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*Original*

*Availability:*
This version is available http://hdl.handle.net/11390/1122519 since 2021-03-16T08:03:03Z

*Publisher:*

*Published*
DOI:10.1002/smj.2712

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04 September 2024

# Towards an Integrated Theory of Strategy

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**Running head**: Towards An Integrated Theory of Strategy

**Keywords**: Integrative mechanisms, competitive strategy, growth strategy, stakeholder strategy, bundles of strategic choices.

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## Abstract

### *Research summary*

We develop an integrative approach to the study of strategic management in a four-step logical sequence. First, we discuss one of the rare conceptual frameworks of integrated firm strategy, introduced by Coda (1984). Second, we focus on competitive, growth, and stakeholder strategies and identify four integrative mechanisms underlying the creation of joint outcomes from the combination of different strategic choices. Third, we study how these mechanisms might allow specific binary combinations of strategic choices to create higher levels of value for stakeholders. Lastly, we study the likelihood of alternative three-way bundles of strategies to generate the highest expected value. This analysis identifies two bundles of strategic decisions that can potentially maximize performance outcomes.

### *Managerial Summary*

Our integrative approach to strategic management can potentially contribute to the improvement of managerial decision making in three main ways. First, by raising managers' awareness that decisions in different strategic domains – e.g. competitive, growth, and stakeholder strategies – produce joint effects on value created for stakeholders and, thus, should be selected as an internally coherent bundle. Second, by identifying the factors that influence different strategic decisions and the consequent production of joint results. Some of these factors can be directly learnt and leveraged by managers to shape a more internally coherent and effective portfolio of strategic decisions. Third, by proposing specific bundles of internally coherent choices that might provide useful reference points within the context of the three strategies considered.

## INTRODUCTION

The successful development of strategic management as a field of academic inquiry, brought by an increasing amount of theoretical and empirical specialization, has come at the price of significant segmentation of the overall scientific quest (Durand et al., 2017). Just like in a diversified organization, where the proliferation of product divisions might reduce internal coherence and collaboration among them, the effective advancement of strategic management scholarship might be hindered by difficulties in linking and leveraging insights across increasingly specialized knowledge domains. It is a form of the well-known "myopia of learning" phenomenon (Levinthal and March, 1993) applied to our discipline. Furthermore, the

capacity of the overall intellectual community to generate a well-integrated body of knowledge would be particularly important for practitioners, who are required to make decisions across all the various strands of strategic management, without real guidance on the likelihood of success of different bundles of choices made in different strategic management domains.

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

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

In this paper, we propose to contribute to the development of the theoretical endowment of the strategic management field by explicitly beginning to address the problem of linking and integrating different types of firm strategies. To do so, we will focus on three particularly important domains of strategic management inquiry, all explicitly mentioned in Andrews (1980) definition. Competitive strategy, as the core content of the "policies and plans" that characterize the way a firm decides to position itself in the markets it competes on vis-à-vis the value propositions of its rivals (e.g. whether to compete on differentiation or cost leadership logics: Porter, 1980 and 1985). Growth strategy, defining "the range of business the company intends to pursue" and how it intends to develop the required resources and capabilities to pursue them: whether through organic growth or through external, acquisitive, growth (Rumelt, 1974; Capron and Mitchell, 2012). Finally, we will focus on the firm's stakeholder strategy, defined as the choice between integrated vs. arms-length modes of interaction with stakeholders during the various steps of the decision making process (Freeman et al., 2010; Harrison et al. 2010; Bridoux

and Stoelhorst, 2014). In addition to Andrew's (1980) visionary statement, the choice of these types of strategies as focus for this paper follows the logical implications of a general framework proposed by Coda (1984; 2012), capturing the linkages between the strategies on competitive and stakeholder systems, with the roles of firm resources and stakeholder relationships as core engines in the value creation process.

We develop an integrative conceptual framework linking these strategic decisions, with the aim to respond to the following research questions: 1) which integrative mechanisms affect the combined outcome of different types of strategic choices in terms of value creation for customers and other stakeholders? 2) How do competitive, growth and stakeholder strategies jointly influence the firm's capacity to generate value?

To answer these questions, we intend to proceed in four logical steps. First, we discuss one of the few pioneering attempts to develop an integrated conceptual framework of firm strategy, linking the competitive strategy and the so-called social strategy through the firm's endowment of resources and capabilities. The second step consists of identifying and studying four integrative mechanisms through which different types of strategic choices produce joint effects on firm performance, i.e. on value creation for all the firm's stakeholders. As a third step, we assess, in comparative terms, the joint outcomes of different pairs of competitive, growth and stakeholder strategies in the light of the integrating mechanisms explained above. In the fourth step of the analysis, we move from binary to three-way integration, comparing the "bundles" composed by the permutations of alternative competitive, growth, and stakeholder strategies in terms of their capacity to create value. Our study suggests that two (out of eight possible) bundles of decisions can potentially optimize value creation. One of them connects differentiation strategy, organic growth and an integrative approach to stakeholders. The other

one bundles cost leadership with acquisitive growth and an arms-length approach to stakeholders.

## A PIONEERING FRAMEWORK OF INTEGRATED STRATEGY ANALYSIS

In spite of several calls for an integrated approach to firm strategy (see f.i. Carroll and Hoy, 1984, and, more recently, Elms et al., 2010), only few scholars, to our knowledge, have thus far attempted to develop an integrated conceptual framework of firm strategy, aiming to examine the joint implications of different types of strategic decisions. Coda (1984; 2012[2])'s "entrepreneurial formula" offers a rare example of such attempts.

INSERT FIGURE 1 ABOUT HERE

As Figure 1 shows, the firm's "entrepreneurial formula" is conceptualized as a set of strategic decisions concerning five elements: 1) the competitive system[3] where the firm decides to operate; 2) the products that the company offers to its actual and potential customers, who select them after a comparison with similar offers from the focal firms' rivals; 3) the "stakeholder system", including all the providers of production factors (investors, employees, communities, etc.), with the exception of suppliers (part of the competitive system), with their interests, expectations about firm's behavior and power to influence it (Freeman, 1984: Freeman *et al.*, 2010; Mitchell *et al.*, 1997; Mitchell *et al.*, 2011); 4) the set of proposals that the firm,

[2] The article was first published in Italian in 1984, at the same time when Porter's (1980; 1985) and the resourced-based view (Wernerfelt, 1984; Rumelt, 1984; Barney, 1986a) theories of competitive advantage, as well as stakeholder theory (Freeman, 1984), were being developed. It was recently translated in English and republished by the European Management Review (2012) in a special series dedicated to foundational works published in non-English languages.
[3] The competitive system (one for each strategic business unit) includes a firm's customers, suppliers, competitors, potential entrants, and those offering substitute products. It thus fully aligns with Porter's 5-forces analysis.

explicitly or implicitly, makes to its stakeholders – in terms of compensation, personal development, financial returns, support for local communities' development, etc. – in return for their contributions, their commitment and their support; and, finally, 5) the firm's structure, broadly defined, including resources and capabilities that enable and support its value proposition on both the competitive and the stakeholder systems.

The "entrepreneurial formula", which encompasses the five sets of decisions, represents an integrated way to understand firm's strategy. It can be analyzed at two different levels: the first one, at business unit level, representing the competitive strategy, the second one, at corporate level, the so-called firm's social strategy. Note that, in this view, the firm develops as many competitive strategies as the strategic business units it has, but it has only one overarching "social strategy", characterizing the relational approach to non-competitive stakeholders.

The two levels of analysis are connected through the firm's structure, encompassing the firm's endowment of resources and capabilities, as well as the firm's organizational arrangements that assemble, govern and deploy them. This internal endowment generates two cycles of value proposals and transactional, as well as relational, engagements with customers and other stakeholders. In turn, these engagements shape the evolution of the firm's resources and capabilities by providing resources, positive (and negative) stimuli, and collaboration.

Coda (1984; 2012) identifies also the distinctive traits of a successful entrepreneurial formula, which ultimately consist of the internal coherence between stakeholder expectations (including customers and suppliers), the distinctiveness of the firm's value propositions to them (competitive and differential advantages, in Coda's language), and the internal endowment of resources, capabilities as well as organizational culture (values, identity) supporting the delivery of the value propositions.

On the one hand, competitive strategy leads to success in terms of "dominance" in a given competitive arena (e.g. high market share). On the other, a firm's social strategy is successful to the extent it gives rise to cohesion, trust, and satisfaction of and among firm's stakeholders. The two dimensions of performance jointly lead to profitability, as measured by indicators like return on investment and return on equity. In turn, profitability fosters both dominance on competitive arena(s) and satisfaction of the firm's stakeholders, giving rise to positive feedback loops, or "'critical circles' functioning in a virtuous way" (Coda, 2012, p. 70), referred to in the framework as "consonance" among the competitive and social strategies of the firm.

