Strategic management evolution

Business

Strategic Management Evolution, 1985 – 2002: Controversies over Accounting Profitability Modern concept of Strategic Management started in the 50’s atHarvardBusiness School(Ghemawat, 2002; Hoskisson, Hitt, Wan, ; amp; Yiu, 1999).

Even the first authors mentioned its basic ideas since the 30’s (Barnard, 1938), the formalization of this new discipline is thanks to the work of Chandler (1962), Ansoff (1965) and Andrews (1971).

Since then, researchers had studied firms in order to understand their strategic behavior and one question has been especially controversial: What drives firm profitability? This essay analyses the evolution of the classic works developed by Schumalensee (1985), Rumelt (1991) and McGahan & Porter (1997, 2002). Using an historical perspective, the evolution of the strategic management research shows a permanent evolution toward sophisticated methods can better explain and predict the complexity of firm dynamics.

Strategic Management Research has been described as a Pendulum that had swing from a firm toward an industry perspective (Hoskisson et al. , 1999). From Management and Economics, considered papers present the evolution of successive empirical researches that try to demonstrate what really matters about firm profitability.

The first considered research was conducted by the economist from MIT Richard Schamlensee (1985). The author states that its purpose was to estimate the relative importance of profitability factors suggested by the literature.

Those factors were firm, market and market share, with a clear influence from the Industrial Economics approach but including also the Revisionist Approach (Market Share) and the Resource View Approach (Firm). One important distinction is that the author did not state conclusions about causality, just a descriptive analysis to understand what explains the variance of the firm profits. Despite the conclusions that will be analyzed later, one of the major achievements of the author was to put this question as a main topic for empirical research.

With more than 1179 references according toGoogleScholar, the successive authors (MCGahan & Porter, 1997, 2002; Rumelt, 1991) and other classics (Amit & Schoemaker, 1993; Mahoney & Pandian, 1992; Peteraf, 1993) used this seminal to develop the Strategic Management discipline with more empirical emphasis. The evolutionary line for this classic works continues with Rumelt (1991), DBA that worked at UCLA. The prior work from Schamalensee concluded that just Industry effect was relevant for firm profitability, but Rumelt argued that those conclusions were weak because were based on single year of data from FTC.

That implied that the difference between stable or transient effect was not considered. Based on the FTC data but from 1974 to 1977, Rumelt used a more robust methodology based in Panel Data and also ANOVA Model. His conclusions showed just a Business Unit effect, and no relevant effect from industry or market-share.

The two consecutive papers written by McGahan and Porter (1997, 2002) confronted these results and made two key innovations: (i) used a new wider and longer term data from Compustat and (ii) developed methodology improvements that identify new research streams and limitations.

In their first considered research, McGahan and Porter (1997) found an important effect from industry, that differs from prior works because manufacturing should be considered an outlier. Business Unit effect was also an important factor and other factors have big differences depending on the industry. Later, using data from Compustat from 1981 to 1994, McGahan y Porter (2002) went into a deeper analysis of methods and conclusions from prior works, including their own. They found that there is evolutionary relationship among the considered variables that shows a not understood complexity.

This challenges for new methodological and theoretical approaches as other disciplines had realized using complexity theory methods (Anderson, 1999; Marion, 1999; Schneider & Somers, 2006).

The analyzed literature tried to answer the question what drives profitability. Instead of a clear conclusion new questions arise, mainly because of the complexity of the firm dynamics. Even now we know more about firm profitability, there is still questions without answer that claim for a whole new approach.

Future researches opportunities include new empirical methods, as Physicist developed for Complexity Theory, but also theoretical bases from related disciplines, as Evolutionary Economics, Political Science, History, Sociology and Psychology. Amit, Raphael, & Schoemaker, Paul J. H.

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