunications suppliers. The model provides new knowledge of the performance implications of collaborative and independent R&D strategies of suppliers. Empirical findings show that the R&D carried out by a supplier independently relates positively to the technological depth of a supplier's offering that is in turn positively related to supplier performance. Supplier dependency, on the other hand, relates negatively to supplier performance. Due to high overall levels of collaborative R&D, the distinguishing effects of collaborative R&D are relatively weak and more related to supplier dependency than the depth of a supplier's offering. The managerial implication of this paper is that, in addition to R&D collaboration, a supplier may also have to initiate own independent R&D to decrease its dependence on individual network lead firms. While R&D collaboration may be required to be successful during industry growth, own independent R&D seems to be required to be successful also during downturn.

**Keywords:** collaborative R&D, supplier evolution, industry downturn

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## ORGANIZATIONAL MODE SWITCHING IN STRATEGY PROCESS: TRANSFORMING KNOWLEDGE INTO STRATEGIC ACTION

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In facing punctuated change, existing knowledge is thought to be the source of organizational rigidity in strategic management field and how well the firm can unlearn and introduce outside knowledge has been discussed as a main issue. However, even in times of punctuated change, existing knowledge does not always become obsolete. The purpose of this paper is to construct the explanation closely grounded to the field data to understand the process to transform existing knowledge into strategic action in times of punctuated change. Summarizing the findings obtained from the process analysis, organizational mode switching between "knowledge mining mode" and "hierarchical enforcing mode" played the key role. By the mode switching of the same player, existing knowledge were utilized and organizational rigidity was overcome. The constructs and function of each mode are described and implication of this finding for strategy theory is discussed.

**Keywords:** strategy process, existing knowledge, organizational mode

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## MOVING STRATEGY THROUGH THE ORGANIZATION

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The purpose of this paper is to uncover the complex process of formulation and implementation as a pro-active strategy moves through different levels of the firm. The paper builds on the concept, "strategy as practice" (Whittington and Whitehill, 1996) and investigates the actual process by which strategy occurs. Based on a case analysis of a pro-active change, I uncovered three major characteristics of the process

that increase our understanding of strategizing. First, the realized strategy resulted from of a series of sequential formulation and implementation processes, rather than a single process of formulation leading to implementation. Second, both formulation and implementation occurred throughout different levels in the firm. Third, the strategy changed during the process. I integrate these findings drawing on coevolution as an integrating framework.

**Keywords:** strategizing, implementation, coevolution

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## MANAGING ANTAGONISTIC ASSETS - DELIBERATE RESOURCE MISFIT AS A DYNAMIC CAPABILITY

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Based on an inductive study of six entrepreneurial ventures, I develop the concept of antagonistic assets and their management via deliberate resource misfit. Antagonistic assets are characterized by a paradoxical tension. Only by combining these assets can a core competency generate competitive advantage. However, by nurturing one resource an organization weakens or threatens the other. Accordingly organizations are always tempted to abandon one resource for the other. The dynamic capability of deliberate resource misfit is proposed as a solution to manage that tension and thus to successfully combine antagonistic assets. I discuss five types of deliberate resource misfit that have emerged from the focal cases and offer suggestions for how future research can explore the concepts of antagonistic assets and deliberate resource misfit.

**Keywords:** Resource-based view, conflicting resources, organizational paradox

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## HOW FIRMS SHAPE MANAGERS: THE INFLUENCE OF FIRM DEVELOPMENT ACTIVITY ON TOP MANAGERS' TURNOVER

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An increasing body of literature suggests that the personal characteristics of top managers influence the strategic development of the firms they head. In this paper, we wish to add a new perspective to this literature, and argue that the development path of a firm will also shape the manager. Involvement in strategic activities geared towards the internal development of the firm makes managers build up commitment and emotional investment in the organization. In contrast, managers who spend a lot of time buying and selling off businesses will build up little social capital within the firm. We apply this perspective to examine the influence of firm development activity on top managers' turnover, using event history analysis on the tenure of 437 top managers. The results show that internal reorganizations, as well as organic expansion decrease the likelihood that top managers will exit, irrespective of the firm's performance. Engaging in divestitures, as well as engaging in acquisitions increases the probability that a top manager will leave the firm. Overall, the results help paint a more complete picture of the relationship between top management and firm strategy.

**Keywords:** Top Management, Turnover, Change

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## LEVERAGING BRAND NAMES ACROSS PRODUCT AND GEOGRAPHIC BOUNDARIES: A RESOURCE-LEVEL STUDY

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How should companies leverage one of their most valuable strategic assets -- brand name? By drawing on the diversification literature in strategy and brand/line extension literature in marketing, we test the relationship between brand characteristics and the performance of individual products associated with the brand. Based on a longitudinal data set from 1985 to 1990 for over 2200 products, we find that product performance will first rise and then fall as the number of products associated with the parent brand increases. The higher the proportion of unrelated diversification of a parent brand, the lower will be the performance of products associated with it. The results of this study provide evidence of the importance of brand characteristics for competitive advantage but also suggest the complexities involved in maintaining and extending such hard-to-imitate resources.

**Keywords:** Resource-based-view, Diversification, Line and Brand extensions

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## ENVIRONMENTAL MUNIFICENCE, STRATEGIC ALLIANCES, AND STOCK MARKET RESPONSE: THE CASE OF E- COMMERCE

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Relying on the environmental munificence and alliance literatures, this study investigates how environmental munificence affects the relationship between inter-firm alliances and stock market response in the entrepreneurial sector. It proposes that stock market response to alliances is negatively associated with environmental munificence, and that the level of environmental munificence moderates the impact of alliance partner and alliance type on stock market response. The role of environmental munificence was examined with alliance data of 77 e-commerce firms from 1995 to 2000. Empirical results demonstrate the importance of environmental munificence to studies on alliances and outcomes.

**Keywords:** Environmental Munificence, E-commerce Alliances, Event Study

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## DOES IT PAY TO BE DIFFERENT? THE RELATIONSHIP BETWEEN CORPORATE SOCIAL AND FINANCIAL PERFORMANCE

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This paper explores the relationship between corporate social performance (CSP) and corporate financial performance (CFP) within the context of a specific component of CSP: corporate charitable giving. A model of the determinants of the extent of corporate charitable giving is estimated and used as the basis of a classification of firms which groups firms according to the differences between their actual and their predicted intensity of gift-making. The financial performance attributes of the classification are explored. CFP is found to be best among firms who give much less than predicted to charity. However, once risk is controlled for, firms who give either much more, or much less, than anticipated to charity outperform firms who give at approximately the expected rate.

**Keywords:** None

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## DISCIPLINING AND ENABLING ACTION: CORPORATE GOVERNANCE INFLUENCING CORPORATE ENTREPRENEURSHIP

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Corporate governance is occupied with the disciplining aspect of governance mechanisms on listed corporations. We claim that a theory of corporate governance has to consider the enabling aspects of the mechanisms, and has to abandon the empirical focus on one single corporate governance structure, the corporation with privately transferable property rights. A model is proposed that through propositions explain the relationship between corporate governance and corporate entrepreneurship in two types of corporate governance structures, the company and the association. Theoretically it is showed that different governance mechanisms influence risk behaviour and strategic opportunism differently, indicating that governance mechanisms have the capacity to restrain and stimulate corporate entrepreneurship.

**Keywords:** corporate entrepreneurship, Corporate governance, associations

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## BUSINESS MODELS AND STRATEGY OF ENTREPRENEURIAL FIRMS

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In this study, we first delineate the distinctions and complementarities between the business model construct and business-level strategy, focusing on the implications of each concept for value creation and appropriation by various stakeholders. In the second part, we explore theoretically the interaction of business model design and salient dimensions of the strategic positioning of entrepreneurial firms to determine its impact on new value creation.

**Keywords:** Business-level Strategy, Business Model, Value Creation

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## PRODUCT PROLIFERATION AND THE DYNAMICS OF NEW PRODUCT ENTRY

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We integrate the literatures of industrial organization economics, organization ecology, marketing, and strategy, on a theoretically important and managerially relevant issue: product proliferation-new product entry linkages. Our propositions cover both incumbent- and entrant-side strategies, and are at two levels of analysis: product-niche and individual product/brand. We argue for an inverted U-shaped relationship between product proliferation and new product entry, and then suggest three moderators: the extent to which incumbent products share common brand names, the incidence of corporate names in brand-naming strategies, and product-niche age. Next, we develop product/brand-level propositions based on the brand-leveraging literature in marketing.

**Keywords:** Proliferation, Ecology, Barriers

## STRATEGIC KNOWING: SO WHAT?

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Historically, management theory has considered the environment as exogenous. In traditional strategic management theory, the environment is “given,” an external factor moderating the relationship between an organization’s strategy and its performance. Contingency theory has been applied to the recent theory of organizational learning, predicting that OL will have its greatest payoff in turbulent environments. But what makes some environments turbulent, while others are stable? Where do environmental characteristics – turbulence, hostility, dynamism – come from? We suggest that firms’ recent interest in and adoption of organizational learning and knowledge management, or what we here term “Strategic Knowing” (SK), has the potential to trigger changes in the environment. We define Strategic Knowing as a firm’s active efforts to learn and create knowledge in order to apply the results strategically to increase organizational value and competitive advantage. We draw on the dynamic capabilities literature to model SK’s expected consequences for firms that adopt it as a strategy. We apply the competitive dynamics literature, borrowing its model that describes determinants of actions by firms and reactions from their rivals. Our contribution is to apply the construct of Strategic Knowing to competitive dynamics’ industry action-reaction model. Strategic Knowing provides an energy source that sets the action-reaction model in motion. We apply contingency theory to the resulting dynamic model, deriving propositions for consequences at the level of the environment: SK will result in increased industry turbulence, growth rate, and dynamism. This in turn will result in increasing adoption of SK by firms, continuing and accelerating the cycle.