The model of the "entrepreneurial formula" represents a significant contribution towards the development of an integrated theory of strategy, but has also some limitations that need to be dealt with to make further progress on this line of work. First, the framework provides a limited explanation of the mechanisms behind the integration among firm's strategic choices, although it clarifies that part of it has to do with the role of internal resources and capabilities. Second, it does not explicitly consider the direct effects of a given strategy on the effectiveness (i.e. the impact of the decisions on its specific forms of performance) of the other. Third, it does not include what are normally considered corporate, and particularly, growth strategies, even if they are likely to affect and to be affected by the other two strategies through dynamic interactions involving resources and capabilities as well as the feedback loops from the three types of firm performance specified in the model. Fourth, from a stakeholder theory perspective, and more specifically for the production team approach (Blair & Stout, 1999), suppliers might be better analyzed as part of the stakeholder system[4]. Finally, the final outcome of a successful

[4] In fact, customers are also considered stakeholders in the received literature (Freeman, 1984 and subsequent work), which we subscribe to. Additionally, all stakeholders can be considered customers of the firm in the sense

entrepreneurial formula is profitability, which accrues to shareholders alone. A more coherent way to conceive of the overall performance generated by firm's successful delivery on both competitive and stakeholder systems might be a comprehensive notion of value created for all stakeholders, including customers and suppliers.

In the next sections, we intend to build on some of the initial insights offered by Coda's work, address some of its limitations, and move forward to a more comprehensive model of the joint effects of different types of strategic choices.

## TYPES OF STRATEGIC CHOICES

As mentioned in the introduction, the theoretical development effort in this paper will consider the joint effects on performance of three types of strategic decisions: competitive strategy, growth strategy and stakeholder strategy. Whereas each one of them could be conceptualized as a "continuum", along which a firm has an infinite set of alternatives, we will focus on the two "extreme" options of each strategy: cost leadership vs. differentiation for competitive strategy (Porter, 1985; Besanko et al. 2001), internal (organic) vs. external (acquisitive) growth for corporate strategy (Capron and Mitchell, 2012)[5], and integration vs. arms-length relationship for stakeholder strategy (Bridoux and Stoelhorst, 2014).

As far as competitive strategies are concerned, both differentiation and cost leadership require a firm to conduct some of the activities along the value chain in a 'distinctive' way. Nevertheless, differentiation is based, by its own nature, on offering something 'unique' to

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that they accept to contribute a specific form of resource to the success of the enterprise (we thank one reviewer for this specific insight). Nevertheless, for the purpose of this paper, it is necessary to adopt a "production team" (Blair and Stout, 1999) approach and to keep the product market systems, including customers, separate from the factor markets, including suppliers and all other stakeholders.

[5] Note that, for the sake of simplicity, we will limit the analysis to the comparison of the internal and acquisitive external growth, avoiding the intermediate alternative of partnerships, which will be left for future advancements.

customers, which is valuable for them, and for which they are willing to pay a price premium (Porter, 1985). Thus, while cost leadership entails primarily standardization, process simplification, and homogeneity to succeed, differentiation relies on customization, tailoring products and services to customer needs through "design, service, quality, and new product development" (Grant, 2008, p. 219). This is not to say that successful implementation of a cost leadership strategy can do without customer satisfaction, nor that effective differentiation can afford to neglect cost efficiency. We simply mean that, in comparative terms, differentiation relies more on creating distinctiveness in the product offer, tailoring it to customers' needs, even if the price levels are higher, compared to cost leadership-based competitors.

For what concerns growth strategies, the mode of growth can be simplified as a choice between the two extremes of organic (internal) vs. acquisitive (external) growth (McKelvie and Wiklund, 2010, p. 274). We are conscious of the fact that this is a rough simplification, necessary for our initial attempt to develop an integrative model of strategy. Future work will refine the analysis not only by considering hybrid growth modes but also by analysing choices related to corporate scope, such as diversification, refocusing, vertical integration or dis-integration, which are also part of the corporate strategy knowledge domain.

Finally, the decision regarding the degree of integration of stakeholder interests in the firm's strategic decision processes is of equal importance for the firm's capacity to produce value (Tantalo and Priem, 2016), as compared to the more established choices related to competitive and growth strategy. Following Bridoux and Stoelhurst (2014), we refer to this strategic decision as the choice between an integrative, as opposed to an arms-length, stakeholder involvement approach. In concrete terms, an integrative stakeholder strategy entails the involvement of selected stakeholders in strategic decision-making processes that are relevant to their interests.

This involvement might entail a whole host of activities, ranging from sensing external signals to selecting and prioritizing issues to attend, from search for alternative courses of action to the selection, resource allocation and deployment of strategic initiatives (Post, Preston and Sachs, 2002). Moreover, the explicit, routinized, involvement of stakeholders in feedback and learning processes from past initiatives is also part of an integrative approach to stakeholder strategy-making. Finally, activities related to strategic decision-making, such as management accounting and control systems, performance evaluation and incentives, governance and organizational structures, and functional activities of strategic value (e.g. supply-chain management, strategic alliances, customer service, relationships with local communities, etc.) could also be handled in more or less integrative, inclusive, ways, as opposed to following implicit transactional, arms-length, logics. The adoption of a given stakeholder strategy, in turn, is affected by a firm's stakeholder culture "in two related ways: (1) by constituting a common interpretive frame on the basis of which information about stakeholder attributes and issues is collected, screened, and evaluated and (2) by motivating behaviors and practices – and, by extension, organizational routines – that preserve, enhance, or otherwise support the organization's culture." (Jones et al., 2007, p. 143).

## THE MECHANISMS OF INTEGRATION ACROSS STRATEGIC CHOICES

The core idea pursued in this paper is that strategic choices do not only produce effects independently, but also jointly, and that these joint effects deserve our attention, since they have not been explicitly addressed, thus far, in the academic literature. Figure 2 below provides a synthetic picture of the logic that we intend to follow within the context of the three types of strategic choices identified above.

INSERT FIGURE 2 ABOUT HERE

In this figure, the joint effects of multiple strategic decisions taken by firms can be conceptualized in terms of customer and stakeholder advantages. We define customer advantage as the degree to which the needs of the firm's customers are comparatively satisfied through its offer vis-à-vis the offer of competitors present on the same product markets. It depends on the value that a firm delivers to its customers in excess of the price they pay, compared to the value for money delivered by competitors (Forbis and Mehta, 1981; Ghemawat, 1991). Stakeholder advantage is defined as the degree to which the interests and expectations of the firm's stakeholders (other than customers) are comparatively satisfied by the firm's engagement proposals (prospects offered) vis-a-vis those of other firms present on the same resource markets, i.e. the benefits they receive with respect to their opportunity costs (Harrison and Wicks, 2013).

In turn, these two advantages join to create the comprehensive notion of (economic and non-economic) value that the firm creates for all its stakeholders, including customers, as 'anything that has the potential to be of worth to stakeholders' (Harrison and Wicks, 2013: 100; Bridoux and Stoelhurst, 2014). Note that value creation, in the notion of stakeholder advantage, is considered as a relative measure vis-a-vis competitors[6]' ability to create value for their stakeholders. The reason why it is important to distinguish between these two types of advantages is that they are generated (or destroyed) through different market mechanisms, product markets on one side and factor markets on the other. Each of the three strategic choices can influence the firm's capacity to create value on product as well as factor markets, but they

[6] Competitors are considered not only firms offering similar products but also those sourcing resources in similar markets, such as labor, financial and raw material markets.

would typically do so in different ways and to different magnitudes. Hence, keeping the notions of customer and stakeholder advantage separate might facilitate future theoretical and empirical developments, helping scholars to focus, for instance, on potential trade-offs or positive synergies among the different strategic choices considered, as they might impact in significantly different ways product and factor markets.

The other important observation is that the integration mechanisms that could produce the joint effects across these strategic choices might be completely oblivious to the firm, i.e. we make no assumption of high intentionality and of high consciousness of the joint effects. In fact, we expect that managers might have little awareness of these joint effects, and that they rarely make joint decisions across competitive, growth and stakeholder strategies.

Nonetheless, the joint effects that we will describe below might occur, due to the presence and implicit influence of four types of integrative mechanisms (figure 3): stakeholder synergies, resource or capability spill-overs, organizational culture spill-overs, and feedback effects.

INSERT FIGURE 3 ABOUT HERE

First, *stakeholder synergies* (arrow A in figure 3) occur when one type of strategy – defined as an "integrated set of actions" (Tantalo and Priem, 2016, p. 321) – creates value for two or more (groups of) stakeholders simultaneously. This joint value creation takes place when "managers can identify novel combinations of different utilities, each valued by different stakeholder groups, which may be increased together" (Tantalo and Priem, 2016, p. 315). By identifying and exploiting these synergies, managers increase the size of the pie available for all

stakeholders, including customers, and avoid trade-offs. It is important to note that synergies may also have a negative sign, as it occurs, for instance, when trade-offs among non-customer stakeholders derive from initiatives aimed at lowering production costs and offering lower product prices to customers, or from the achievement of cost-driven synergies from M&A activities.

