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THE NEED FOR INSTITUTIONAL CHANGE AS PREREQUISITE FOR ECONOMIC GROWTH AND ITS CONSEQUENCES FOR THE FIELD OF MANAGEMENT, STRATEGY AND ORGANIZATION

Prof. Dr. J. Strikwerda

Amsterdam graduate Business School – University of Amsterdam

Nolan, Norton & Co., De Meern-Utrecht
Nolan Norton Institute, De Meern-Utrecht

e-mail: ~~strikwerda@fee.uva.nl (which in some time will change to:~~ j.strikwerda@uva.nl)

Abstract

If the field of business administration, especially management and organization is to contribute to the next wave of growth of the economy, it has itself to ask the question whether this field, as product of the economy of the second industrial revolution and its institutions, is equipped to assist board members, managers and students to provide guidance in decision to be made and actions to be carried out. The next wave of growth will be based on exploiting knowledge and other intangible assets, whereas the economy of the second industrial revolution is based on the exploitation of physical assets and energy. This shifts affects the institutions of capitalism: property rights, corporate law and labour law. With that the foundations underlying the field of management control are affected, and thus organization, strategy and organizational psychology. As concepts for management and organizations will be needed in the next era, the field of management and organization not so much needs to be reinvented as parts of the existing economy will

continue to exist, a new field of management and organization has to be added to the existing field, else management and organization not only will marginalize, but will become a stumble block in the economic process.

Economic growth

The title of this conference raises a number of questions with respect to the field of management, organization and strategy. The trust by CEO's and the public in this field in waning. A number of developments is going on with respect to the fundamentals of the field, requiring it to enter alliances with other professionals, like lawyers and (chartered) accountants and management control. If this field does not reconsider its fundamentals and its role in society, it will find it self vulnerable with respect to resources needed for research and education. This field needs a new strategy and needs to reconsider its internal strive and turn it into a new strategy, in order to contribute to society.

Many question whether there will be a recovery of the economy. As it seems the hope on the or a new economy has evaporated with the burst of the Internet-bubble. Not being an economist myself, I have been trained in business administration, I have to tread their minefield carefully and not touch their holy cows. As a strategist I must have an understanding what is happening in the economy, as a first start for strategy consulting. I highly appreciate the work of economists; they provide valuable insights for managers. I full heartedly agree with Keynes when he states: "Practical men, who believe themselves to be quite exempt from any intellectual influence, are usually the slaves of some defunct economist."[1] Often I wonder whether we in the field of management consulting also are such practical men, enslaved not only by some defunct economist, but even more often by our own ideas and models. However, due to the nature of their methods and thoroughness of analysis, the analysis and useful theories of economists are often

[1] John Maynard Keynes (1883–1946), *The General Theory of Employment, Interest and Money,* ch. 24, "Concluding Notes" (1936).

too late for entrepreneurs to grasp opportunities and change course when needed. Thus entrepreneurs have to be intuitive economists, seeing (large) disequilibriums as sources of new wealth, usually without rigorous quantitative analysis.[2]

The big question at this moment is whether we will suffer a period of a snake like economy, hovering around zero economic growth, or whether there will be a period of economic growth. Of course we all hope there will be a period of economic growth, as by hope man alone lives. A strong hope however easily will distort our perception of reality, and we risk seeing things that are not real. This is what happened in the second half of the nineties (which in hindsight were not that spectacular compared to the sixties).

	1990s	1990s (second half)	1980	1970	1960
Real GDP growth (%)	3.2	4.0	3.0	3.3	4.4
Unemployment rate (%)	5.8	5.0	7.3	6.2	4.8
Inflation rate (%)	2.9	2.4	5.1	7.4	2.5

Figure 1. Table from: (Blinder & Yellen, 2001).