**Keywords:** Strategic Knowing, Competitive Dynamics, Environment

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## EFFECTIVENESS OF CHANGE STRATEGIES: THE ROLE OF INTERNAL AND EXTERNAL INTERDEPENDENCIES

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Two important components for the effectiveness of change strategy are the content and the process of change. Different streams of research that explored organizational change present two opposite views to decide the content and the process of change i.e. focus internally or externally. Using these two views on two dimensions of change, a typology of change strategies is developed. These change strategies are evaluated against garbage can model using NKCS-landscape simulations. The results show that the performance of firms with coherent change strategies, which have consistency in both dimensions, outperforms firms with non-coherent change strategies, which do not have consistency in the two dimensions. Further, the performance of the change strategies depends on the interdependencies that exist inside and outside a firm.

**Keywords:** Organizational Change, institutional theory, NK-landscapes

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## A KNOWLEDGE-BASED THEORY OF GOVERNANCE CHOICE—A PROBLEM-SOLVING APPROACH

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Knowledge-based theorists have developed two primary arguments to explain the existence of firms: one based on avoiding knowledge transfer and the other based on facilitating knowledge transfer. These arguments are not only contradictory, but also fail to predict when hierarchies supplant markets and when markets prevail. This paper develops a knowledge-based theory of governance choice that addresses these shortcomings by explaining how knowledge formation needs, described by various solution



landscapes, dictate governance selection. Governance modes of market, authority-based hierarchy, and consensus-based hierarchy are prominently featured in the theoretical analysis.

**Keywords:** knowledge, theory of the firm, organization



## **CORPORATE VENTURING PERFORMANCE: AN INVESTIGATION INTO THE APPLICABILITY OF VENTURE CAPITAL MODELS**

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Recent literature has suggested that adopting elements of the organizational form and practices of independent venture capital (VC) firms may enhance the performance of corporate venture units (Chesbrough, 2000; Sahlman, 1990). This assertion has been subject to minimal empirical research: previous research is typically restricted to small-sample qualitative studies, or to the examination of the respective influences of independent venture capital firms and corporate venture units on the performance (measured primarily in terms of liquidity events) of portfolio firms (Gompers & Lerner, 1998; Maula & Murray, 2001). This paper reports a study that examined this assertion more directly through surveying 95 corporate venture units across 3 continents (Europe, South East Asia and North America) and examining the association between their organizational structures, management practices and investment practices, and multiple measures of venture unit performance. Regression analyses found limited support for direct relationships between the adoption of elements of the VC model and superior corporate venture unit performance: only the adoption of the syndication-based investment practices of the VC model consistently influenced venture unit performance directly. This finding may be interpreted in terms of enhanced exploratory search (March, 1991) being undertaken by corporate venture units modelling VC investment syndication practices. The study also provided some evidence that VC-like practices may more significantly impact the performance of corporate venture units engaged in internally-generated ventures than those engaged in investing in independent start-ups, acting to instill somewhat different investment disciplines or logics in internally-oriented and externally-oriented corporate venture units.

**Keywords:** corporate venturing, deal syndication, venture capital



## **STRATEGIC DECISION PROCESSES AND OUTCOMES: EFFECTS OF CONTEXT**

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This paper investigates the relationship between strategic decision processes and outcomes, taking into account the context in which decisions are made. Drawing on a sample of 145 strategic decisions, first it analyzes decision processes into four dimensions: rationality, rule formalization, politicization, and hierarchical decentralization. It also analyzes the context wherein decisions are made into three layers: environmental, organizational, and decision content. Then it investigates whether decision processes influence outcomes when controlling for the three layers of context. The paper also examines interactive effects that potentially shape the process – outcome relationship. Results confirm the significant role of all decision process dimensions in influencing outcomes. Moreover, results suggest that multiple contextual factors, from all three layers of context, shape without attenuating the relationship between strategic decision processes and outcomes. These results point toward the need for more careful understanding of strategic decision processes within the context in which they are embedded. The paper concludes with theoretical implications, particularly with respect to the dynamic capabilities view as applied in the use of multiple decision process modes.

**Keywords:** strategic decision making, decision process, decision outcomes

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## INTEGRATION STRATEGIES IN HIGH-TECHNOLOGY ACQUISITIONS

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Incumbent firms have been observed to face challenges in maintaining impactful innovative streams and responding to technological changes over time. One strategy which has been actively pursued to address these challenges over the past decade is the acquisition of other companies to supplement internal innovation efforts in rapidly changing high-technology markets. While this strategy may offer much potential, it also comes with certain risks, especially in the integration execution. This study investigates the operational drivers of performance in such high-technology acquisitions, since the extant literature leaves the creation of appropriate integration strategies in terms of degree of integration, speed of integration, and knowledge transfer mechanisms unanswered. By characterizing the integration process as the tradeoff between retaining and disrupting routines, I demonstrate that the knowledge transfer required implicitly determines the appropriate degree of integration, which in turn implicitly dictates the optimal speed of integration. I apply this framework and propose optimal integration strategies for different type of high-technology acquisitions to realize their value. This paper enhances our understanding of innovation management, acquisition implementation, knowledge management and learning, and adaptation in changing environments.

**Keywords:** Post-Merger Integration, Innovation Management, Knowledge Transfer

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## MANAGING CONCURRENTLY THE STRATEGIC PROCESSES OF COMPETENCE BUILDING AND COMPETENCE LEVERAGING

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Both in theory as in practice insight is limited about how firms in dynamic environments could organize to manage concurrently the strategic processes of competence building and competence leveraging. To contribute to this issue, a conceptual framework is developed which considers the ability to integrate knowledge across organization-units within a firm as a prerequisite to achieve both the goals of competence building and leveraging. The framework shows how awareness and interest towards cross-unit knowledge integration, internal knowledge transfer mechanisms, prior knowledge of the organization units and their organization form, influence competence building and leveraging processes within the firm. The conceptual framework and the propositions are illustrated by two case-studies of Novartis, one of the leading European life-science companies. The first case is about knowledge integration between Novartis' divisions in the actual organization context. The second case is about an experiment of Novartis' top management to stimulate horizontal knowledge integration via the company's intranet. These two contexts of 'organization-enabled' and 'web-enabled' knowledge integration appear to be complementary. While in the first case mainly competence building is stimulated by integrating tacit knowledge, the second case is more conducive to leveraging existing competences by integrating explicit knowledge. As such, the conceptual framework and cases give insight into (1) possibilities about how firms could organize to deal with the tension between competence building and leveraging processes, and (2) how managing the determinants of horizontal knowledge integration can contribute to changing a firm's actual mixture of competence building/-leveraging processes into a more desired strategic mixture.

**Keywords:** building-competences, leveraging-competences, horizontal-knowledge-integration

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## **ROLE OF INTERNAL MARKETS IN EMERGING MARKET BUSINESS GROUPS: EVIDENCE FROM KOREA AND INDIA**

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This study analyzed the efficiency of business groups in replicating the imperfect external market through internal market mechanisms in two emerging economies. Contrary to the transaction cost argument of external market imperfection in emerging economies and role of business groups in efficiently substituting imperfect external market institution, this study argues that internal markets in business groups do not efficiently replace imperfect external markets. Rather internal markets are used for cross subsidizing loss-making group affiliates at the cost of high performing firms. Empirical evidence by examining 1993-2000 data suggests that despite their different level of economic development and diverse institutional contexts, the role of internal market in Indian and Korean business groups are similar in subsidizing loss making affiliates questioning the transaction cost hypothesis of existence and value creation potential of business group in emerging economies. Moreover business groups work as mutual insurance schemes even in emerging markets.

**Keywords:** Emerging market, Business Groups, Institutional Theory

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## **PERFORMANCE IN A TURBULENT ENVIRONMENT: VARIANCE ANALYSIS OF BRAZILIAN FIRMS FROM 1998 TO 2001**

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The objective of the present paper is twofold. First, it reviews the status of research to date focusing on variance analysis of performance. It shows that, although seen by some as contradictory, the findings of previous variance analysis of performance studies for the manufacturing group of industries can be reconciled. Firm idiosyncratic effects represent the largest component of performance variance. Industry effects are also significant, but much smaller. Year effects have been found to be absent or very small. Second, it contributes to the debate exploring the analysis of performance in an extremely turbulent environment. One intriguing finding in previous research has been the very small, sometimes absent, year effects. A turbulent environment, by definition, would allow one to expect these year effects to be larger. An analysis of performance of Brazilian firms during the period 1998 to 2001, a known period of extreme domestic and international turbulence, was performed. Findings surprisingly indicated no year effects; even smaller industry effects than previous studies in less turbulent environments and confirmed the preponderance of firm effects.

**Keywords:** Variance Analysis, Performance, Brazil

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## **THE THEORETICAL AND PRACTICAL UTILITY OF THE RBV: NARROWING THE GAP WITH A BAYESIAN APPROACH**

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This paper argues that the gap between the theoretical utility and the practical utility of the RBV stems largely from overgeneralization and vagueness in the specification of the relationship between resources and competitive advantage. We argue that current conceptualizations of the RBV lack informative

specificity, and are therefore difficult to falsify. A two-fold approach to narrowing the gap between the practical and theoretical utility of the RBV is suggested. First, the informative specificity of the RBV may be enhanced by the explicit recognition of Penrose's (1959) distinction between resources and services. This distinction leads to a natural focus on the value-creating process of converting resources into services via dynamic capabilities. Second, we argue that that RBV theory is a theory about extraordinary performers or outliers—not averages. Therefore, the statistical methods used in applying the theory must account for individual firm differences, and not be based on means, which statistically neutralize firm differences. We use a novel Bayesian Hierarchical methodology to examine actions taken by new CEOs and the resulting effects on economic performance over time. We develop and explain a measure of competitive advantage that preempts some of the concerns of tautology associated with the RBV. This Bayesian methodology allows us to make meaningful probability statements about specific, individual firms and the effects of the actions examined in this study.

**Keywords:** Resource-based View, Bayesian Methods, Competitive Advantage

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## STRATEGIZING ROUTINES IN HSBC (UK)

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This paper aims to develop and apply the concept of strategizing routines, which refers to the organisational routines that shape the way the firm's strategic path is developed over time. While the idea that the firm's development is based on routines is not new, there has been little theoretical and empirical investigation of the nature of these routines. This paper aims to fill this gap. For the purpose of this research we took two leading strategy process models and deconstructed the routines involved in the process. Then, we developed a typology of three sets of strategy-making routines – definition, integration, and communication. These were then applied to a set of major strategic initiatives pursued in a leading international bank over a period of eight years.