As an example of positive synergies, Sabaf, a medium-sized, Italian family-owned firm producing valves and burners for gas kitchen, has adopted enlightened employee policies as well as environmental-friendly solutions that minimize the need for raw materials and energy in production processes. The same, high environmental and social standards are applied all around the world. This strong and consistent social and environmental commitment has appealed to the most responsible kitchen producers like Whirlpool, which, in turn, abandoned its previous Italian components supplier to buy burners from SABAF, thus complying with strict CSR standards imposed by its customer IKEA (Perrini and Minoja, 2008).

Second, a resource or capability spillover (arrow B in figure 3) occurs when a given resource (or capability) can be leveraged to implement two (or more) different strategies. We illustrate here three types of capabilities that might be of particular relevance for the strategic choices we consider.

- *Adaptive change (dynamic) capabilitie*s (Teece et al., 1997; Zollo and Winter, 2002; Helfat et al., 2007) can be considered an integration mechanism across different strategic choices, since a firm's capability to initiate and deploy organizational change to respond to interests and needs of one class of stakeholders (customers included) on a specific issue can be leveraged to tackle other strategic issues of relevance for other classes of stakeholders. These capabilities are typically constituted by processes related to sensing

signals from the environment, making sense of them (e.g. building a shared representation and explanation for events of potential strategic relevance), and prioritizing them in terms of salience to the firm's strategic interests. These capabilities also include processes related to searching potential solutions for the issues considered sufficiently salient, selecting among eventual alternative courses of action, tailoring and experimenting the selected solutions to local contexts, and finally scaling the most effective ones to the relevant units and contexts within the organization (Zollo et al., 2016). A firm may develop adaptive change capabilities on how to effectively tailor its products to customers' needs (on product markets) and then redeploy them to better align its responses to other stakeholders' demands (on resource markets), and vice versa. When these processes occur at lower levels of intentionality, they can create pre-adaptation to unexpected environmental changes or stakeholder expectations, since a firm's prior experience accumulated without anticipation of subsequent uses may then prove to be useful in tackling novel types of challenges (Cattani, 2005).

- *Learning capabilities* (Argyres and Schon, 1978) can also act as integration mechanisms when the challenge to develop a certain type of organizational capability necessary to tackle a given strategic issue may require similar learning processes necessary to develop different capabilities. Learning capabilities include processes such as brainstorming and debriefing to share insights related to upcoming or past experiences (knowledge articulation processes). At higher level of investment in managerial attention (Ocasio, 1997), knowledge codification processes include post-event auditing and analysis of performance outcomes, as well as the identification of potential explanatory factors (Zollo and Winter, 2002). It also includes the creation and updating of artefacts (e.g.

manuals, check-lists, decision-support systems, etc.) (Zollo and Singh, 2004; Cacciatori, 2008 and 2012).

- *Relational capabilities* consist of a firm's capacity to initiate and develop trust-based relationships (Kale and Singh, 2000; Gibbons and Henderson, 2012). They manifest themselves as mechanisms enabling the sharing of know-how and private information with customers (e.g. what Zander and Zander (2005) call "inside track") and other stakeholders (Harrison et al., 2010). As such, they can support the deployment of different strategic choices, to the extent that their implementation requires similar capabilities to create and sustain trust-based relationships. For instance, both differentiation and stakeholder integration strategies rely more than their alternative choices (respectively, cost leadership and arms-length stakeholder strategies) on the firm's capacity to establish and nurture a strong relational base with customers and other stakeholders.

Third, organizational culture, defined as "a set of core managerial values that define how they conduct business" (Barney, 1986b, p. 656), can support, or hinder, the joint deployment of multiple strategic choices made in different domains (arrow C in figure 3). For instance, a firm's culture characterized by low tolerance for risk would align more naturally with organic growth strategies as well as with stakeholder integration ones (since high quality relationships reduce risk), and thus likely generate synergistic effects between these two strategic choices. Leveraging the continuum proposed Jones et al. (2007), a moral stewardship stakeholder culture characterized by an instrumental view of non-shareholder stakeholder relationships (justified by the overarching objective of maximizing shareholder wealth), might align with both an arms-length stakeholder strategy and an acquisitive growth strategy.

The fourth, and last, mechanism of integration is constituted by a number of feedback effects linking performance outcomes with strategic choices and firms' endowment of resources and capabilities. We distinguish between three types of feedback effects. The first one acts when the degree of satisfaction of a given stakeholder Y (e.g., a local community) for the value received affects its commitment and support (e.g., through granting authorizations or permissions, facilitating access to funding, etc.) to managers for the implementation of a given strategy (arrow D1 in figure 3). The second one occurs when the satisfaction of a given stakeholder influences the magnitude and quality of its contribution to the stock of firm resources and capabilities (f.i., by providing flows of revenues as well as technical or market know-how through knowledge and information sharing) (arrow D2 in figure 3). The third feedback effect occurs when a certain strategy involves learning activities which, in turn, influence the stock of a given capability (arrow D3 in figure 3). For instance, a competitive strategy built on spending time and energies listening to customers' needs and searching for shared solutions might result in the development of adaptive change capabilities of sensing, listening to and tailoring responses to stakeholders in general.

The four mechanisms of integration described above may entail that the implementation of a given strategy influences either the likelihood of implementation or the effectiveness of another strategy. The reason is that the interplay of the four mechanisms generates reinforcing (synergistic) or conflicting effects on value created by the combination of different strategic choices. Furthermore, these effects might be simultaneous or delayed, depending on how these mechanisms of integration unfold over time, especially the feedback effects described above.

Table 1 summarizes the arguments and the theoretical foundations of the four integrative mechanisms that we suggest might be at the basis of the joint impacts produced by multiple strategic choices.

INSERT TABLE 1 ABOUT HERE (INTEGRATIVE MECHANISMS)

Overall, the complex interplay of the four mechanisms of integration described above brings forth the role of the degree of consistency between two (or more) types of strategic choice, i.e., their joint effect on value creation for stakeholders, which is the key criterion of analysis in the following sections. Below, we will thus leverage the characteristics of these mechanisms to support the development of a set of propositions based on a comparative logic among pairs of the three, hitherto separate, strands of the strategy literature outlined above, i.e. competitive, stakeholder, and growth strategies.

## BINARY INTEGRATION ACROSS STRATEGIC DECISIONS

The objective of this section is to assess, in comparative terms, the joint outcomes of different pairs of competitive, growth and stakeholder strategies in the light of the integrating mechanisms described above. Although these strategies are rarely developed by firms, in a intentional way, as a product of the same decision-making process, the combined effects of the deployment of each, independently defined, strategic approach can be more or less value enhancing, depending on the presence, or absence, of (one or more of) the integrative mechanisms identified above.

We will thus focus on each of the three pairs of strategies, in an effort to identify the combinations of alternatives (2x2=4 combinations for each pair) that are likely to be more value generative for all the stakeholders considered (including customers).

*Competitive and Stakeholder Strategies.*

In the first pair of strategies, defined by the combinations of competitive and stakeholder strategy alternatives, we will argue that there are two combinations that are likely to be more value enhancing than the other two. The first one combines differentiation-driven competitive strategy with integrative stakeholder strategy. The second one combines cost leadership strategy with arms-length stakeholder strategy.

Stakeholder integration and differentiation are synergistic for two main reasons. First, stakeholder integration itself can be a lever of differentiation, by making a given product or service unique and valuable to the eyes of customers. Grant (2008, pp. 251-252) observes that the differentiation strategy of Body Shop, a well-known producer of skin creams and shampoo, rests also on "(...) economic support for indigenous people through fair trade, and a rejection of business methods that involve exploiting the natural environment and the economically weak". This way of integrating stakeholders' interests helps the firm create an identity that appeals to customers, thus enhancing customer advantage (see the stakeholder synergy mechanism described above). Second, an integrative approach to stakeholders is more likely, compared to an arms-length approach, to attract the level of commitment and support required for the effective implementation of a differentiation strategy. Moreover, the costs necessary to implement an integrative stakeholder strategy can, in principle, be recovered by applying higher price levels on the product markets, justifiable, in a differentiation strategy logic, by the tailored, higher quality, characteristics of the product or service offered (Harrison et al., 2010, p. 65).

By the same lines of reasoning, an arms-length stakeholder strategy, which does not require significant investments in stakeholder integration efforts and organizational change costs, maintaining shareholder-oriented, simpler, decision-making processes, might be more consistent

– and synergistic – with cost leadership competitive strategies[7]. Consider also that the deployment of a cost leadership strategy does not, by definition, allow for the recovery of stakeholder integration efforts through increasing price levels.