This was a high growth economy, low inflation, low unemployment suggesting some to conclude that we had entered a new economy.[3] In hindsight the economic growth in the USA after 1993 was based on five factors:[4]

- The budget of the US government had been changed from ever increasing to a surplus, due to the budget agreement of 1990;

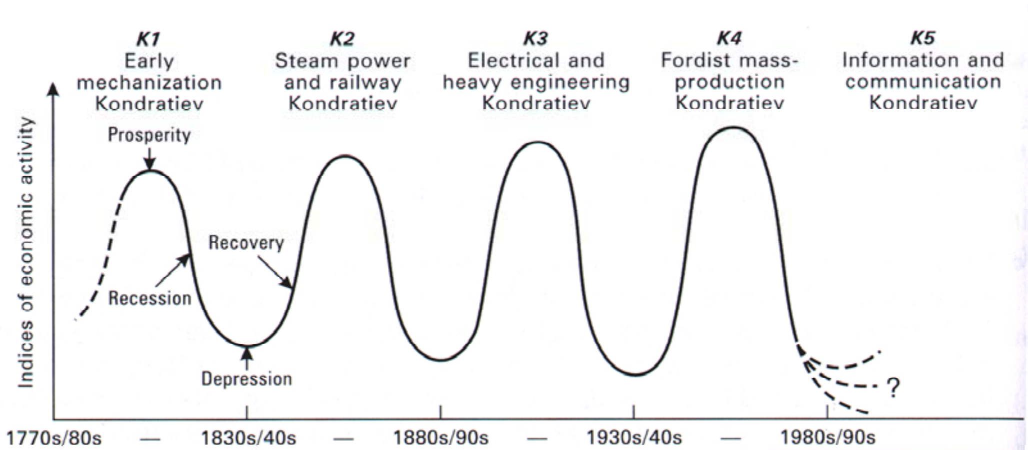
[2] Thurow, *Building Wealth: The New Rules for Individuals, Companies, and Nations in a Knowledge-Based Economy* .
[3]Greenspan, *Is There a New Economy?*
[4] Based on: Blinder & Yellen, *The Fabulous Decade: Macroeconomic Lessons from the 1990s* .

- The American economy, including its businesses had been restructed rigorously in the eighties, in addition to which the exchange rate of the dollar had fallen, making the US companies again competitive on the world market.
- The Fed had lowered the real interest to zero and stimulated the growth of the money supply .
- The oilprices were down
- The costs of ICT hardware and software strongly declined, boosting investments in ICT, creating growth in that industry, creating a capital deepening, increasing labour productivity and overcapacity in the ICT industry and in the ICT installed base in the economy at large.

Most likey we have confused a temporarily upswing in the economy, as is typical for a structural change in the economy, with long-term developments. As prof. Debora Spar of Harvard University suggests in her *Ruling the Waves*,[5] the controversy we now have with CEO's, applauding them one moment and sending them away the next, as in the cases of Vivendi and Bertelsmann, is typical for the coming of age of a new infrastructure technology in the economy, we have seen this before in history. This time the infrastructure technology is the Internet, including the new digital telecommunications networks worldwide, including satellites.

As some suggest, it is the digital, Internet based infrastructure that is underlying the fifth long Kondratiev wave.[6]

[5] Spar, *Ruling the Waves: Cycles of Discovery, Chaos, and Wealth from the Compass to the Internet*
[6] e.g. Dicken, *Global Shift: Transforming the World Economy* p. 148.



Infrastructure	Trunk canals Turnpike Roads	Railways Shipping	Electricity supply and distribution	Highways Airports/airlines	Digital networks Satellites

Figure 2. Adapted from Dicken, 1998:148.

As a consequence it is not the Internet or ICT itself that will be the carrier of the fifth long wave, ICT will become a utility.[7] Some have argued and analyzed that we are now entering the next upwave that will last probably to 2015.[8] Whether we are on the verge, or probably already in the beginning of the upward wave of the fifth Kondratiev is a question we could fill many conferences with. One of the core questions of course is which economic activity, which consumer spending will be the carrier of this next wave, it most likely will not be the traditional IT, but digital technology will play a larger role.[9] Most likely the growth will center around spending on content, experiences, images, ‘producing signification’ and other intangible economic goods.[10] Consumers (in the western world) already demonstrate a shift towards experiences and content that is significant in economic terms.[11]