**Keywords:** strategizing, routines, process

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## FIRM DIVERSIFICATION AND R&D ACROSS INSTITUTIONAL AND POLICY ENVIRONMENTS IN EAST ASIA

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We investigate the association between diversification and R&D with the aim of establishing this relationship in non-traditional empirical contexts with varying institutional and policy environments. We hypothesize an inverted-U relationship between diversification and R&D intensity. We also hypothesize that supportive institutional and policy environments will be positively associated with firm R&D. Finally we investigate the influence of how business group membership may impact the intensity of R&D. This study is located in five East Asian countries, Japan, Korea, Hong Kong, Singapore and Taiwan, states with institutional and policy environments that differ substantially from the developed countries in which most diversification-R&D studies have been conducted. Our results fail to detect a consistent relationship between R&D and diversification, but find that R&D is positively associated with supportive institutional, policy and property rights environments. The interaction of the institutional and policy environments is negatively associated with R&D, indicating that deficiencies in either factor will negatively impact R&D. We find some evidence that membership in business groups reduces R&D. Other results indicate that R&D increases with firm size and decreases with reliance on short- and long-term debt.

**Keywords:** diversification, R&D, institutions

## THE RESOURCE DEPENDENCE ROLE OF THE BOARD OF DIRECTORS IN HIGH GROWTH FIRMS: A MEDIATION MODEL

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Boards of directors potentially offer abundant resources in the form of their professional experiences, skills, and knowledge that may be brought to bear in relatively young firms as they enter a period of high growth. The theoretical model presented here takes into consideration factors often missing from prior research into the resource dependence role of boards of directors. I propose a mediation model whereby board effects on firm performance are felt indirectly through internal organizational changes spurred by imminent high growth.

**Keywords:** resource dependence, board of directors, growth

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## THE TIMING OF INNOVATION ADOPTION

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This study examines the adoption nature of 12 manufacturing process innovations over 60 years in 164 manufacturing plants in Germany, Italy, Japan and US. Using the resource-based view that history is an important variable in building firm-specific capabilities, it hypothesizes that the timing of innovation is dependent on past innovation history and absorptive capacity. Plants that were relatively early adopters of prior innovations were hypothesized to be early adopters of subsequent innovations. Other hypotheses addressed innovation timing as a function of innovation activities within relevant organizational fields. Results support the need to incorporate previous innovations into existing routines, and innovation history, while innovation by other firms appears to play less of a role.

**Keywords:** Capabilities, Innovation, Resources

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## CONTROL IN DIVERSIFIED FIRMS: A JUMP-START TO THE STALLED RESEARCH

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The influence of the adoption of the correct organization on the performance of the diversified firm is widely recognized. However, research in this important area seems to have stalled, while a key issue remains unresolved. According to one view, the corporate office of a diversified firm applies control mechanisms uniformly across business units, since the choice of mechanisms depends on factors that apply to the firm as a whole. Proponents of a second, conflicting view argue that the control mechanisms should be tuned to the specific characteristics of each business unit, resulting in differentiated control within firms. This paper aims to contribute to the solution of this paradox. The argument is made that firms actually face a choice regarding the degree of differentiation of control. Neither a high degree of differentiation, nor a high degree of uniformity is superior under all circumstances. The choice depends on, on the one hand, the strategic variety among business units and, on the other, the heterogeneity among the members of the top management team of a firm. Propositions that link strategic variety, top management team heterogeneity, control differentiation, and firm performance are developed. Also, several directions for future empirical research are provided. Thus, we hope to jump-start research on this important subject.

**Keywords:** product diversification, control differentiation, top management teams



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## TOWARDS AN INTEGRATION OF ETHICS AND STRATEGY: BUSINESS & SOCIETY AND CRITICAL MANAGEMENT RESEARCH

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In the past twenty years there have been developed two different approaches for the integration of ethics and strategy. Business and society research (BSR), on the one hand, examines the role of the firm in society and its relation to various stakeholder groups. This research tradition, however, is based on a positivist philosophy and methodology. Therefore, BSR has serious difficulties in justifying ethical norms and developing strategies that are ethically sound. Critical strategy research (CSR), on the other hand, avoids the problems of a positivist methodology. By contrast, it is based on an advanced version of interpretive methodology and proposes a management model which primarily aims at co-ordination as a form of ideal communication. Although an integration of ethical considerations can be achieved using this approach, CSR is not suitable for the solution of practical problems. Because of the complexity of the task of co-ordination in modern societies, this school of thought is suspected of utopianism. Integration of ethics and profit in strategic management can only be achieved by a management approach that acknowledges economic exchange in the market economy as the fundamental and primary co-ordination mechanism, while supplementing it with ethical constraints.

**Keywords:** business&society, critical management, strategy

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## THE CEO AS SANDBAGGER IN THE COMPENSATION TOURNAMENT

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This study examines two competing explanations of the large pay differential existing between the CEO and the rest of the top management team members. Tournament theory suggests that a large CEO pay differential encourages senior executives to participate the tournament for the CEO position. In contrast, a managerial power perspective suggests that a large CEO pay differential reflects the power and dominance of the incumbent CEO. Using data from a sample of large U.S. corporations over the years 1988 to 1997, we found that CEO pay differential decreases an incumbent CEO's likelihood of turnover. We believe that this finding supports the managerial power perspective and challenges the tournament argument of CEO pay differential.

**Keywords:** CEO compensation, tournament theory, managerial power

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## MINTZBERGIAN "PLOY": VIABLE USE AND PROBLEMS WITH DECEPTIVE STRATEGIES

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This paper explores the potential benefits and usefulness of deceptive strategies. While deceptive strategies can be used to generate competitive advantage, their usefulness is hampered by economic and normative penalties for engaging in deception. This paper attempts to blend both positivist economic analysis and normative ethical reasoning to highlight contextual situations where deceptive strategies are both economically useful and normatively acceptable

**Keywords:** economics, ethics, deception

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## **THIRD-PARTY EFFECTS AND THE EMERGENCE OF STRUCTURE IN ALLIANCE NETWORKS**

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Third-party relations shape the structural properties of the network, and explain the emergence of competing alliance coalitions in the global airline industry from 1994 to 1998. Third parties influenced the formation of strong dyadic alliances by providing a competitive context for dyads (as common rivals or members of rival alliances), by providing indirect access and a governance context for dyads (as common partners), and by foreclosing alliance opportunities for dyads (as substitute partners). Jointly, these third-party effects increased coalition formation (clusterability) in the network of strong alliances. The influence of third-party relations differs for strong and weak alliance networks, explaining the different structural properties in these networks.

**Keywords:** alliance networks, emergence, airline industry

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## **WHEN UNDERDOGS MATTER: A NEW PERSPECTIVE ON BANDWAGON PROCESSES**

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When do bandwagons roll? Previous research has suggested large and successful adopters play an important part in encouraging adoption. In this paper, we suggest that under certain conditions adoption by smaller and lower performing firms may play a vital role. We show that under some common assumptions about the cost and benefit of adoption, small and poor performing adopters can provide non-adopters with critical information about the value of adoption, thereby increasing future adoption propensities. We test our theory using ten years of data on the adoption of the ISO 9000 management standard. We show that our model adds explanatory power to existing theories.

**Keywords:** Adoption, Bandwagons, Information

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## **THE IMPACT OF FIRM PERFORMANCE ON THE PROPENSITY TO IMITATE COMPETITOR FOREIGN MARKET ENTRIES**

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In this study we examine the impact of firm relative performance, competitor entry and the interaction between the two on the foreign market entries of all firms providing international message telephone service from the United States to all foreign markets over the period 1985-1998. Relying upon the behavioral theory of the firm and uncertainty of firm strategic action we argue that uncertainty in firm current routines, as captured by relative performance, affects the propensity of the firm to imitate competitor foreign market entries. Our findings suggest that relative performance significantly moderates imitative propensity in low cost modes of horizontal market entry, but has limited impact in the intensity of imitation in entries involving significant resource and strategic commitments. We also find that the main effect of relative performance on foreign market entry is positive and invariant to the mode of entry. This finding suggests that there is strong positive momentum in market expansion as firms seek to leverage their success through entry into new markets. We discuss the substantial implications of this study for our understanding of inter-firm imitation, industry evolution and firm level learning.

**Keywords:** Uncertainty, Competitor Imitation, Foreign Market Entry

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## WHAT ARE REAL OPTIONS: A REVIEW OF EMPIRICAL RESEARCH

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This article reviews recent research on real options in the strategy and organizations literature by concentrating on three issues: real option creation, exercise, and benefits. Specifically, the empirical research tests hypotheses around how uncertainty, asset value, irreversibility, exercise costs, and competition, affect option creation and option exercise decisions. Research on option benefits shows that managers that use real options do not lower their organizational risk but do improve organizational performance. The article concludes by outlining several future research directions.

**Keywords:** real options, decision-making, strategy

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## ROUTINE ASSEMBLY: INSTITUTIONALIZING PRACTICES IN A NEW SETTING

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This paper brings a study of replication of organizational routines based on a one-year ethnography of a new automotive plant, exploring the organizational processes behind routine formation. Applying institutional theory concepts and a structuration approach, the paper proposes a model to understand the different phases involved in the process of routine formation. The development of routines was a process driven both by structural features imposed by the parent organization and emergent patterns of interaction among organizational members. The institutional realm was initially composed of the general principles coming from the parent organization in form of rules, values, structure, artifacts, and what the members of the parent organization regarded as legitimate modes of interaction. These elements were imposed on the realm of action through regulative and normative mechanisms; some of these elements were put into practice by members without major changes while most were re-created locally. These re-created practices slowly matured until the point where they were dissociated from the particular actors and became part of the institutional realm; this new institutional structure was then legitimized and resulted in new patterns of action that were then spread throughout different groups within the organization. The case gives support to recent conceptualizations that stress the role of agency and change in organizational routines, and it adds to those studies by providing a detailed view of the processes of routine formation. It also contributes to studies on replication of practices by conceptualizing on the ramp-up phase of knowledge transfer.