Furthermore, the implementation of a cost leadership strategy might impose trade-offs on the satisfaction of stakeholders, more so than a differentiation strategy does. For instance, cost leadership strategies are built upon the search for production efficiency, the use of cheaper inputs, and price renegotiations with suppliers and other stakeholders (e.g. employees, banks, etc.). They might also entail the renegotiation of labour wages and the downsizing of workforce through outsourcing, the abandonment of local subcontractors to outsource to cheaper ones in less developed countries, or even frequent and sudden shifts from one developing country to another one in search of cheaper labour costs. Therefore, a cost leadership strategy may result in a higher risk to undermine the effectiveness and credibility of an integrative stakeholder strategy, in comparison with a differentiation strategy, by producing incoherent messages during stakeholder interactions and overall negative synergistic effects.

Another integration mechanism at play to support the superior value logic of the two combinations identified above, is provided by the presence of similar adaptive change capabilities. In particular, differentiation strategies and integrative stakeholder strategies share similar adaptive change capabilities, since an integrative stakeholder strategy, by its own nature, depends on organizational capabilities related to sensing, understanding, and satisfying stakeholders' interests and demands. These capabilities also enable the adaptation of the firm's product offer to heterogeneous and rapidly changing customers' needs. Differentiation requires a

[7] It is worth noting that an arms-length stakeholder strategy, even if it is likely to generate less value, <u>in absolute terms</u>, for stakeholders than an integrative stakeholder strategy does, might positively affect stakeholder advantage, since the notion of advantage is a <u>relative</u> performance assessment, with respect to competitors on the same resource markets.

higher sensitivity to customer interests and tastes as well as a stronger willingness and capacity to adapt the design, production and delivery processes by all the relevant stakeholders. Thus, firms that are endowed with more advanced adaptive change and learning capabilities, both internally and within their stakeholder networks, will likely opt to compete on differentiation logics and engage their stakeholders in highly integrative strategies. At the same time, both strategies are expected to generate positive feedback effects that develop or reinforce such capabilities through "learning by doing" processes. By the same token, we expect that firms with lower endowment of such capabilities might opt for arms-length stakeholder strategies and cost leadership competitive logics.

Differentiation and integrative stakeholder strategies can also leverage similar relational, trust-based capabilities. To develop higher sensitivity levels to other peoples' needs and interests, firms need to nurture stronger collaborative ties with their stakeholders. Harrison et al. (2010) acknowledge that a managing-for-stakeholder approach, as opposed to an arms-length one, fosters trusting relationships, which lead stakeholders (including customers) to reveal richer and more nuanced private information about their utility function. This higher willingness to share private information enables a firm to enhance the quality of its innovation efforts and to tailor and "fine-tune its product offerings to better satisfy customers' utility function" (Harrison, 2010, p. 66). This is beneficial for any competitive strategy approach, but it is vital for a successful differentiation strategy.

We therefore expect that:

**Proposition 1. Competitive and Stakeholder Strategies.** *All else being equal, the combinations of differentiation and stakeholder integration strategy, on one hand, and of cost leadership and arms-length stakeholder strategy, on the other, are expected to create more value for stakeholders (including customers) than the other two possible combinations of competitive and stakeholder strategies.*

*Growth and Stakeholder Strategies*

For what concerns the second pair of strategies considered, defined by the combinations of growth and stakeholder strategy alternatives, we will argue that two combinations are likely to be more internally coherent and thus more value enhancing than the others: organic growth strategy with integrative stakeholder strategy, on the one hand, and acquisitive growth with arms-length stakeholder strategy, on the other.

The combination of acquisitive growth and arms-length stakeholder strategy appears particularly synergistic for the two following reasons. First, acquisitions require high speed and full control of decision-making processes, which becomes increasingly difficult as the degree of stakeholder integration rises. Consider the process of continuous adjustments in pricing and conditions, reflecting different assumptions on post-acquisition scenarios during the typical deal negotiation phase. Engaging stakeholders during those delicate, and even legally sensitive, periods would most likely jeopardize the conclusion of even high potential negotiations (Haspeslagh and Jemison, 1991).

Second, the implementation of the post-acquisition integration design usually requires at least a minimal amount of cost synergies to be identified and realized, which might face increasing difficulties when stakeholder involvement in decision-making processes is routinized and consensus on how to realize the synergy potential must be achieved. Furthermore, and similarly to what occurs in case of a cost leadership strategy, cost synergy objectives are likely to be achieved through actions that might be inconsistent with a stakeholder integration strategy and hence reduce its effectiveness (Ellis et al., 2009; Siegel and Simmons, 2010; Capron and Guillèn, 2009; Cording et al., 2013). Cost synergies, in fact, require significant organizational and operating restructuring decisions, with lay-offs, plant closures, divestitures, and many other

forms of interventions that damage the quality of stakeholder relationships (Haspeslagh and Jemison, 1991; Pablo et al., 1996; Marquis and Lounsbury, 2007), often even to the point of re-negotiating explicit and implicit contracts with internal and external stakeholders (Shleifer and Summers, 1988; Shleifer and Vishny, 1994). In addition, acquisitive growth might negatively impact employees' motivation, compared to an organic growth strategy (Buono and Bowditch, 1989, 1990; Schweiger and Denisi, 1991).

It is worth noting that even when acquisitions are driven by revenue growth and innovation objectives, they typically imply disruptions in the relational fabric tying the acquired firm with its stakeholders (Puranam, Singh and Zollo, 2006). Therefore, the capabilities and the culture underlying acquisitive growth strategies might align better with those characterizing arms-length stakeholder approaches.

In a comparative logic, and all else being equal, we expect that organic growth strategies will create significantly less tensions among existing stakeholders, and that in any case they would avoid the need to engage and include the interests and needs of new stakeholders from acquired companies. Furthermore, organic growth will result in more opportunities for stakeholders – career advancement for existing employees, new job creation for local communities and so on – and also in higher motivation, since this type of growth leverages internal resources, capabilities and relationships. Finally, organic growth can potentially align and strengthen the support of stakeholders, since it might be perceived as a lower risk growth alternative.

As far as the other integrative mechanisms are concerned, adaptive change capabilities related to sensing and responding to different stakeholder demands support the deployment of both an acquisitive as well as an organic growth strategy. However, in a comparative

perspective, they might create more synergies with organic than with acquisitive growth approaches, since an integrative stakeholder strategy facilitates a (slower but) better alignment and tailoring of product offer to customers' expectations in the new markets a firm may decide to enter. Moreover, information about stakeholders' utility functions revealed to a firm that manages for its stakeholders help better align and tailor its value proposition to their expectations and needs (Harrison et al., 2010). In the case of acquisitive strategies, such informational advantage might be less valuable, since at least part of the value creation logic relies on the identification and elimination of redundancies and the achievement of cost efficiencies.

The integration of growth and stakeholder strategic choices is likely to occur also at the cultural level. First of all, we expect that strongly rooted corporate cultures, irrespectively of the values and beliefs that form them, should favor the choice of organic over acquisitive growth. This is due to the difficulties and the risks related to the cultural colonization of the acquired company, as well as the "hybridization" of the (deeply held) worldviews, and the potential loss of the cultural identity generated by multiple acquisitions and consequent integrations (Shrivastava, 1986; Nahavandi and Malekzadeh, 1988).

These arguments become even more salient when the cultural traits are specifically geared towards high levels of morality – e.g. characterized by "taking the interests of others into account and aiming for the welfare of society as a whole" (Jones et al., 2007, p. 148) – as in case of integrative stakeholder strategies. This is likely to deter firms from embarking on M&A projects to avoid possible negative post acquisition impacts on stakeholders. This is the case, for instance, of the 'Banca Popolare di Sondrio', an Italian medium-sized cooperative bank with a strong territory and stakeholder-oriented culture. This bank has always refused to engage in M&A opportunities for fear of cultural "contamination" and drift toward a logic of short term

shareholder value maximization, to the detriment of supporting the enhancement of well-being in their communities.

We therefore submit that:

**Proposition 2. Growth and Stakeholder Strategies.** *All else being equal, the two combinations of organic growth and stakeholder integration strategy, on one hand, acquisitive growth and arms-length stakeholder strategy, on the other, are expected to create more value for stakeholders (including customers) than the other two possible combinations of growth and stakeholder strategies.*

*Competitive and Growth Strategies*

Regarding the third pair of strategies considered, defined by the combinations of competitive and growth strategic choices, we argue that two combinations are likely to be more value enhancing than the others: differentiation strategy with organic growth strategy, on the one hand, and cost leadership with acquisitive growth strategy, on the other.

The joint implementation of an acquisitive growth strategy and a cost leadership strategy is likely to be highly synergistic, compared to other combinations of competitive and growth strategies, since acquisitions generally offer cost synergy opportunities whose exploitation reinforces and speeds up the achievement of a cost leadership position. On the other hand, differentiation strategies may be inconsistent with the choice of acquisitions as a mode of corporate growth, since the management of post-acquisition processes might undermine the quality of relationships with customers, and the capacity of the combined organization to create distinctive value through tailoring and adapting products and services to customers' needs[8].