As my purpose in this paper is to reflect on the basics and assumptions underlying the field of management and organization, I will not enter into proving whether it is true or not that we are entering a new period of growth, I will assume so based on historical

[7] Economist, *Coming of Age: A survey of the IT industry*
[8] Chevallier, *Greenspan's Taming of the Wave: New Storms challenging the new economy* ; Kelly & Leyden, *What's Next? Exploring the New Terrain for Business*. , p. 31.
[9] Schiller, *Digital Capitalism: Networking the Global Market System*
[10] Sternberg, *Transformations: The Forces of Capitalist Change*.
[11] Rifkin, *The Age of Access: The new culture of hypercapitalism where all of life is a paid-for experience*

patterns, a number of signs[12] and based on the nature of the western men, to achieve things that do not follow from the natural flow of things: we simply want growth and prosperity.

Management and organization in the new period of growth

Confronted with the idea of a new period of growth, management consultants in this field rejoice with talking about alliances, network organizations, and other solutions to, yes to what? There is talk about knowledge management (systems), leadership and many more issues and fads. By its publications, the field suggests it is innovative, creative and has an understanding on basis of which they can assist managers and boards in addressing the new challenges. I want to question this self-image and this claim of understanding what is going on and with that whether our present ideas and solutions are of value in the next economic period. The authors quoted here before arguing that we are entering the long upward wave of the fifth Kondratiev talk about impediments to be removed in order to materialize that growth. Over-indebtedness, inflation, weeding out redundant investments are some of these.

When I look into textbooks used for students in management and organizations, I see no signs of innovation. E.g. A text like *Organization Modelling: Innovative Architectures for the 21st Century*[13] only reflects the economy of the second industrial economy. Eisenhardt & Santos' paper *Knowledge-Based View: A New Theory of Strategy*[14] is a needed and valued contribution but lacks a foundational approach. Texts on management control[15], organizational behaviour[16] and organization development[17] remain as traditional as ever. Traditional organization models, traditional recipes for strategy (I appreciate very much D'Aveni's *Strategic Supremacy*[18], but it should be extended to the

[12] Chevallier, *Greenspan's Taming of the Wave*, p. 135 - 146.
[13] Morabito*, et al.*, *Organization Modeling: Innovative Architectures for the 21st Century*
[14] Eisenhardt & Santos, *Knowledge-Based View: A New Theory of Strategy?*
[15] e.g. Anthony & Govindarajan, *Management Control Systems*; Merchant, *Modern Management Control Systems*
[16] e.g. Greenberg & Baron, *Behavior in Organizations: Understanding and Managing the Human Side of Work*; Rollinson, *Organisational Behaviour and Analysis: An Integrated Approach*
[17] e.g. French & Bell, *Organizational Development: Behavioral Science Interventions for Organization Improvement*
[18] D'Aveni, *Strategic Supremacy: How Industry Leaders Create Growth, Wealth, and Power through Spheres of Influence*

worlds of horizontal competing[19], unbundling[20] and network industries[21])[22] dominate even recent publications (e.g. Porter).

What we have to be aware of is that the field of management and organization as it is today, is the product of the economy of the second industrial revolution (1875 – probl. 1975[23]) and its institutions. The theories, models, ideas and issues have been framed elaborated, researched, published and taught mostly since the work of Taylor.[24] Within that framework there certainly is an attitude of learning, innovation and of moving its boundaries.[25] However there is also an attitude of *dominant logics*[26], conformism and a tendency to refine models and theories instead of stepping out of the field in order to see the field. Many books on management and organization on a closer inspection turn out to be merely ISBN-numbered firm brochures featuring idiosyncratic models not tested in the public academic discourse.[27] To which I must hasted to add that in the non-linear world of business and markets it is virtual impossible to test models, certainly over a longer period of time.[28]

The foreseen economic upwave is conditional on the adaptations of our institutions: "Rapid economic growth occurs where there is a strong positive match between the new techno-economic paradigm and the current socio-institutional framework. …

'Mismatches' occur where society and its institutions are not yet prepared for the new paradigm or style. In the latter case, a downsizing in the economy will occur, leading to slow growth or depression. This will be followed by an upswing when the necessary reforms are implemented to allow the new paradigm."[29]