**Keywords:** Organizational Routines, Knowledge Transfer, Institutional Theory

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## INTERFIRM COLLABORATION DURING NEW PRODUCT DEVELOPMENT: A NETWORK DYNAMICS APPROACH

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Inter-firm collaboration and new product development have been sources of extensive empirical and theoretical research however little research has been conducted at the intersection of these two areas. Additionally, the results of these studies have been inconclusive concerning the contribution of inter-firm collaboration to innovation success. These differing results may stem from the theoretical approaches used and/or the cross-sectional nature of these studies. This paper proposes that inter-firm collaboration has a positive impact on innovation, but that this impact is dependent on the structure of the collaborative portfolio at different stages of the new product development process: discovery, development, and commercialization. Although network theory has become a popular tool for exploring inter-organizational

phenomena, it has seldom been used in exploring new product development. This paper uses network theory to explore the changes in a firm's egocentric network during new product development and the impact of these changes on new product development success. In particular, this paper proposes that both network diversity and network structure must be dynamic during the new product development process in order to ensure optimization throughout all stages. This paper also contributes to the understanding of social network theory in inter-firm relationships by exploring when redundant and non-redundant information are most needed during new product development, and how network diversity and structural holes contribute to the acquisition and transfer of information.

**Keywords:** New product development, interfirm collaboration, networks

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## DECENTRALIZED STRATEGY MAKING, COMPUTER-MEDIATED COMMUNICATION, AND ORGANIZATIONAL PERFORMANCE

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Organizing effective strategy making processes is challenging in contemporary environmental settings characterized by dynamic competition and intense use of communication technologies. Scholars have long argued for the pertinence of emergent strategy processes and the potential effectiveness of nonhierarchical decentralized organizational structures but little empirical research has investigated the moderating effects of technology enhanced communication and environmental dynamism. Furthermore, the relationships between computerized information processing, decision structure, and performance remain inconclusive. In this context, this study presents new empirical evidence indicating that decentralized strategic decision making in conjunction with computer-mediated communication is associated with superior organizational performance.

**Keywords:** decentralized strategic decision making, computer-mediated communication, dynamism



## COLLABORATIVE PROBLEM SOLVING AND DECISION JUSTICE IN NEW PRODUCT DEVELOPMENT

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This study examines the relationship between collaborative problem solving and decision justice in new product development. With a sample of 109 firms in technology industries, we find that collaborative problem solving is positively related to decision justice in new product development. Our findings also show the relationship between collaborative problem solving and decision justice is moderated by trust among decision makers and their commitment to the organization. Theoretical and managerial implications are discussed.

**Keywords:** Collaborative problem solving, decision justice, new product development

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## ERNST ABBE'S SCIENTIFIC MANAGEMENT: A 19TH CENTURY FORERUNNER OF THE RESOURCE-BASED THEORY?

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“Scientific management” is the label Frederick Taylor attached to the system of management devised by him. In this article we present our discovery of very different “scientific” management principles that were developed roughly concurrently with Taylorism by German physicist Ernst Abbe, then owner and managing director of the Carl Zeiss optical instruments company. Abbe’s management principles as well as the social philosophy underlying them are accessible to present-day theorists because he laid them down both in the statutes of a foundation he founded and in an extensive commentary on the statutes. These original accounts offer a remarkable opportunity to enrich our understanding of how managers can create and recreate firm capabilities that allow firms to enjoy a long-term leadership position. Abbe develops an early account for managing a science-based firm and securing its competitiveness, giving detailed prescriptions with regard to the kind and scope of firm activities, its organizational setup, and its labor relations. He thus presents a powerful alternative to Taylorism. Although both were established at about the same time, Abbe’s management principles are informed by more sophisticated psychological and sociological insights. They exhibit striking parallels to contemporary theories of organization such as the Resource-Based Theory of the Firm and the related Dynamic Capabilities Theory of the Firm, and are even today able to indicate issues that warrant further theoretical elaboration. In this article, we give an outline of Abbe’s thought, highlight some of its most characteristic features, and set them into relation to present-day management theory.

**Keywords:** resource-based theory, scientific management, management theory

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## GOVERNANCE PROCESSES AND STAKEHOLDER DYNAMICS: A FRAMEWORK FOR BOARD ASSESSMENT AND LEARNING

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Addressing governance challenges effectively depends on the development and improvement of processes and systems for early issue identification and timely action. Since governance performs by necessity an integrative function, and organizations consist of interconnected groups with varying interests and often multiple alliances, critical governance processes encompass interfaces with these diverse groups. This paper applies the methodology of facet analysis to develop a multidimensional framework that defines the components of key governance processes, particularly those relating to the dynamics between the board and its critical external and internal stakeholders. It also addresses board decision making for system integration and learning. The facets, or sets of independent classifications, collectively constitute a taxonomic system for board processes, expressed as profiles varying in terms of the degree of proactive orientation they exhibit. The six facets of the design include the board’s orientation to stakeholder involvement, anticipatory conflict identification, balance of criteria, discipline in decision methodologies, perspective on the scope of impact, and team orientation to learning. Governing bodies can apply this facet framework to assess current processes and to guide their ongoing learning as a team towards a more proactive profile and increased effectiveness. Application of this methodology can provide rigor for integrating diverse theoretical perspectives and systematically generating hypotheses for future multilevel research. Such advances can supplement earlier governance perspective to enhance our understanding of governance processes in dynamic contexts, amidst economic, regulatory, and social challenges.

**Keywords:** governance, processes, stakeholders

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## FIRM RESOURCES AND STRATEGIC FLEXIBILITY IN TRANSITION ECONOMIES: EVIDENCE FROM THE CZECH REPUBLIC

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The past decade has witnessed an increased need for strategic flexibility. Strategic flexibility is particularly important for firms in transition economies because they face an environment characterized by significant political and economic changes, an uncertain institutional environment and poorly developed markets. In addition, the charge of firm management has changed from operational efficiency and conformity within government plans to strategic effectiveness and financial returns to investors. Such marketization and privatization places pressures on firms to either adapt or proactively develop strategic responses to changing environments. However, management theory is inconsistent in its prediction regarding what increases firms flexibility. While proponents of the resource-based view suggest that firm resources enhance flexibility, the institutional perspective implies that resources reflect commitments which are hard to overcome and lead to inertia. Nevertheless, we suggest that technological, financial and managerial resources enhance flexibility in transition economies where firms are characterized by weak resources in a rapidly changing environment. Based on a recent survey of 138 top managers of firms in the Czech Republic, we find support for the general hypothesis that resources enhance strategic flexibility in a transition context. However, managerial resources are most critical and the entrepreneurial orientation of the top management team may compensate for a lack of firm resources, providing support for both the resource-based view and the upper-echelon perspective of strategic management. We conclude with a discussion of the findings for theory and practice and the studies limitations.

**Keywords:** Strategic Flexibility, Resource-based View, Transition Economies

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## INDUSTRY DETERMINANTS OF THE "MERGER VERSUS ALLIANCE" DECISION

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Mergers, acquisitions, alliances, and joint ventures are potential substitute choices for a firm's managers. While the choice of M&A versus strategic alliance or joint venture is at its heart a matter of firm strategy, the industry context in which firms make these decisions will influence whether firms own their partners or align with them on a more limited basis. We consider how industry influences M&A and alliance transactions and develop propositions about industry-level factors that influence these choices.

**Keywords:** Merger & Acquisition, Alliances, Industry Level Analysis

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## COUPLING COMBINATIVE AND RELATIONAL CAPABILITIES IN INTERORGANIZATIONAL BEST PRACTICE TRANSFER

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Extant strategic management studies usually couple the intensification in the globalization of best business practices to the growing of the specific capabilities needed to transfer business knowledge between or among firms and to implement those practices locally (Hansen, 1999, 2002; Kostova, 1999; O' Dell & Grayson, 1998; Szulanski, 1996). Whereas the management and transfer of best practices has grown up basically in relation to the 'large firms' environment, both the literature and practice of strategy have devoted much less consideration to networks and systems of firms. Since the attention of scholars to interfirm arrangements and strategic networks (Gulati, Nohria & Zaheer, 2000) has rapidly increased in the last few years, we contend that time has come to focus on interorganizational best practice transfer. The aim of this paper is to show why and how systems of firms - intended as efficient modes of organizing and networking strategic resources and capabilities -, are able by coupling combinative and relational capabilities to produce superior economic and knowledge value in transferring best business practices inside and outside their borders. By taking an evolutionary perspective, we gather some implications advance some suggestions (about the selection, replication, enhancing of best routines and practices) to manage and transfer best practices in business operations so that networks and systems of firms can earn a superior economic value.

## **BLOOD ON THE COAL: THE EFFECT OF ORGANIZATIONAL SIZE AND DIFFERENTIATION ON MINE ACCIDENTS**

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The annual cost of occupational accidents to American industry and taxpayers is at least \$170 billion. As the repercussions of organizational accidents reverberate through organizations and are felt from human resources to accounting, firms are beginning to incorporate messages of safety in their missions and strategies. As firms organize to achieve safer work environments, they are faced with decisions on how to structure their activities in term of, among other things, size, and differentiation. This paper explores the impact of size and differentiation at the corporate and subunit levels of mining companies. The results suggest that larger mines are safer than smaller mines, but that the safety benefits decrease with size. The results further suggest that while corporate level differentiation tends to have a positive effect on safety, mine level differentiation tends to be associated with a less safe environment.

**Keywords: Organizational Size, Differentiation, Safety**

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## **THE EFFECTS OF EXECUTIVE TURNOVER ON TMT COMPENSATION FOLLOWING AN ENVIRONMENTAL SHIFT**

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In this study, we examine the changes in executive compensation at the top management team (TMT) level following an environmental shift. Using the context of deregulation in airline industry, we find that: (1) a dramatic environmental change that heightens managerial discretion leads to greater pay level and performance-sensitivity of TMT compensation; (2) the greater the magnitude of turnover among TMT members following the environmental shift, the greater the compensation change; and (3) the type of TMT recomposition through executive turnover moderates the linkage between the magnitude of TMT turnover and compensation change.