In a longer term perspective, acquisitive growth may impair the development of a firm's relational capabilities that sustain a differentiation strategy. The exceptional engagement of

[8] Note that, as mentioned above for Proposition 2, this argument applies also when acquisitions are aimed at gaining access to new customer relationships or to new knowledge resources for innovation purposes (see Puranam et al., 2006 and 2009). All else being equal, acquisitions are a better tool to execute on cost leadership competitive strategies than on differentiation ones.

management's time and energy in M&A processes is usually sustained for long periods of time (Capron and Guillèn, 2009) necessary to execute on acquisition programs (Laamanen and Keil, 2008), thus exposing the firm to the risk of weakening its sensitivity and commitment to customers' and other stakeholders' needs and expectations. This is likely to impair a differentiation, more than a cost leadership, competitive strategy, since the latter relies more on the presence of product standardization capabilities and less on products and services tailoring capabilities.

An example from the Italian banking industry might help clarify this point. During the first years of the new century, Banca Popolare di Lodi (BPL), a small, local cooperative bank, deeply rooted in its territory and close to its customers, started a rapid growth process through the acquisition of about fifteen other community banks, which turned it into the tenth banking group in Italy (Zona et al., 2013). The intense involvement of its branch network in the placement of new shares and bonds to fund its own acquisitive growth strategy, as well as the reorganization process subsequent to each merger, profoundly weakened the relational capabilities of the bank. The consequence was a gradual impairing of its sensitivity to both retail and corporate customers' financial needs, a competence that had sustained a successful differentiation strategy for decades. This resulted in a significant loss of market share and profitability for the resulting banking group, which was forced to merge with a larger bank in 2007.

On the other hand, a differentiation strategy is likely to form a more coherent combination with organic rather than with acquisitive growth. The main reason is that a differentiation strategy may leverage a firm's relational capabilities, more than a cost leadership strategy can, since it relies more strongly on the establishment of close and long-lasting

relationships with customers. In addition, the slower pace of organic growth (compared to acquisitive growth) facilitates the development of deeper customer relations, the "inside track" in Penrose (1959)'s language, which, in turn, fuels long-term organic growth through the development of firms' capacity to differentiate its offering not only to existing customers but also to novel ones (Zander and Zander, 2005).

This virtuous cycle is supported by several integrative mechanisms identified in the previous section. First of all, the influence of a combination of strategic choices, in this case differentiation and organic growth, on the development of relational capabilities is, in and of itself, an example of the feedback effects discussed in the previous section. A feedback effect that creates a positive reinforcement tying, in a dynamic perspective, the two strategic choices more strongly to each other and to the capabilities that bind them. Second, and closely connected, the role of relational capabilities spillover across differentiation and organic growth strategies, since both of them revolve around the centrality of customer relationships, more so than their alternative choices in competitive and growth strategy.

We thus propose that:

**Proposition 3. Competitive and Growth Strategies.** *All else being equal, the combination of organic growth and differentiation strategy, on one hand, and of acquisitive growth and cost leadership strategy, on the other, are expected to create more value for stakeholders (including customers) than the other two possible combinations of growth and competitive strategies***.**

Figure 4 provides a graphic representation of the three Propositions illustrated above.

INSERT FIGURE 4 ABOUT HERE

## THREE-WAY INTEGRATION OF STRATEGIC CHOICES

The last step in the logical progression followed in our analysis focuses on the integrated set formed by the three strategies studied in this work, and consists of identifying the bundles of

strategic alternatives that might stand a higher chance of generating superior performance along the combined notions of customer and stakeholder advantage.

From the combination of two options for each of the three strategies, it is possible to identify eight bundles of strategic choices (table 2).

INSERT TABLE 2 ABOUT HERE

On the basis of Propositions 1, 2, and 3, which compare different binary combinations of strategies based on the integrative mechanisms discussed above, two "bundles" of decisions are singled out as those most likely to generate higher levels of value created for customers and other stakeholders. They are the ones that, based on the logic developed in the previous section, exhibit higher internal coherence across the selected choice alternatives. The first one combines differentiation-type of competitive strategy, organic growth choices and integrative stakeholder strategies. The second one, instead, includes cost leadership competitive strategies, acquisitive growth and arms-length stakeholder strategies.

For what concerns the comparison among the six "sub-optimal" bundles of strategic choices, it is worth noting that they are all characterized by the same number of consistencies (one) and inconsistencies (two) on the basis of the three binary Propositions developed above (see Table 2). We thus refrain, at this initial stage of the theoretical quest, from ranking them in terms of expected value creation potential. Any such comparison would require additional theoretical elements and empirical evidence supporting the relative salience of certain types of inconsistencies among strategy choices vis-à-vis other types.

With respect to the two bundles with complete consistency vis-à-vis the three Propositions developed above, the first one maximizes synergies among different strategic

choices in that a given investment in integrating stakeholders' interests may be leveraged: (i) to attract customer segments sensitive to how stakeholders are treated along the supply chain, (ii) to enhance stakeholders' willingness to support the provision of high-quality, more specialized, inputs required to implement a differentiation strategy (more so than in the case of supporting cost leadership strategies), and (iii) to enhance stakeholders' commitment, efforts and support needed to grow organically, more so than in acquisitive growth alternatives.

Furthermore, the combination of differentiation and organic growth implies lower levels of risk – in comparison to their respective alternative strategic options – of undermining the credibility and effectiveness of a stakeholder integration strategy. Rather, this combination is more likely to enlarge the pie (of value) to be shared among customers and other stakeholders, compared to cost leadership and acquisitive growth that are often driven by value reallocation processes among stakeholders.

From a dynamic standpoint, stakeholder integration and differentiation strategies leverage, and simultaneously develop, similar types of adaptive change capabilities related to listening to, sensing, and responding to stakeholders' (including customers') needs and expectations, as well as similar relational capabilities, thus enhancing internally generated (organic) growth through relational and trust-based processes like "inside track" (Zander and Zander, 2005) and information sharing (Harrison et al., 2010). Finally, differentiation strategy and organic growth are more likely than their respective strategic alternatives to be rooted in, or at least to be consistent with, broadly moral stakeholder cultures that underpin integrative strategies (Jones et al., 2007).

Bundle 1 is well illustrated by MAS Holdings, one of the largest Sri Lanka's apparel manufacturers that supplies lingerie for Western retailers like Victoria & Secrets, H&M, and

Zara. It drastically rejected the widely diffused ‘sweatshop’ model and undertook several employee well-being policies, which enabled MAS to differentiate its product offer beyond a superior level of service and flexibility and to attract major customers interested in lowering labour law and human rights infringement risk in supply chain. The result was a prolonged, two-digit organic growth in years of substantial stability of the world textile industry, that led MAS revenues to increase from 66 million dollars in 1995 to 570 million in 2005 (Watson and Story, 2006; Watson, 2007).

The second bundle maximizes consistency across strategic choices by leveraging different kinds of synergies and capabilities, as well as cultural traits. Cost synergies potentially brought about by acquisitive strategies reinforce and speed up cost minimization efforts entailed by a cost leadership strategy without incurring neither in the costs of integrative stakeholder strategies, nor in the risk of undermining their consistency and credibility.

Both cost leadership and acquisitive strategies may leverage similar capabilities of product or process simplification and standardization, and an arms-length stakeholder strategy reduces the risk – with respect to an integrative one – that stakeholders’ expectations and engagement hinder their exploitation. Moreover, a market pricing relational model (Bridoux and Stoelhorst, 2016), and the transactional capabilities that sustain it, can be leveraged or redeployed by all the three strategic choices that form this bundle, as they ultimately enable a firm’s managers to fully exploit their bargaining power and negotiate the most favorable conditions in contracting with their resource providers, M&A counterparts, as well as acquired companies’ stakeholders. These conditions, in turn, facilitate the achievement of a cost-based customer advantage. Finally, from the point of view of culture as integrative mechanism,

strategies that form this bundle share traits of "limited morality", rather than of "broadly moral" stakeholder cultures, in Jones et al. (2007) terminology.

Walmart is a good example of a successful company combining a cost leadership strategy with acquisitive growth (especially as driver of international expansion) and arms-length stakeholder strategies. One of the lenses that could explain Walmart's success has to do, in fact, with the positive spillovers among these strategic choices, all of which leverage a coherent set of capabilities related to cost efficiencies, negotiation processes and an overall transactional logic applied to both product and factor markets. Even the strong success achieved by the introduction of stringent environmental requirements for all its suppliers (e.g. life-cycle assessments, traceability of raw materials, etc.) can be traced to its powerful market position, its negotiation capabilities and the transactional approach utilized in its supply-chain management practice.

Based on the considerations made above, we can submit the following proposition for future theoretical refinement and empirical validation:

**Proposition 4.** *All else being equal, the two 'bundles' composed, respectively, of: 1) differentiation strategy, integrative stakeholder strategy and organic growth, and 2) cost leadership strategy, arms-length stakeholder strategy and acquisitive growth, are expected to create more value for stakeholders (including customers), compared to the other six possible 'bundles' of the three strategic choices.*

To summarize the logic followed in the development of Proposition 4, Table 3 reports on the different ways in which the integrative mechanisms operate to generate the synergistic effects within each of the two bundles of choices that are likely to maximize value creation for customers and other stakeholders.