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[19] Yoffie, *Introduction: CHESS and Competing in the Age of Digital Convergence*.
[20] Evans & Wurster, *Blown to Bits: How the New Economics of Information Transforms Strategy*
[21] Shy, *The Economics of Network Industries*
[22] Strikwerda, *Strategic Supremacy in a Network Economy*.
[23] Castells, *The rise of the network society*
[24] For an overview see: Sibbet, *75 Years of Management Ideas & Practice* , but it should be noted that the field has a number of forerunners in the first industrial revolution, e.g. Charles Babbage (1792-1871) as in: Urwick, *The Golden Book of Management: A historical record of the life and work of seventy pioneers*.
[25] As advocated by Feyerabend, *Against Method: Outline of an anarchistic theory of knowledge*
[26] Prahalad & Bettis, *Dominant Logic*.
[27] Nolan, Norton & Co., the firm I work with, since 1999 has published its *Annual* (www.nolannorton.com).
[28] The icon of this problem is the book Peters & Waterman, *In Search of Excellence: Lessons from America's Best-Run Companies* , most of its featured businesses were in trouble ten years later.
[29] Perez, *Structural Change and the Assimilation of New Technologies in the Economic and Social System*.

The question we have to ask is, what are the institutions on which the present field of management and organization is based, and what happens or may happen to those institutions in the changing economy? Only if we understand what is happening to the change in these institutions, we can start developing a new field of management and organization, in order to contribute to that it will be a pillar and not a liability in the next economic growth (it has to be understood that the field and its basic as it is today, will remain to exist, but its relative importance will diminish).

Our institutions

Williamson identifies "firms, markets, and relational contracting as important economic institutions."[30] However the economy itself is based on a number of societal institutions, amongst which are corporate law, property rights and contract law. As a consequence the field of management, strategy and organization operates within these institutions, respectively is based on and bounded by those institutions. Many management consultants proposing new organization forms to multinationals had to withdraw their advice the moment tax lawyers judged their constructions to implicate a fiscal penalty for the firm. Most MNC's run operational organizations distinct from legal organizations for fiscal and finance reasons. The disciplines reconciling these two are controllers (management accounting), fiscal and corporate lawyers, strategists usually do not play a role in this. When it is about the questions what firms do to each other in terms of strategic moves and power games, students must be referred to the literature on industrial organization, this is the literature used in court cases on (real) strategic behavior.[31] Lawyers and economists, not management consultants, prepare and run anti-trust and competition court cases.

The field of management, strategy and organization in full comprises a number of disciplines: law, economy, management accounting, organizational behavior, business administration and industrial engineering. A number of developments in technology and

[30] Williamson, *The Economic Institutions of Capitalism*, p. 15.

[31] See e.g. Carlton & Perloff, *Modern Industrial Organization*; Waldman & Jensen, *Industrial organization: theory and practice*

the economy, as well in the sociology of society, force us to reconsider the connection between these fields and their underlying assumptions.[32]

The first development is the effect of the use and the exploitation of specific knowledge on the legal basis of the internal organization of the firm. The second development is the shift of scarce goods in the economy and its consequences on strategy and organization design. The third development is what is called *horizontal competing* and *unbundling* and its accompanying new power relations that can force firms to change strategies and their internal organization.

The shift from exploiting generic knowledge to specific knowledge

The legal basis of the internal organization of a corporation (vennootschap) organized firm is based on a partial application of the Roman concept of ownership. In this concept distinction is made between:

- the right to use a good (*ius utendi*);
- the right on the rents from the good (*ius fruendi*);
- the right to sell, change or destroy the good (*ius abutendi*).