**Keywords: executive compensation, executive turnover, environmental change**

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## **AN EMERGENT APPROACH TO ALLIANCE PARTNER SELECTION: COMBINING TRUST, STRATEGIC FIT AND EXPEDIENCY**

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The purpose of this paper is to develop a comprehensive framework that can be used to describe the decision making process used by firms to select an alliance partner. We argue that this decision making process is usually neither a rational nor "trust" decision making process. Instead, we develop a more emergent framework surrounding strategic fit, social connectedness, and strategic expediency. Strategic fit refers to the rational explanation concerning how the strategic and resource needs of alliance partners are met; it is a necessary, but not sufficient reason for alliance partner selection. We propose that the direct relationship between strategic fit and alliance partner selection is moderated by organizational trust and strategic expediency. Strategic expediency refers to top managers' ability to make rapid decisions within a bounded framework that are conducive to obtaining a competitive advantage. It is based on the theories of satisficing, bounded rationality, and time as a source of competitive advantage. We also

discuss the antecedents to strategic fit, organizational trust and strategic expediency. The primary driver for strategic fit is technical knowledge about resource and market fit. Organizational trust and strategic expediency are based on social knowledge and categorization schema developed through social connectedness, the industry setting, culture and organizational similarity, and organization reputation. We use the framework to develop research and managerial implications.

**Keywords:** strategic alliances, partner selection, strategic expediency

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## COLLABORATE WITH YOUR COMPETITORS AND COME IN SECOND

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This paper examines how the manner in which a firm attempts to access and develop new capabilities affects its propensity to adopt new process technologies. The paper argues that both experience with prior generations of technology and access to new technological knowledge through co-development and sourcing agreements may affect a firm's knowledge base and, therefore, its propensity to adopt new process technologies. Results from a ten-year study of 209 semiconductor firms are reported which indicate that the likelihood of new technology adoption increases with both firm fabrication experience and use of inter-organizational collaborative ventures. However, important differences exist in the timing of adoption associated with these mechanisms. Specifically, the relationship between internal experience and new technology adoption is highest just after the new technology is first introduced and decreases with time. In contrast, the relationship between collaborative linkages and technological adoption is initially insignificant but increases with time. The paper concludes with a discussion of the implications regarding these different technology transfer mechanisms as well as for research on the adoption of new technologies.

**Keywords:** technology, learning, alliances



## RESOURCE ACCUMULATION LAGS AND STRATEGIC INVESTMENT DECISIONS: AN EMPIRICAL APPRAISAL

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This paper examines how time-consuming resource accumulation impacts firms' strategic investment under uncertainty and, in particular, firms' likelihood of investment. The hypotheses were tested in the worldwide petrochemical industry from 1975-1995. Results suggest that, the longer it takes to accumulate resources, (i) the more likely firms are to invest under uncertainty and (ii) the less effective pre-emptive strategies become. Uncertainty, although hindering investment through option value, amplifies this effect. This means that uncertainty might have an overall positive impact on investment, which is in contrast with most prior literature on the topic.

**Keywords:** Time, Resources, Uncertainty

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## EXPLAINING STRATEGIC DISAPPOINTMENT: THE INTERACTION OF STAKEHOLDERS AND STRUCTURE

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A strategic initiative's success and failure depends on its appropriateness for the "landscape" into which it is introduced. This paper draws on institutional and political perspectives on organizations and their environments to propose a framework for describing this landscape in order to understand better the process by which problems arise, solutions are generated, and outcomes—often quite different from those intended—emerge. In it, stakeholders, structural elements, and their interactions are linked to system-level phenomena. Such a generalizable process model generates insights into the difficulties and outcomes of particular organizational change initiatives, and allows comparison across organizational, national and other contexts. We apply the model to the case of a disappointing enterprise reform in China, Ma'Anshan Iron and Steel's restructuring and listing, in which the "right" reforms actually exacerbated rather than ameliorated the problems that served as the initial stimulus for reform.

**Keywords:** strategic change, process, China

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## TECHNOLOGY, GLOBALIZATION, AND GOVERNANCE: STANDARD CREATION BY STATE AND NON-STATE ACTORS

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This paper draws upon the mechanisms of technology change to increase our understanding of the phenomenon of globalization and of the dynamics of change in global governance in discreet spheres of authority as a continually evolving process. By understanding this, corporations can influence the shape of global governance and be engaged as legitimate actors in specific global governance regimes. Specifically, I identify a period of turbulence in the development of cellular telephone technology that has challenged the ability of states and interstate organizations to exert authority over the development of standards. I argue we can trace changes in the global governance system of the industry as private sector firms have strategically positioned themselves as the drivers of this new global technology industry. I ask three questions. Firstly, under what conditions did the early state centered governance system of cellular telephone technology disintegrate? Secondly, given a governance gap in the cellular telephone technology industry, why did private authority rather than public authority emerge as a major determinant in the global governance system of the industry? Thirdly, what are the implications for democracy of the rise of private authority?

**Keywords:** technology, globalization, democracy

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## ORGANIZATIONAL BOUNDARIES IN BIOTECHNOLOGY: BARGAINING POWER AND THE ALLOCATION OF PROPERTY RIGHTS

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In a vertical R&D relationship between a biotechnology firm and a pharmaceutical firm, when the R&D activities of the biotechnology partner firm are more important than the commercialization activities of the pharmaceutical firm for the final output, it is more efficient to allocate property rights to the biotech firm. However, where the pharmaceutical firm has substantial relative bargaining power, inefficient outcomes may result. This asymmetry in bargaining power between the collaborating parties often results in the critical intellectual property rights being held by the pharmaceutical firms instead of the biotechnology firms, perhaps resulting in dilution of their incentives. The first question addressed here is what leads to such an inefficient outcome, where economic rents are appropriated by the party that has the relative bargaining power (pharmaceutical firm) rather than by the party that is more indispensable (biotechnology firm), to persist. Because the ex ante uncertainty in the innovation process makes it difficult to monitor the effort by the biotechnology firm, the alliance contracts are often vaguely worded (e.g., is expected to put forth "best efforts"). And hence, the difficulty of verifying performance can lead to such contractual problems as moral hazard and ex post opportunism. Here, how effective pharmaceutical firm can be in monitoring the research activities of the biotechnology firm is the crucial issue. How formal and informal

governance mechanisms together or separately impact the choice organizational form is the second question explored in this study.

**Keywords:** strategic alliance, intellectual property rights, bargaining power

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## TECHNOLOGICAL AND COMPLEMENTARY CAPABILITIES AND SURVIVAL OF U.S. MACHINE TOOL INCUMBENTS, 1975- 1995

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In this study I answer the question “Do different capabilities of incumbents have differential effects on their survival chances during technological challenge?” Extant literature demonstrates that firm capabilities positively affect the survival chances of incumbents. I build on the capabilities stream of evolutionary economics literature and take a closer look at firm capabilities, more precisely at technological and complementary capabilities. Using large sample database on the U.S. machine tool industry, I demonstrate that during technological challenge from entrants and more innovative competitors, different capabilities have differential effects on incumbents’ survival chances. Component capability significantly decreases the chances of failure and complementary capability significantly increase the chances that a firm will fail to survive. Architectural capability does not significantly affect a firm’s chances of survival.

**Keywords:** Business-level capabilities, Technology strategy

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## THE REAL OPTIONS VALUE OF INTERNATIONAL INVESTMENTS BY KOREAN FIRMS

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International investments provide firms with important real options that allow them to gain strategic flexibility during periods of uncertainty. While firms' international investments include those relating to exporting capability as well as foreign productive capability (i.e., FDI), prior empirical work has focused overwhelmingly on only FDI. Since exports and FDI may have overlapping as well as synergistic characteristics, we investigate several hypotheses comparing the real options value of both types of investments for Korean firms in the highly uncertain period of the recent Asian economic crisis. We find evidence that firms' values during the crisis were consistent with the differential real options values of a priori export and FDI investments made by these firms. We further find important differences in the real options value of such investments made by firms imbedded in a closed network and those in embedded in an open network.

**Keywords:** Real options, Uncertainty, Korea

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## THE ROLE OF LEARNING, POLITICS AND TRUST BUILDING IN OVERCOMING CORE RIGIDITIES

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Strategic initiatives are often defeated by core rigidities—the inertial forces inherent in existing skill sets, technical systems, administrative systems and values/norms. In this paper, we investigate learning, politics and trust-building as activities within an action unit that overcome core rigidities. The sample



consists of 96 initiatives in three large financial services firms. Results support the core rigidities hypothesis and bear out the need for learning, politics and trust building to counter these rigidities. In particular, there is a negative association between an index of each initiative's relative incompatibility (i.e. degree of rigidity associated with an initiative) and indicators of initiative success. Controlling for such incompatibility, multiple regression analysis points to repeated practice and detailed justification as particularly critical forms of learning and politics, respectively, that are necessary for initiatives to succeed. Trust-building activities within the action unit also are important as a means for overcoming rigidities created by established norms and values. The holistic approach of this study makes it one of the first (1) to demonstrate the negative effects of core rigidities on initiative success, (2) to assess the relative importance of learning, political and trust building activities in strategic renewal and (3) to isolate specific forms of these activities as critical to successful change. The results substantiate three imperatives for capability development in large, bureaucratic organizations: (1) design learning activities to accumulate tacit knowledge, (2) use objective appeals to justify initiatives and (2) build trust between the action unit and the rest of the organization.

**Keywords:** strategic initiatives, incompatibility, strategic renewal

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## MARKET VALUE IMPACT OF FOREIGN DIRECT INVESTMENT BY MULTINATIONAL FIRMS

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In this paper, I propose a conceptual framework that outlines the conditions under which foreign direct investment by multinational firms create shareholders' value. I argue that foreign direct investment creates shareholder value if the foreign investment is organized so as to protect value generation, and if the multinational firms' top management has incentives to efficiently use resources generated from the foreign project. Agency cost minimizing governance mechanisms that align incentives among shareholders and managers of the multinational firm, and transaction cost minimizing contractual mechanisms that design the relationship between the local and foreign partners will have significant impact on investment value. Information asymmetry among partners, multinational experience, and legal environment will moderate the relationship between these mechanisms and value creation.