INSERT TABLE 3 ABOUT HERE

**Implications.** Some considerations are necessary to frame this Proposition in the context of the received scientific discourse, and in view of future theoretical and empirical developments.

First, stakeholder integration is not necessarily generative of the highest average performance levels among the two "optima". In a rugged landscape scenario (Levinthal, 1997), the two bundles might each constitute the top of a different "hill" created by the fitness function. Which one is the highest hill will depend on how the proposed integrative mechanisms work in all the binary combinations identified above, as well as on the contexts in which the firms compete.

Second, whereas firms adopting the first two bundles are expected, all else being equal, to create – on average – more value than those adopting any one of the other six, it cannot be argued that this applies to all firms adopting the strategic choices in the same bundle. The reason is that heterogeneity among firms, in terms of the competitive, institutional or cultural contexts in which they operate, of their endowments of cultural traits, resources and capabilities, as well as of the coordination and collaboration arrangements characterizing their value chains, is expected to lead to different levels of performance even if the strategic choices (as defined by the three decision sets examined here) are the same.

Third, our argument is that firms adopting one of two "optimal" bundles potentially create, on average, more value than firms adopting other "sub-optimal" ones. This does not imply that all firms in the "optimal" bundles generate more value compared to the ones in the "suboptimal", since the reasoning is entirely based on a comparative logic among the two distribution functions, one of which is expected to have a higher mean than the other.

Fourth, the reason why some firms are able to develop the (potentially) highest value-generating bundles, but others are not, reside ultimately in the integration mechanisms illustrated

above. Some of these mechanisms, such as corporate culture as well as relational, dynamic and learning capabilities, are not easily imitable, because of causal ambiguity, non-observability and time compression diseconomies (Dierickx and Cool, 1989). Hence, they are likely to act as barriers to imitation, and thus as factors for the sustainability of both customer and stakeholder advantage, as well as barriers to mobility from one bundle to another one. More importantly, the bundles are made of strategic choices that might be developed by firms for completely different reasons (one from the other) and without any particular consciousness of the degree of consistency among them, let alone the presence of integrative mechanisms that might concur to generate superior (or inferior) joint performance outcomes.

Therefore, the higher likelihood of value creation by specific bundles of strategic choices can remain unknown by managers, and therefore not imitated by others.

## CONCLUSIONS

This work aims to contribute to the development of new theory in strategic management in three main ways. First, by proposing an overarching framework of firm strategies, linking the competitive and "social" strategies trough the pivotal role of resources and capabilities, and suggesting a potential cyclical pattern based on the influence that each type of strategic decision exerts on the others. Second, by proposing a set of integrative mechanisms that could explain the quality of the joint outcome produced by bundles of different types of strategic choices. Third, by developing testable propositions on the bundled effects of different types of strategic decisions on expected value creation for customers and other stakeholders, based on the underlying integrative mechanisms.

Since this is to be considered an explorative attempt in the intellectual challenge to develop an integrative view of strategy, there are obvious limitations in the definition of strategic choices considered, as well as in the theoretical arguments developed to analyze their joint effectiveness.

For what concerns the selection of strategies considered, as well as the characterization of the choice alternatives within each of them, there are broad spaces of development and expansion available to future scholars. For instance, corporate strategy has been solely characterized in terms of the choice of mode of corporate growth, but there are other dimensions to be considered within the same domain, such as the scope of activities (diversification vs. refocusing choices) or the degree of vertical integration along the value chain. Furthermore, there are much more fine-grained ways to conceptualize even the choice of tools for corporate growth, such as the alternatives related to various forms of partnership solutions, as well as tools closer to market transactions, such as licensing, franchising and long-term contracting.

Moreover, the boundary conditions to the Propositions discussed above have been kept outside our theoretical efforts through the simplifying assumption "all else being equal". If conditions are different from average, the implications might differ quite substantially from the ones presented above. One could argue that some of these conditions may relate to the *why*, *where* and *how* a given strategy is developed or deployed.

The *why* relates to the motivations behind a given strategic choice. For instance, whereas all acquisitions put at least some pressures on stakeholders, an acquisitive growth strategy primarily motivated by the exploitation of revenue synergies like cross selling or the acquisition of new resources and capabilities might successfully combine with an integrative stakeholder strategy. In the case of Solvay, a world leader in several chemical categories and specialty polymers, acquisitions were much more finalized to acquire new technologies and to develop the

company's product portfolio than to exploit cost synergies. These acquisitions enabled Solvay (i) to reinforce a differentiation strategy based on technological excellence and the capability to tailor applications and solutions for customers of several industries; and (ii) to increasingly integrate the protection of natural environment in its stakeholder strategy, leveraged also to create distinctiveness on the product markets, without undermining its commitment to employees.

The *where* concerns the industries or the geographic areas in which a firm operates. For instance, an arms-length stakeholder strategy does not fit businesses where "value creation involves high task and outcome interdependence" (Bridoux and Stoelhorst, 2016, p. 230; Jones and Felps, 2013). As another example, in countries where national corporate governance institutions ensure a strong legal protection of the employees' rights, asset restructuring and resource redeployment of the target firm during the post-acquisition phase are problematic (Capron and Guillèn, 2009). Therefore, the value-enhancing capacity of the combination of acquisitive growth and arms-length stakeholder strategies is weakened.

The *how* involves the way a given strategic choice is implemented. For instance, a stakeholder integration strategy based on procedural and interactional justice may be compatible with strategic choices – like cost leadership or acquisitive growth – that are expected to entail trade-offs among stakeholders. The reason is that procedural and interactional justice may "compensate for the fact that a genuinely fair distribution of tangible value among stakeholders is elusive" (Harrison et al., 2010, p. 65).

Finally, stakeholders' motivations and expectations may influence the pay-offs of firm's strategic choices. For instance, when self-regarding stakeholders, who "are motivated to create value from a purely self-serving concern", prevail over reciprocal ones, who "value fairness per

se", stakeholder strategies are likely to be more conveniently addressed toward an arms-length logic (Bridoux and Stoelhorst, 2014, pp. 113-114). The case in point might be the classic comparison between Ryan Air and Southwest Airlines, both highly successful low-cost carriers characterized by similar competitive and corporate growth logics, but radically different stakeholder strategies. Ryan Air implemented the second "optimal" bundle of strategic choices described above, except for the acquisitive growth, by setting up the expectations of its stakeholders at low cost and service quality levels. Southwest Airlines, instead, was able to succeed by implementing the first bundle (with a hybrid cost leadership/differentiation competitive strategy), by setting its customers and other stakeholders' expectations on highly engaged interactions and high quality service, despite the low cost and price levels. The success of Southwest relies upon "a) a strong culture built on a value system that puts employees first, customers second, and shareholders third, and b) a way of thinking about and treating employees that has built loyalty and commitment even with a heavily unionized workforce" (Pfeffer, 2005, p. 124).

**Towards an integrated research agenda**

So, what might be the next steps towards the development of an integrated theory of strategy, besides some of the points made above? To answer this question, even in a cursory way, it is necessary to be more explicit about the major theoretical categories that are missing from our analysis, despite the fact that they might be playing a major role in shaping the strategic behavior of firms, as well as in determining its consequences.

First of all, we expect that the consideration of a richer set of alternatives and strategic options for each decisional dimension considered will lead to a deeper comprehension of the integrative mechanisms among strategic choices.

Even if future work could improve on the limited selection of strategic choices considered, the overarching theoretical model encompassing causes and consequences of an integrated model of strategy would still be largely incomplete, however. To this end, we have tried to represent in Figure 5 an overarching framework that we propose as a possible way to conceptualize the broader linkages between strategic processes and the other organizational elements within the firm and in the firm's interactions with its stakeholders.

INSERT FIGURE 5 ABOUT HERE

Such agenda describes the interplay between the main elements influencing the evolutionary change and adaptation of the focal organization in its dynamic interactions with the various stakeholders. Both the focal organization and its stakeholders experience similar internal adaptive processes (or lack thereof) among key organizational elements such as: purpose, governance, strategies, investments in resources and capabilities and the resulting initiatives that are meant to realize the strategic intent and, in the end, the purpose of the organization.

The performance outcomes of such initiatives, which are designed to implement strategic intent, are the result of (a) the interactions between the firm and its multiple stakeholders, (b) the influence of the pre-existing stock of capabilities and relationships.

This overarching framework generates two lines of inquiry. The first focuses on the internal co-evolution of purpose, governance, strategy and resource commitments, eventually

with the feedback loop provided by performance outcomes of the strategy implementation initiatives. The second has to do with the co-evolution of the firm's and its stakeholders' organizational elements, generated by the interdependence in the execution of each respective strategy implementation projects and initiatives.