The same Roman concept allows that these rights are transferred to a third either complete or partially. The firm of the second industrial economy is typical a physical assets firms, in that rents are based on physical assets, not on knowledge, certainly not that of the workers. The workers were delegated the right to use assets, but not the *ius fruendi* neither the *ius abutendi*. The management of the firm simply could control the firm by controlling the physical assets and its physical products. Due to the Taylor system and the Ford-system the firm was not vulnerable to employees leaving the firm, except some key foreman and technical specialists; most employees could be replaced within minutes. The employee received a fixed salary and the *residual claim* belonged for hundred percent to the shareholders. Although this system did away with the traditional (Puritan) value of experiencing a direct relationship between effort, success and income, the system of scienctific management did solve two problems in society: raising the income of unskilled or low educated workforce, it introduced a reasonable system of income distribu-

[32] Strikwerda, *Wat is ondernemingsbestuur?*, see also: Strikwerda, *Postmodernisme, postmoderne organisaties en implicaties voor management control*.

tion and especially it solved the problem of the financiers to increase the productivity of the huge sums invested in new technology and plants. By the way, another institutional change in that time, to enable the new technology to create economic growth, was the change in the concept of ownership: from being a right of access to, it became the right to exclude other from property and its use.[33]

The workforce gained access to wealth they could not have created themselves individually. The increase of labor productivity and welfare simply proved the value of the system. That increase is in it self no evidence that such a system can or will last forever.

From unpublished data on the performance of retail branches in the Netherlands it is known that those branches operating as franchise by all accounting parameters do better as branches own operarated by the chains under salaried management. All major food retail chains *sub rosa* acknowledge this difference. This phenomenon is sign of a fundamental development. This development is the changing nature of knowledge as being exploited by firms and being used to control firms. Jensen and Meckling discern between general knowledge and specific knowledge.[34] Specific knowledge is costly to transfer between persons and between departments. General knowledge is rather simply and with acceptable costs transferable between persons and departments. Specific knowledge may be on processes, quality, customers, markets, distributors, and may be professional of nature. Specific knowledge for a large part is implicit, based on (personal) experience; not-codified en often applying existing knowledge to new situations creates this tacit knowledge. Specific knowledge is, as opposed to general knowledge, often concrete and not or difficult to codify, difficult to store in computer systems.[35] Specific knowledge is personal knowledge, carried by the individual, but it can be embodied as well in recurrent social patterns between individuals and groups (*social* or *organizational capital*). General knowledge simply is the opposite: codified, not embodied in persons or social systems, transferable. The economy of the second industrial revolution was an economy based on exploiting codified knowledge: chemistry, mechanics, electronics, and the task of scien-

[33] Rifkin, *The Age of Access*
[34] Jensen, *Foundations of organizational strategy*, p. 103.
[35] Boisot, *Information Space: A Framework for Learning in Organizations, Institutions and Culture*; Boisot, *Knowledge Assets*

tific management methods was to tranfer as much as possible any tacit knowledge to the realm of codified, general knowledge. This not only served efficiency, foremost it was core of the control of the firm. The field of management control as it is today, implicitly is based on the exploitation and use of general knowledge, and thus is the field of corporate governance.[36]

Since the growth of services in the economy and the employment of professional trained employees and professional work, there is a significant shift from codified knowledge to uncodified, specific knowledge. Its implications can be seen at many places, but more visible is the reluctance to accept the implications and to act accordingly. Its effects are visible where management finds itself out of control.

One example is in the manufacturing industry where I found that the board of a global operating, Asian based firm, had run out of instruments to increase further the efficiency of its factories, after thirty years of a continuous learning curve. A considerable number of its factories were losing money; it's ex factory prices were highest in industry. Its competitors had sold the same factories (products, processes) by MBO to its management, after which the efficiency of those factories sharply increased. This is an indication that to get the last mile of efficiency and quality improvement, the agency costs soar between workers and management, not between management and shareholders. Rajan & Zingales quote the case of Saatchi & Saatchi, in which the shareholder found itself out of ownership control due to the personal knowledge of the main professionals.[37] The key people of Saatchi & Saatchi left after some disagreement with the shareholders, taking with them the main customers and simply establishing a new firm.