**Keywords:** foreign direct investment, governance, value creation

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## EMBEDDEDNESS AND THE SUCCESS OF STRATEGIC INITIATIVES

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Strategic initiatives are one of the principal mechanisms of strategic renewal. Prior research has focused primarily on the process of initiative development (e.g. creativity, coalition formation, interpretation), rather than on the social context surrounding initiatives or the factors influencing initiative success. This paper examines the embeddedness of initiatives within intra-firm social networks. Specifically, we propose that the effects of embeddedness can be described on four dimensions -- relational, structural, positional, and cognitive, and that the extent of each of these bears an inverted, u-shaped relationship to initiative success. Furthermore, optimal levels of embeddedness vary systematically across different strategic types (Miles and Snow, 1978). In prospector firms, optimal levels of structural and positional embeddedness are relatively higher and optimal levels of relational and cognitive embeddedness relatively lower than in defender or analyzer firms.

**Keywords:** network theory, embeddedness, strategic initiatives

## INFORMATION-EXCHANGE AND INFORMATION-PROCESSING CAPABILITIES AND THE FIRM'S ACQUISITION PERFORMANCE

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This conceptual paper outlines a theoretical model of the organizational acquisition decision-making process by introducing two firm-level capabilities: the information-exchange capability and the information-processing capability. The information-exchange capability determines then firm's effectiveness in collecting explicit acquisition-related information. The level of the information-processing capability determines the firm's effectiveness in accessing, updating and applying the appropriate acquisition-related tacit knowledge. I argue that both the information-exchange and information-processing capabilities have a positive direct effect on the acquisition performance of the acquiring firm. At the same time, I predict that the acquisition performance will decrease in the level of the information-exchange capability when the firm's information-processing capability is low. The study paves way for the future empirical research on the organizational acquisition decision-making.

**Keywords:** mergers and acquisitions, organizational decision processes, dynamic capabilities



## STRATEGY DEVELOPMENT PROCESSES IN A HIGH VELOCITY ENVIRONMENT

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This paper evaluates the relationship between strategy development activities within software firms and organisational learning and strategy creativity. Specifically it evaluates the effect of comprehensiveness on both dependent variables and also evaluates whether entrepreneurial orientation mediates the relationship between the process variables and the outcomes. The hypotheses are tested in a sample of 190 firms. A curvilinear relationship is found between comprehensiveness and both dependent variables. Moreover, the firm's entrepreneurial posture is found to mediate the relationship between the process variables and the outcomes.

**Keywords:** planning, process, creativity

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## INDUSTRY-ACADEMY R&D COOPERATION AND INNOVATION PERFORMANCE: LESSONS FROM THE BIOTECHNOLOGY FIELD

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This paper presents an approach to industry-academy interactions that relies on social structure theory. It is shown that a distinguishing feature of science-based industries is that economic processes interact intimately with technological and scientific processes in the realization of innovativeness. Two contributions are made. The first provides a detailed example of the ways in which economic, technological, and scientific processes interact in a modern science park in Europe. The second contribution involves an analysis of the institutions within which the economic, technological and scientific processes were embedded. In this sense, particular attention is drawn to the numerous informal networking links that facilitate flows of knowledge to and from single actors engaged in biotech R&D, thus suggesting how intensity and multiplexity of contingent and spontaneous knowledge ties are particularly adequate to explain the innovative results obtained. Empirical data are from a Swedish science park in which fifty industry and academic research projects work together in the area of biotechnology in order to improve communication and exchange of technical knowledge between R&D actors. Supported by social

network analysis, our findings suggest that rather than categorizing the governmental-funded research institute and university as a separate institution supporting the activities of the firms, it makes more sense to see agglomerations of R&D actors characterized by intense exchange of knowledge in order to explain the ways in which research activities are deployed and innovativeness is performed.

**Keywords:** R&D, Cooperation, Biotechnology

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## DEAR PRUDENCE: AN ESSAY ON PRACTICAL WISDOM IN STRATEGY MAKING

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Among strategy theorists who consider strategy as an emergent process (following Mintzberg), there is considerable debate about the nature of intentional action. If we presume an organizational ontology of emergence, then what role remains for strategic intent? If managerial action is said to consist of adaptive responsiveness, then what are the foundations of value on the basis of which principled decisions can be made? In this essay, we respond to these questions and extend the existing strategy process literature by turning to the Aristotelian concept of prudence, or practical wisdom. In the Nicomachean Ethics, Aristotle sets up clear distinctions between scientific knowledge (sophia), cunning intelligence (metis) and practical wisdom (phronesis). According to Aristotle, practical wisdom involves the virtuous capacity to make decisions and take actions that promote the 'good life' for the 'polis'. We explore contemporary interpretations of this concept in literature streams adjacent to strategy and determine that practical wisdom can be developed by engaging in interpretative dialogue and aesthetically-rich experience. With these elements in view, we re-frame strategy processes as occasions to develop the human capacity for practical wisdom.

**Keywords:** strategy process, strategic intent, prudence

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## LEARNING TO COLLABORATE: THE EFFECTS OF EXPERIENTIAL AND VICARIOUS LEARNING ON ALLIANCE PERFORMANCE

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We present the idea that variance in collaborative capability, due to which firms achieve different levels of alliance performance, is related to their ability to learn from their own experiences as well as others. Our analysis of data from 182 firms indicates that organizational learning processes help develop alliance management know-how and find both experiential and vicarious learning increase performance. We examine the inter-relationship of these processes, and find these to be substitutable. Further, we contend that the environment and the diversity of a firm's relationship in the alliance portfolios are likely to moderate the effects of these learning processes. We receive support for the contention that in changing markets, vicarious learning's effectiveness increases. Our study thus establishes that firms can develop alliance capabilities through active learning processes.

**Keywords:** learning, alliances, innovation

## TOP MANAGEMENT TEAM COMMUNICATION, ENVIRONMENTAL UNCERTAINTY, AND ORGANIZATIONAL PERFORMANCE

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This paper contributes to the top management team and social network literatures by proposing an environmental contingency on the relationship between network communication patterns and performance. We propose that top management teams that maintain a fit between the network communication patterns (as measured by network density and network centrality) and environmental uncertainty would perform better. This hypothesis was tested with data from 308 executives in 32 firms. In general, the results support our hypothesis.

**Keywords:** social network, top management team, group communication

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## MODELING THE EFFECT OF VISION ON COGNITIVE & BEHAVIORAL LEARNING APPROACHES TO M&A INTEGRATION

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Vision and organizational learning are widely accepted as critical components of the acquisition integration process, yet studies focusing on these phenomena within an acquisition context are limited, and refutable theory modeling their relationship is non-existent. I explore the relationship between vision and organizational learning during the early period of integration with the objective of advancing theoretical knowledge of the acquisition integration process. In so doing, I attempt to provide greater definition to successful acquisition vision, explain why the approach to organizational learning during integration may differ from one acquisition to another, and emphasize management accountability for organizational learning by designing into the proposed model business practices that managers implement to effect integration.

**Keywords:** acquisitions, vision, learning

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## THE RELATIONSHIP BETWEEN CONTROLS, KNOWLEDGE STRUCTURES, AND THE DEVELOPMENT OF FIRM CAPABILITIES

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According to the knowledge-based view, the firm's knowledge is the key ingredient for developing its unique capability set. However, due to the inherently intangible nature of knowledge, the literature has remained vague on the manner and processes by which this knowledge is converted into specific firm capabilities. Thus, we have limited understanding of two important issues: (a) how organizational processes for managing organizational knowledge vary, and (b) how a firm's particular manner of managing knowledge results in distinct organizational capabilities. To address these issues, in this paper we focus on a more observable feature of a firm-- its control systems-- in order to make inferences about the structure and use of knowledge within the firm. In particular, we show how features of three major types of organizational controls (outcome, process, and clan) result in unique organizational knowledge structures. These distinct knowledge structures in turn lead to different learning orientations (such as

exploitation, exploration, and extrapolation). This role of control in creating different knowledge structures provides the foundation for developing specific capabilities related to innovation, productivity, and quality. In this way, the model shows how a critical aspect of a firm's design—its control system—is fundamentally related to its knowledge-related capability set.

**Keywords:** organizational control, learning, capabilities

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## THE TORTOISE AND THE HARE: IMPLICATIONS OF SEPARATED AND INTEGRATED APPROACHES TO INNOVATION

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This paper investigates the implications of separated and integrated approaches to organizing for a discontinuous innovation. Using two pairs of case studies of incumbent firms adopting electronic commerce, we find that the relative advantages and disadvantages of the separated and integrated approaches can change over time. Separated approaches, characterized by innovating organizations that are highly differentiated from the incumbent organization, appear to provide early signals of effectiveness, but tend to encounter difficulty in scaling and surviving in the longer term. On the other hand, firms that launch integrated responses, blending new technologies and business practices with existing skills and capabilities, can encounter difficulty early but experience stronger performance in the longer term. We inductively derive a conceptual framework describing the relative advantages of the two approaches at different times in the life cycle, and then discuss its strategic and organizational implications.

**Keywords:** innovation, adaptation, e-commerce



## FIRM CAPABILITIES AND TECHNOLOGY ADOPTION: EVIDENCE FROM FOREIGN DIRECT INVESTMENT IN INDONESIA

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We examine firm innovation from public knowledge stocks by measuring the adoption of technology brought with foreign direct investment (FDI). We add to the literature by asking not only if local firms learn from FDI, but also which firms are the prime beneficiaries. Using a panel dataset of Indonesian manufacturers from 1988 to 1996, we measure how the performance of local firms responds to the entry of multinational competitors. We find evidence that local firms do acquire technology from FDI. In particular, firms with greater absorptive capacity, as measured by prior investment in research and development, and firms with highly educated employees benefit more than others. In contrast, firms that have a narrow "technology gap," meaning that they are close to the international best-practice frontier, benefit less than firms with weak prior technical competency. This finding suggests that the marginal return of new knowledge is greater for firms that have more room to "catch up" than it is for already competitive firms.