As far as the first line of inquiry, future scholars might tackle questions related to the interdependence between strategic choices, governance structures and overarching purpose of the firm. Of particular interest might be the evaluation of the performance outcomes generated by bundles of strategic choices in terms of their alignment with firm purpose and governance structures. Future scholars might also endeavor to fill the gaps related to the interaction of strategic decisions with fundamental governance rules, such as choices related to sharing of residual among the different classes of stakeholders (see e.g. Coff, 1999; Klein et al., 2012).

For what concerns the second, related, line of inquiry, researchers could examine, in a dynamic framing, the evolutionary processes that might explain the firms' capacity (or lack thereof) to innovate and adapt the different elements of the entire enterprise system described above to changes in customers and other stakeholders' organizational traits (purpose, governance, strategy, etc.). This line of theoretical development inquiry would then form a fertile basis for empirical work on innovation and adaptive change processes that involve the full spectrum of organizational traits, over and beyond the limitations of current models of firm evolution focusing primarily on its (routinized) behavioral traits (Zollo, Cennamo and Neumann, 2013).

More specifically, future scholars might address questions such as: how do we understand the role of firm-stakeholder interactions in a model of performance outcomes generated by strategy implementation processes? What explains, for instance, the stocks of relational quality,

as well as of shared knowledge and capabilities[9], linking the firm with its stakeholders, and influencing the quality of the performance outcomes co-generated in the process? And how are these performance outcomes influenced by the (positive and negative) interdependencies among different classes of stakeholders, with their different interests, contributions, governance roles and influence power?

Furthermore, the performance outcomes create powerful feedback loops that constitute stimuli not only for future rounds of strategy-making activities across different domains, but also for their potential influence on the antecedents of strategy-making processes, such as purpose and governance rules. In particularly high levels of opening to firm-stakeholder collaboration, selected members of different stakeholder categories could be involved in the firm's strategy-making process itself. The involvement of representative members of stakeholder categories in strategic decisions is, in and of itself, an important venture for future work. Consider for instance the first-level suppliers in the Toyota system (Dyer, 1996; Dyer and Nobeoka, 2000) or the structural arrangements related to the involvement of users (Von Hippel, 1986) and of external communities of experts (Chesbrough and Appleyard, 2007) in user-driven or crowdsourcing-led innovation processes. How does the sharing of the actual decision-making power evolve with the development and refinement of firm-stakeholders interaction routines, with eventual enhancement of relational quality, and (most importantly) with the variations over time of the quality of the performance outcomes produced?

As a final methodological note, the empirical validation of this integrated model of strategy, and of its future evolutions, will most likely require a significant effort in the mix of

[9] We refer here to inter-organizational routines and capabilities (Zollo, Reuer and Singh, 2002) that can have as object either the joint execution of strategy implementation initiatives or the change and adaptation of such operating routines, which accumulate in a stock of competences over time to eventually develop inter-organizational dynamic capabilities. This is a generalized version of the notion of inter-organizational routines, initially developed to understand inter-firm partnerships and applied here to the broader domain of firm-stakeholder collaborations.

research designs and methodologies to tackle such a complex task. Observing the evolution of the interdependencies among strategic decisions, of their mutual influences on the production of customer and stakeholder advantage, and of the overarching purpose that shapes the functioning of the enterprise model is all but a standard research endeavor. For instance, it might require a significant investment in capacity building by the strategic management community related to the engagement of business organizations and their stakeholders in the co-production of research designs that can generate higher quality of observation of the phenomena described, better quality of evidence produced (for instance, through the design of collaborative field experiments in pilot projects) and a collaborative distillation of the insights from the empirical inquiry. The development of "engaged scholarship" (Van de Ven, 2007), implicitly applied already in complex research programs in engineering and medical fields, will be required if the strategic management field will want to move from the intellectual exercise of building an integrated model of strategy to its empirical validation, and consequent, evidence-based, refinement[10].

This is a complex and challenging endeavor, no doubt, but one that can do justice to the significant potential of our field to produce integrative knowledge and insights for future generations of scholars as well as for the (actual and potential) users of such knowledge, our core stakeholders, in the business firm, in the government and in civil society.

**Acknowledgments**

We thank editor Jay B. Barney and two anonymous SMJ reviewers for several insightful comments and suggestions that helped us clarify and develop our ideas. We also thank all the

[10] See also the experience of the Global Organizational Learning and Development Network (GOLDEN, www.goldenforsustainability.com) in the use of engaged scholarship for the study of firms' transition towards stakeholder oriented forms of enterprise.

participants to seminars at Bocconi University, EM Lyon, INSEAD, University of Utah, and to conference sessions at Academy of Management, EURAM, EGOS and SMS (including the Zurich extension on “Tensions in Stakeholder Research” of the 2016 annual conference), for their helpful comments.

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Table 1. Integrative mechanisms across strategic choices in different domains

| INTEGRATION MECHANISMS | EXPLANATIONS |
|---|---|
| Stakeholders synergies | One type of strategy creates value for two or more (groups) of stakeholders simultaneously. The satisfaction of one stakeholder class facilitates the satisfaction of other classes of stakeholders, including customers. |
| Resource or capability spill-over | A given resource (or capability) can be leveraged to implement two or more strategies. |
| - *Adaptive Change (dynamic) Capabilities* | A firm's capability to initiate and deploy organizational change to respond to interests and needs of one class of stakeholders (customers included) on a specific issue can be leveraged to tackle related strategic issues of relevance for other classes of stakeholders. These capability spill-overs might act through deliberate processes (problem-focused sensing, sense-making, search, selection, experimenting, scaling) as well as unconscious or unintentional processes, such as "pre-adaptation" ones (Cattani, 2005). |
| - *Learning Capabilities (e.g. double-loop learning)* | The development of organizational capabilities specific to collective learning processes necessary to tackle a given strategic issue can be applied to develop capabilities necessary to tackle other strategic issues. Examples include knowledge articulation (ex. brainstorming and debriefing) and codification (ex., post-event auditing and analysis of performance outcomes) processes (Zollo & Winter, 2002). |
| - *Relational Capabilities* | A firm's capacity to initiate and develop trust-based relationships can support the deployment of different strategic choices, to the extent that their implementation requires high relational quality for sharing of know-how (Zander and Zander, 2005) and of private information (Harrison et al., 2010). They are considered to be embedded in informal rules and norms (relational contracts) as well as in more formal behavioural processes (routines, structural arrangements, dedicated artefacts). |
| Organizational culture spill-overs | The depth in shared values and beliefs characterizing certain organizations influences the development and the quality of the execution of different types of strategic choices. For instance, different types of stakeholder culture (Jones et al., 2007) or strong core values "about how to treat employees, customers, suppliers, and others" (Barney, 1986b, p. 656) can affect the design and deployment of strategic initiatives. |
| Feedback effects | The degree of satisfaction of a given stakeholder for the value received affects its commitment and support to managers for the implementation of a given strategy (arrow D1 in figure 3) or the magnitude and quality of its contribution to the stock of firm resources and capabilities (arrow D2 in figure 3). A certain strategy involves learning activities which, in turn, influence the stock of a given capability (arrow D3 in figure 3). |

Table 2. The eight bundles of competitive, growth and stakeholder strategies and their expected impact on value creation on a comparative basis.

| | Bundles of three strategic choices | Binary combinations (Proposition 1) | Binary combinations (Proposition 2) | Binary combinations (Proposition 3) |
|---|---|---|---|---|
| 1 | DIFF + INT + ORG (**higher**) | DIFF + INT (**higher**) | INT + ORG (**higher**) | DIFF + ORG (**higher**) |
| 2 | COST + ARM + ACQ (**higher**) | COST + ARM (**higher**) | ARM + ACQ (**higher**) | COST + ACQ (**higher**) |
| 3 | DIFF + INT + ACQ (lower) | DIFF + INT (**higher**) | INT + ACQ (lower) | DIFF + ACQ (lower) |
| 4 | DIFF + ARM + ACQ (lower) | DIFF + ARM (lower) | ARM + ACQ (**higher**) | DIFF + ACQ (lower) |
| 5 | DIFF + ARM + ORG (lower) | DIFF + ARM (lower) | ARM + ORG (lower) | DIFF + ORG (**higher**) |
| 6 | COST + ARM + ORG (lower) | COST + ARM (**higher**) | ARM + ORG (lower) | COST + ORG (lower) |
| 7 | COST + INT + ORG (lower) | COST + INT (lower) | INT + ORG (**higher**) | COST + ORG (lower) |
| 8 | COST + INT + ACQ (lower) | COST + INT (lower) | INT + ACQ (lower) | COST + ACQ (**higher**) |

DIFF = Differentiation competitive strategy
COST = Cost leadership competitive strategy
INT = Integrative stakeholder strategy
ARM = Arms-length stakeholder strategy
ORG = Organic growth strategy
ACQ = Acquisitive growth strategy
Higher = higher value creation (following Propositions 1, 2, 3, 4)
Lower = lower value creation (following Propositions 1, 2, 3, 4)

Table 3. The action of integrative mechanisms in bundle 1 and bundle 2 of strategic choices.