It should be remembered that what created the third Kondratiev not only was technology and science, or even organization as defined by scientific management. What was changed in order that scientific management could prosper, was the nature of labour relations. The system of foreman accepting a job with his people, on the promise that the agent would not interfere with the way he would carry out that job and would distribute

[36] Strikwerda, *Postmodernisme, postmoderne organisaties en implicaties voor management control*.
[37] Rajan.

the profit, was changed into individual labor contracts, providing the employer full control over the work of the employee.[38] Today we see a movement in reverse direction.

So it is not so much the shift from an physical assets economy to a knowledge economy that makes the difference: it is the shift from general knowledge to specific knowledge that undermines the (traditional) field of management control, the theories of motivation in organizational behavior and the control of shareholders as defined presently. The failure of internal control basically is an ownership rights problem: personal knowledge is the property of the person who carries it. Agency costs and lack of effectiveness of management control resulting from this cannot not be restored by balanced scorecards, knowledge management systems and other methods and models that are based on the assumptions of the economy of the second industrial revolution. This has also far reaching consequences for the implementation of strategies. The field that is being tasked with implementing strategy is not strategic management; it is the field of management control.[39] Increasingly, as the example of the manufacturer shows, implementing strategies will involve legal decisions and will require the involvement of controllers and lawyers.

The example of Saatch & Saatchi also demonstrates, as do so many more examples in the professional field that (strategic control) of the firm no longer can be based on controlling physical assets. One of the oldest existing Dutch firms, the Erven Lucas Bols, established in the sixteenth century, a few years ago decided to do away with its bottling operation, concentrating itself on exploiting its brands. To control non-physical assets against misuse, copying, competition is a different business as is in the case of a physical assets. Often its protection is combined with complex processes (service, account management, co-development teams) in order to deter competition. The turn side of this strategy is an increased dependency on personal knowledge and thus less effective control on the operation. With the shift from exploiting physical assets to exploiting knowledge, reputation and other intangible assets, there is a shift from transaction contracts to service

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[38] Johnson & Kaplan, *Relevance Lost: The Rise and Fall of Management Accounting*
[39] Anthony & Govindarajan, *Management Control Systems*

or access contracts. The most famous example probably being the Encyclopædia Britanica, once a hefty one-time purchase of a large set of physical books, now it is a subscription service. As a result the value of the firm cannot longer be based on its physical assets, it must be based as well on its contracts with duration with customers. How fickle this can be became clear in the dot.com bubble, but nevertheless that experience: there is a shift from transactions to contract with *durée* without transfer of property rights.[40] Physical assets less and less will be dominant in creating rents for the firm. Also, as a consequence the boundaries of the firm no longer coincide with the boundaries of the corporation in which it is organized.[41] It is not simply that a firm may or not may enter into alliances with complementors or competitors, in fact each contract with suppliers and with customers increasingly becomes an incomplete contract with *durée* and thus has all the elements of an alliance.[42] As in such alliances value creating process are organized (combining specific knowledge from the partner and of the own firm) each such a contract becomes a profit center in the control model of the organization, as is the case of e.g. KLM-North West. However, what we see in the world of business is that in, I would say most cases[43], both consultants and controllers stick to old models of organization and control, thus hampering seriously the implementation of new strategies as dictated by the reality of the economy.

A number of cases I have put my nose in, I found that neither managers nor controllers think through what is going on. In the financial services industry in West-Europe e.g. the market is over served and mature. As a consequence the only scarcity in this market is the customer itself. Rents are earned on scarcity and on little else, thus the customer. So far I have found only two financial services firms in Europe that have made either the individual customer (private banking) or groups of customers (market segments) into the first accountable entity in their control system. In this way the risk is that the field of management consulting and of management control belong to those institutions that according to Perez are a liability in creating the growth of the fifth Kondratiev.

[40] Rifkin, *The Age of Access*

[41] Zingales, *In Search of new Foundations*.

[42] Gomes-Casseres, *The Alliance Revolution: The New Shape of Business Rivalry*

[43] I base this observation also on a number of postdoctoral theses either supervised by me or submitted to me for examination, written by controllers and CFO's.