**Keywords:** absorptive capacity, learning, technology transfer



## JIT ALLIANCES AS DETERMINED BY PRODUCTION AND TRANSACTION COSTS: THEORY AND EMPIRICAL EVIDENCE

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That alliance governance forms help firms minimize both production and transaction costs has been established for quite some time. Nevertheless, transaction cost economics (TCE) has become the predominant theory explaining inter-firm governance structures, while the same theoretical and empirical rigor have not been duplicated to investigate the alternative explanation. In this paper we aim at helping cover this gap by modeling transactional and operational performances as functions of inter-firm governance to determine why firms structure alliances. In our model, alliances reduce “behavioral uncertainty” and consequently transaction costs while also reducing “knowledge-based” uncertainties, thus improving production efficiencies. We test this dual-theory model on a 261-firm sample of firms pursuing JIT manufacturing, in the equipment industry. Our findings suggest that in market niches where inter-firm capability specificity is slight and products are commodities, OEMs and suppliers should still organize exchange under stronger ties of relational contracts, for production efficiency reasons, despite not needing contractual safeguards to reduce transaction costs. Moreover, where asset specificity is high we find that relational governance also helps improve production efficiencies while at the same time safeguarding quasi-rents from specific assets, thus also reducing transaction costs. We explore the implications for the literature and offer managerial advice.

**Keywords:** transaction-cost, production-cost, alliances

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## THE SCP PARADIGM REVISITED: A MANAGERIAL PERSPECTIVE

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This study aimed at shedding light on some contributions of the SCP (Structure-Conduct-Performance) paradigm to strategic management research. SCP was revisited by adopting both an economic (i.e. resource-based) and cognitivist view of the firm and the industry. Structure was hence conceptualized in terms of both economic and cognitive factors, Conduct in terms of Stocks and Flows (Dierickx and Cool, 1989), and Performance in terms of profitability. Bi-directional causal links between structure, conduct and performance have been tested. Theoretical analyses and empirical findings from the French perfume and cosmetic industry provide interesting responses for some new challenges and developments industrial organizational economics and strategic management.

**Keywords:** SCP Paradigm, Industrial Organizational Economics, Strategic Resources

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## SUSTAINABLE COMPETITION?: A GAME THEORETIC ANALYSIS OF INDUSTRY STRUCTURE IN COMMUNICATION NETWORKS

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Is monopoly the inevitable market outcome for a network industry without regulation? Policy related to network communications and information industries is often based on the assumption that the characteristics of these industries will lead to monopoly. The analysis in this paper shows that in network communications markets, monopoly is the inevitable market outcome in some markets, but not all. This paper contains a formal framework for identifying when competition between communications networks is a sustainable market outcome. The result is the Network Pricing Game, a stylized model developed in this paper to reflect the special characteristics of a communications network industry. These characteristics

include significant fixed costs and subscribership with friction in switching. This model provides an analytic tool for determining what market characteristics influence a competing network firm's exit decision. The Network Pricing Game of competition between two network firms shows that the sustainability of competition between networks is influenced by initial market share allocations, propensity of subscribers to switch networks, fixed costs of operations, a market's monopoly price, and marginal cost. These results are used to explain observed market structure in different network communications markets, namely local telephone and broadband Internet access. The findings of this paper show that there may be some markets where competition is not sustainable. In such markets, policymakers may choose to create competition through regulatory intervention. The paper presents an essential first step in understanding network industries and the dynamic interaction between technology, policy and industry structure in these markets.

**Keywords:** Telecommunications Industry, Industry Structure, Regulation

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## **GOING ONCE, GOING TWICE, GONE: UNCERTAINTY, ALLIANCES, AND OVERPAYMENT**

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Experimental and archival research has shown that uncertainty tends to have an adverse effect on the quality of decision making. In this paper, I propose that in some circumstances, this effect may actually be exacerbated by one of the most commonly employed methods of to improve decision-making: the formation of decision-making alliances. Applying my model to market transactions, I develop two related hypotheses. First, I posit that there is a positive relationship between the uncertainty regarding the value of an object and the overpayment for that object. Second, I posit that the relationship is mediated by the number of bidders in the consortium submitting the winning bid; that is, the number of bidders in the winning bidding consortium is positively related to uncertainty, and overpayment is positively related to the number of bidders in the winning bidding consortium. Regression analysis of a large data set from an auction bidding format (offshore oil and gas leasing) showed that, as predicted, the number of parties in the winning consortium is positively related to overpayment. However, no relationship was found between either the amount of uncertainty and overpayment or the amount of uncertainty and the number of bidders in the winning consortium, suggesting that the data set does not provide a good proxy for uncertainty, that these relationships are more tenuous than believed, that these relationships do not follow a linear model, or that firm-level variables, which are not included in the regression, play a role in the effect.

**Keywords:** Auctions, Bidding, Strategic Alliances

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## **DO MULTIMARKET RIVALS 'LIVE AND LET LIVE?': COMPETITIVE ENGAGEMENT IN MULTIMARKET ENVIRONMENTS**

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Research on multimarket phenomena implicitly assumes that multimarket firms always take actions consistent with their multimarket position. In particular, when firms' levels of multimarket contact are high enough to create an environment of mutual forbearance, the assumption is that violations of the tacit behavioral norms will not occur. We develop several propositions that identify conditions both within multimarket organizations and in their environments that are likely to lead to aggressive action and the violation of mutual forbearance norms.

**Keywords:** multimarket, competition, forbearance

## **TEMPLATES AND THE EFFECTIVENESS OF KNOWLEDGE TRANSFER: AN EMPIRICAL INVESTIGATION**

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Preferential access to templates has been argued to be a central factor enabling firms to exploit a competitive advantage in the face of potential imitators. Despite the possible significance of templates for obtaining superior economic rents, however, no direct empirical test has been made of the fundamental claim that the use of templates enhances the effectiveness of knowledge transfer. This paper empirically examines the fundamental claim through a case study of three sequential practice transfers. The case is derived from an eight-year, in-depth field investigation. The patterns uncovered in the case reveal a naturally-occurring, repeated-measures quasi-experiment which allows us to test the hypothesis. The findings support the claim that the use of templates increases the effectiveness of knowledge transfer. Various streams of literature have hypothesized that the effect of templates is due to their use as referents. We confirm this hypothesis and suggest another mechanism as well, that of persuasion. Both mechanisms are explored in depth using the data from the case and further questions about the role of templates in securing competitive advantage are then raised.

**Keywords:** Template, Knowledge Transfer, Replication

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## **GRANDSTANDING, CERTIFICATION AND THE UNDERPRICING OF VENTURE CAPITAL BACKED IPOs**

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We examine the role of venture capital backing in the underpricing of IPOs. Controlling for endogeneity in the receipt of venture funding, we find that venture capital backed IPOs experience larger first-day returns than comparable non-venture backed IPOs. Between 1980 and 2000, the average return difference ranges from 5.01 to 10.32 percent. This return difference is particularly pronounced in the “bubble” period of 1999-2000. As a potential explanation for these results, we explore a variant of the grandstanding hypothesis proposed by Gompers (1996), in which the publicity associated with high first-day returns brings future commitments of capital to venture capitalists. Capital flow regressions show that commitments of capital are positively related to first-day returns.

**Keywords:** venture capital, IPO, grandstanding

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## **THE STRATEGY HYPERCUBE: EXPLORING STRATEGY SPACE USING AGENT-BASED MODELS**

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We provide a method of representing a firm's strategy as its position and movement within a n-dimensional strategy space. We explore this space through the use of an agent-based model and provide results as to the appropriateness of different strategies under differing levels of environmental turbulence.

**Keywords:** agent-based models, strategic space, turbulence

## THREAT OR OPPORTUNITY?: ANTECEDENTS OF MANAGERIAL PERCEPTIONS TOWARD TECHNOLOGICAL CHANGE

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Drawing on an interpretative perspective of organization and strategy issue literature, this study propose a theoretical framework for understanding the antecedents of top executives' perceptions toward technological change. Threat and opportunity are two major categories of perceptions of top executives toward strategic issues. The model analyzes the antecedents of top executives' perception toward technological change as a threat or as an opportunity. Industrial characteristics, organizational context, and management team attributes influence the perception of top executives toward technological change. The radicalness of technological change moderates the relationships between organizational, team level factors and the likelihood of perceiving a technological change as a threat by top executives.

**Keywords:** Managerial Perception, Technological Change, Threat /Opportunity

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## KNOWLEDGE MANAGEMENT AS THE BASIS OF SUSTAINED HIGH PERFORMANCE

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This paper seeks to deconstruct some of the key common elements of the resource-based view and the knowledge-based view of the firm. We suggest that there are three components to knowledge management systems that influence firm performance: the firm's ability to produce new knowledge, to build on that knowledge, and its effectiveness in capturing a high proportion of the subsequent spin-offs. Using fixed-effects, time-series cross-sectional analysis of 30,022 patent records from 42 firms, we find that generating rare and valuable firm knowledge and the ability to build on that knowledge is associated with a slower rate of growth.

**Keywords:** Knowledge Management, Patents, Resource-Based View

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## THE PORTABILITY OF STARDOM

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This paper examines the portability of star security analysts' performance. Star analysts who switch employers show an immediate decline in performance, which persists for at least five years. This decline in performance is most pronounced for star analysts who move to lower-rated firms (downward movement) and star analysts who move without other members of their team (solo). Star analysts who move between two similar firms (lateral movement) also exhibit a drop in their performance but only for two years. Stars who switch to higher-rated firms (upward movement) and stars who change firms with their team members show no significant decline in short-term or long-term performance. These findings suggest the value of firm-specific and team-specific skills, as well as the impact of firms' capabilities on star analysts' performance. In fact, if skill specificity exists for one of the most likely professions to qualify for the free agent status (star security analysts), then it is likely to be present for many others. The extent to which the analysts' skills are firm-specific, and therefore a source of competitive advantage, varies across firms. Moreover, the findings suggest that investors do not view the announcement of star analyst departures as value-enhancing or value-reducing for the exiting firms. However, hiring of star analysts is seen by the stock market as value-destroying for the hiring firms. Particularly, downward movement of star analysts generates a more severe negative stock market reaction than lateral or upward movement of star analysts.