| INTEGRATION MECHANISMS | BUNDLE 1 | BUNDLE 2 |
|---|---|---|
| Stakeholders synergies | Stakeholder integration can be a lever of differentiation strategy (e.g., it attracts customer segments sensitive to how stakeholders are treated along the supply chain).<br>Differentiation and organic growth impose lower trade-offs among stakeholders. Hence, each strategic choice reinforces the likelihood of success of the other. | The combination of strategic decisions sets up customers and other stakeholders' expectations in a coherent message of value generation logic based on cost efficiency and competitive pricing.<br>Cost leadership on product markets is strengthened by savings from lower stakeholder integration and cost synergies from acquisitions |
| Resource or capability spill-over: | | |
| - *Adaptive Change (dynamic) Capabilities* | Stakeholder integration, organic growth and differentiation strategies rely on similar adaptive change capabilities of sensing, searching and tailoring the solutions to stakeholders' (including customers) needs and expectations. | Cost leadership and acquisitive strategies may leverage similar capabilities of product or process simplification and standardization. An arms-length stakeholder strategy makes these capabilities' deployment less problematic given the lower expectations set for engagement and tailoring of strategies. |
| - *Learning Capabilities (e.g. double-loop learning)* | Each strategic choice relies on highly interactive and collaborative processes. Underlying capabilities tend to develop through knowledge sharing and open feedback giving. Collective brainstorming and joint development of insights from | These strategic choices are characterized by transactional exchange and related capabilities. Learning processes that can spill-over across them are typically characterized by information flows related to negotiated, arms-length, outcomes |

| | collaborative experiences can also take place as by-product of the highly engaged context in which these strategies operate. | (prices, conditions, observed behaviour during and after negotiations, etc.) |
|---|---|---|
| - *Relational Capabilities* | Differentiation, organic growth and stakeholder integration strategies leverage similar relational capabilities related to knowledge and information sharing (Harrison et al., 2010) and trust-based processes (Zander and Zander, 2005). | Capabilities embedded in a transactional mode of interaction (Bridoux and Stoelhorst, 2016) enable a firm's managers to fully exploit their bargaining power in contracting with their resource providers or other counterparts. They thus support the successful deployment of arms-length, acquisitive and cost leadership strategies. |
| Organizational culture spill-overs | Differentiation strategy and organic growth are more likely to be consistent with broadly moral stakeholder cultures (Jones et al., 2007) that underpin integrative strategies. | The three strategies that form bundle 2 share more traits of moral stewardship, embedded in instrumental and agency logics (Jones et al., 2007). |
| Feedback effects | Differentiation and integrative stakeholder strategies reinforce each other through the development and deployment of similar adaptive change and relational capabilities. The implementation of these strategies through relational and trust-based processes enhances the stock of resources and capabilities as well as the stakeholders' support to foster organic growth. | The three strategies that form bundle 2 reinforce each other since each of them contributes to build transactional capabilities that, in turn, sustain the implementation of the other two. |

Figure 1. The elements of the "entrepreneurial formula" and its distinctive traits in successful firms (Coda, 1984; 2012)

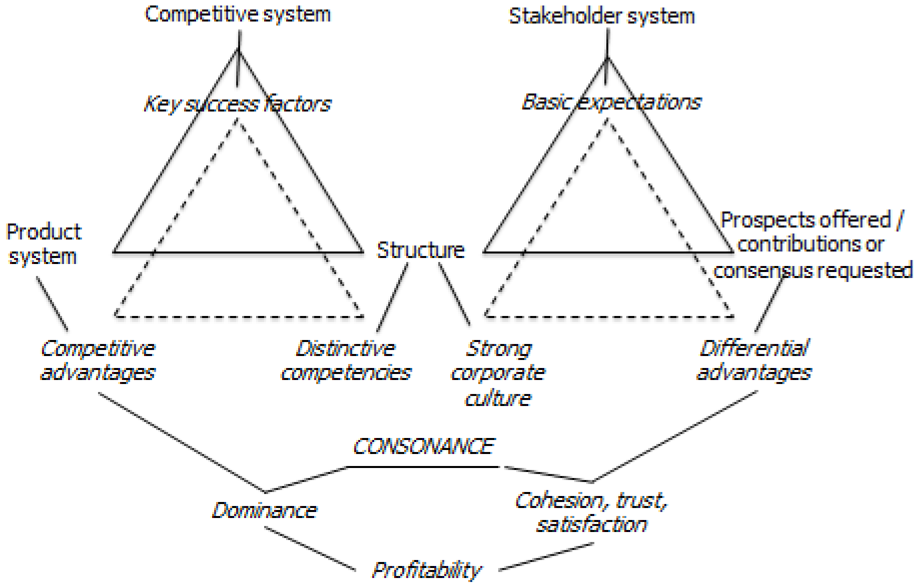

Figure 2. Joint effects of strategic decisions on performance

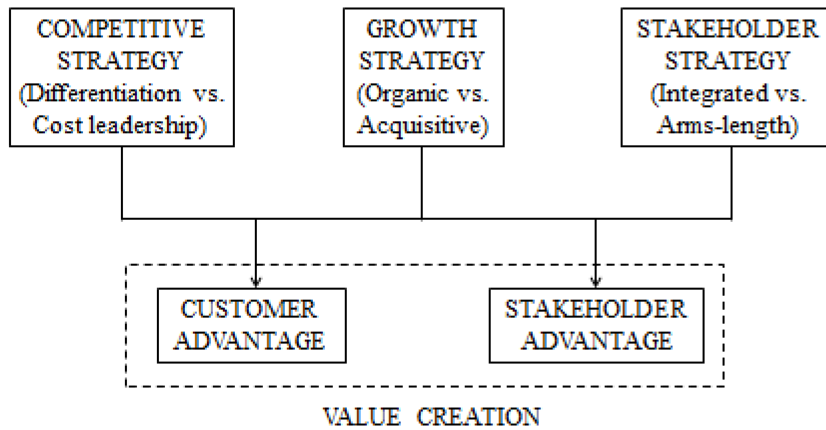


Figure 3. Mechanisms of integration among strategic choices

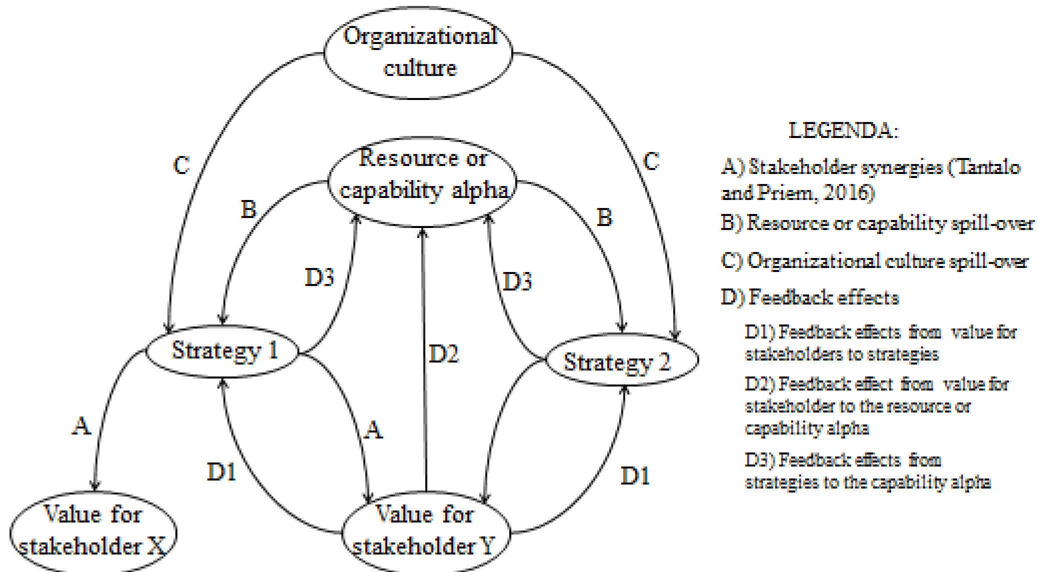

Figure 4. The three binary propositions

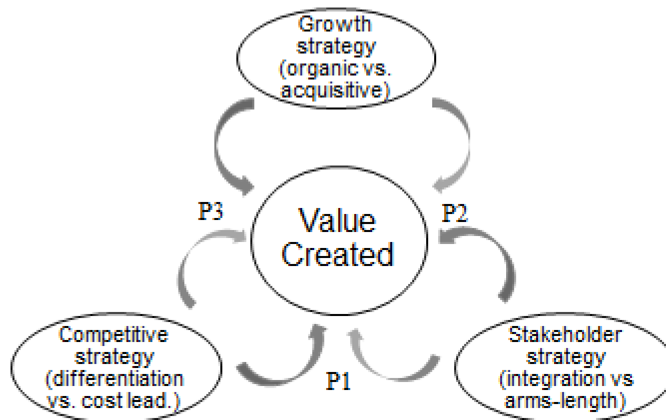


Figure 5. A simplified picture of a research agenda