**Keywords:** performance of knowledge workers, competitive advantage, firm heterogeneity

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## **THE IMPACT OF ORGANIZATIONAL SLACK ON STRATEGIC DECISION MAKING**

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Organizational slack is a concept that has been of interest to management researchers for many years and its influence on a variety of organizational phenomenon has been observed. In this paper, we identify literature that has hypothesized relationships between organizational slack and the amount of information executives use during strategic decision making. These hypotheses, however, have been untested. We also integrate a second stream of literature on information use and environmental turbulence. Using a simulated strategic decision making scenario, we find that higher (lower) levels of organizational slack are associated with the use of less (more) information during strategic decision making in stable environments, but that slack and information use are unrelated in turbulent environments.

**Keywords:** Strategic Decision Making, Organizational Slack, Environmental Turbulence

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## **P&L TEAMS AND SUPPLIER-BUYER RELATIONSHIPS**

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An important trend in the search for sustained levels of competitive advantage is the development of closer relationships with the customer in order to respond effectively to each customer's unique needs. Recognizing that the effectiveness of these relationships is multidimensional and needs cross-functional skills, many organizations have begun to set up Core Selling (CS) teams to manage the relationships with specific key customers. The emerging relationships are viewed as resources that have the potential to be a source of sustained competitive advantage. This paper examines the effectiveness of CS teams and the conditions under which they may be effective. Dyadic data were gathered from the CS teams of a global manufacturer of consumer goods and their customers (retailers). These data were analyzed using the structural equation modeling software PLS. Measures analyzed include perceptions of CS team effectiveness, compatibility of the supplier and buyer, strategic value of the relationship, competitive advantage of the buyer and the effectiveness of the relationship. Improvements in performance, measured as a percentage increase in sales were also analyzed. Results indicate that Key Account Management and CS teams play a strategic design element in buyer-supplier relationships. In addition, the results reveal that seven of the nine (78%) paths were significant. Discussion and limitations are included in the paper pertaining to strategic relationships between buyers and sellers.

**Keywords:** Supplier, Buyer, Relationships

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## **STRATEGIC FLEXIBILITY & INFORMATION TECHNOLOGY PROPERTIES: COMPETITIVE ADVANTAGE & ASSET SPECIFICITY**

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While often heralded as the source of firm competitiveness, large and mature companies, many facing complex international competition, appear to suffer from a lack of competitive flexibility when it comes to the effective use of information technology. Rather than assuming the information technology will provide the firm with unlimited strategic flexibility, two sides of such technology investments are discussed in this



paper. While information technology and systems provide firms with ever more competitive capabilities, they also encompass embedded business processes, and investments in hardware and software and thus constitute core rigidities. A combination of the resource-based perspective of strategy and transaction cost arguments is used to develop three sets of propositions. The paper argues that in dynamic competitive environments, past information technology investments (or so-called legacy systems) may negatively affect merger and acquisition success, may impede new product/service development (especially radically new products or services) and may adversely affect long-term supply chain performance.

**Keywords:** information technology, asset specificity, strategic flexibility

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## NATIONAL REGULATORY ENVIRONMENTS, FIRM CHARACTERISTICS & PRODUCT ENTRY IN THE PHARMACEUTICAL INDUSTRY

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This paper studies the relationship between national institutional environments and firm characteristics by investigating market entry patterns in global pharmaceutical industry. This industry is characterized by an empirical puzzle: Despite the strong incentives firms have to spread out the very large fixed costs of drug development over as many markets as possible, most drugs enter multiple country markets with some delay. We study the impact of national regulatory characteristics and firm characteristics on the delay that countries experience in receiving new drugs. We find evidence that – in addition to structural characteristics central to economic theory – national regulatory environments, firm characteristics, and the interaction between the two play an important role in determining patterns of international pharmaceutical product entry. We interpret this as direct evidence of the way in which national institutional environments shape the structure and nature of international competition. As well, these results suggest that firms are differentially suited to compete in particular institutional environments and that they adopt different strategies depending on the circumstances of the national environments in which they compete. To add depth and texture to these results, we plan additional analysis that incorporates a broader set of regulatory characteristics and investigates the joint determinants of price and entry delay.

**Keywords:** regulation, product market entry, pharmaceutical industry

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## THE EFFECT OF GEOGRAPHIC LOCATION ON FIRM PERFORMANCE: THE CASE OF SEMICONDUCTOR INDUSTRY CLUSTER

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There is a growing interest in the potential beneficial influence that industry clusters may have on the productivity and performance of firms located within their boundaries. Most of these claims made by cluster theorists have been made in the absence of empirical verifications. The authors compared performance for firms within the semiconductor industry cluster and those located beyond the cluster boundary and found no significant difference between them. Implications and limitations of this study are discussed.

**Keywords:** cluster, performance, configurations

## MANAGERIAL BIAS AS A FIRM COMMITMENT MECHANISM: THE EFFECT OF EMPLOYEE FIRM-SPECIFIC INVESTMENT

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One important feature of a firm's strategic decision is that it should adjust to changes in the environment. Although basic economic reasoning suggests that a firm should implement a project termination policy such that a project is terminated whenever the termination value of the project is greater than its on-going value, the firm often finds it optimal to commit itself to a different termination policy. This is the case when the firm requires its employees to make investments that are specific to the project. Since specific investments cannot be applied to a different setting without significant value loss, anticipation of project termination by the employees would significantly increase the firm's ex ante contracting cost with these employees. Thus, when specific investments by a firm's employees are crucial for the firm's operations, the firm has an incentive to commit itself to a lower probability of project termination than what is optimal ex post. We examine the roles of hiring a biased manager and subsequently "protecting" the manager from being replaced as effective commitment mechanisms for the firm. Extensive literature shows that managers, especially top-level managers such as CEOs, are subject to escalation of commitment biases, i.e., they are often overly committed to an action that they are responsible for. Contrary to the conventional belief that such managerial biases are detrimental to firm value, this study suggests that managers' biases can be utilized by firms to facilitate firm-specific investments by their employees.

**Keywords:** firm-specific asset investments, escalation bias, employee commitment

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## KNOWLEDGE CREATION WHEN NEW KNOWLEDGE REQUIRES DIFFERENT SOURCES OF EXISTING KNOWLEDGE

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We build on the knowledge-based view of the firm to discuss how individuals are managed differently when preferred new knowledge requires different sources of existing knowledge, either knowledge that is primarily firm-external or knowledge that is primarily firm-internal. We propose that when the desired new knowledge requires existing knowledge that is firm-external individuals are managed using a non-task-specific integrative model to promote their willingness to interact in order to share knowledge and their understanding of each other's knowledge. The integrative practices that compose the model are put into place at the organization level, independently of when a new knowledge-creation task is defined. In contrast, when the preferred new knowledge requires knowledge that is primarily firm-internal, individuals are managed using a task-specific integrative model to develop the necessary willingness and understanding. The integrative practices that constitute the task-specific integrative model are put in place specifically for a knowledge-creation task, once this has been defined and individuals are organized to create new knowledge. We test these hypotheses on a sample of 182 knowledge-creation teams consisting of members based in different communities of practice in 38 firms that have organized project teams to create new knowledge. The empirical results support the arguments.

**Keywords:** Knowledge creation, Knowledge-based view, Sources of knowledge

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## MANAGERS IN THE CONTEXT OF STRATEGIC CONTENT: SCP AND RBV PREDICTIONS FOR THE SELECTION OF MANAGERS

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This paper studies if managers are recruited by matching their background with strategy requirements. The prediction power of existing structure-conduct-performance perspective hypotheses and developed resource-based view hypotheses are tested on a sample of top managers in Sweden. Results show that instead of promoting access to higher hierarchical positions, a background in line with strategic requirements is a liability for the manager.

**Keywords:** management selection, structure-conduct-performance paradigm, resource-based view

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## THE NATURE OF THE BEAST: SELECTING MANAGERS THAT ARE SIMILAR

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This paper proposes that organization and top management team homogeneity in the variables of gender, race, age and tenure are homosocially reproduced by recruitment decisions. This is due to managers having a similar demographic composition to that of a corporation self-selecting into that particular corporation. Furthermore, individuals similar to the superior, the top management team and the organization will tend to be selected. These patterns are analyzed using a sample of top managers in the largest Swedish corporations. Both organizations and top management teams are clearly homogeneous. Homosocial reproduction occurs mainly through the effect of superior similarity, but also to some extent through top management team and organization effects. Homosocial reproduction is especially apparent in the variables of gender and race, operationalized as nationality.

**Keywords:** homosocial reproduction, TMT homogeneity, selection of managers

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## THE USE OF FEINTS AS A RESOURCE DIVERSION TACTIC IN STRATEGY

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Resource diversion theory proposes that an attacking firm can divert responding firm resources away from counterattacks through the use of thrusts, feints, and gambits as strategic tactics. This paper argues that feints are the most viable of these tactics and it provides a process through which to achieve the feint. Leaking information into a mutual channel can disrupt the organizational sense making or responder firms. This disruption will result in a higher probability that responder firms will improperly assess their environments and the value of mutual markets, allowing an attacker firm to enter a target market in a less costly manner. This also decreases the probability of counterattack by responder firms.

**Keywords:** Competitive Interaction, feints, resource diversion

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## RENT PRODUCTION, DISTRIBUTION, CONSUMPTION & EXCHANGE

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Economics has long distinguished and integrated the basic economic processes of production, distribution, consumption and exchange. Similarly, strategy research has recently focused on the relationships between rent creation and capture. The exchanges associated with these processes have also received extensive attention, but rent consumption (its use, transfer and nullification) has been less studied. This paper argues that all four processes need attention and integration, and that this project will require: (1) considering a greater variety of rents (including financial rents); (2) revisiting the links between rents and competitive advantages, and (3) redrawing the boundaries of firms involved in these rents and

links in order to better connect strategy theory with the theory of the firm. Propositions are advanced and research implications are drawn on the basis of this analysis.

**Keywords:** sustainability, dynamic capabilities, Competitive dynamics

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