If the economy is changing, which it does, we also have to change the economic model and the control model of the firm. In the Netherlands a number of firms and non-profit institutions are in a process what they call "het kantelen van de organisatie", tilting the organization, retaining or even re-introducing the matrix organization, whereas even Galbraith himself has declared the matrix-organization to be unworkable.[44] This tilting the organization is changing its orientation from products or professional specialties to customer groups. In itself this is a good start, still we observe a lack of effectiveness and result from this tilting.[45] We now understand this is due to two conceptual flaws: the first is that the control model of the firm and subsequently its planning en control processes are not adapted. The control model remains to be based on products or professional activities, not customers. The second is that what is needed is not the tilting of the organization, but needed is an unbundling of assets[46], customers being the main assets to be separated from resources and products. The reluctance to do so, most likely has its roots in company law, in which control is bases on full ownership of physical assets, customers cannot be owned in a legal way. Another source of resistance most likely is the dominant logics[47] in the practitioners in the field of organization and management.

The firm as nexus of contracts.

Williamson and other have defined the firms as being a nexus of contracts. They do so merely from the viewpoint that the legitimacy of a firm, according to Coase (Coase, 1991), is based on its capability to coordinate activities more effective and efficient as is the market able to do. What often is overlooked that, at least at the Continent, the corporation has evolved from the medieval partnership to finance trading on long distance. Originally the corporation was a contract between partners, not a legal person in itself. However to enable the required capital accumulation needed for the new technology and plants in the nineteenth century, to separate the capital of the firm from the capital of the entrepreneur, to attract outside investors and to create vertical integration through con-

[44] Galbraith, *Competing with Flexible Lateral Organizations*
[45] I base this observation on a number of cases in which I had to provide a second opinion, cases submitted to me by postdoctoral students and masterclasses with executives from the health industry in the Netherlands.
[46] Evans & Wurster, *Blown to Bits*; Hagel & Singer, *Net Worth: Shaping markets when customers make the rules*
[47] Prahalad & Bettis, *Dominant Logic*.

cerns, in the nineteenth century in all western countries the nature of the corporation was changed from a partnership, nexus of contracts into an legal entity itself, a legal person, that could own property, could sue en be sued and in its own name contracts can be closed.[48]

What we see in the case of alliances, contracts with suppliers and customers as described here before, we see that in economic terms the corporation, or at least the firm, moves back to a nexus of contracts. A firm like Shell is involved in a couple of thousands joint-ventures, so what precisely is Shell? Shell has a clear identity in the political and economic process, whether it has clear legal boundaries is a question to be asked. Shell management is aware of this phenomenon in terms of its responsibility toward society: each of those joint-ventures are audited against the operating procedures, including criteria for sustainability as mandated by Shell management. Also other companies have found that interest groups in society are piercing the corporate veil, when they hold the corporation accountable for upholding human rights, animal rights and concern for environment.

Still our models of strategic management, of even corporate governance, are based on the corporation as a separate legal institution, assuming its management being in full control on its assets, respectively its value creating processes. Fact is that in an increasing number of cases, both in manufacturing and in professional services, there is no way management can be in control in the way assumed in the models as are today, and as assumed by chartered accountants, and othersproposing new rules in order to restore the effectiveness of corporate governance.

Horizontal competing and unbundling

One might with al these fundamental changes ask the question how firms in the next economic growth will make profits, especially how they will manager their spheres of interests. For one thing should be clear, be it based on the writings of Fligstein[49] and D'Aveni, without a power strategy, no—sustainable—profits are to be made. As hinted, power decreasingly will be based on the control and ownership of physical assets.

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[48] Blumberg, *The Multinational Challenge to Corporation Law: The Search for a New Corporate Personality*; Raaijmakers, *Vennootschaps- en rechtspersonenrecht*

[49] Fligstein, *The Social Construction of Efficiency*.

A number of developments are adequately described to sketch a picture of the new field of competitiveness and thus power play. Yoffie and Chandler have made the case on how competition has changed in the industry of personal computing from vertical competition to horizontal competing.[50] The fight is not necessarily on product-market combination, but on controlling critical technologies and software for a range of products. Creating de facto standards, and thus connectivity, resulting in positive externalities, enhances the attractiveness of these technologies. The more consumers buy of such technology, the more these components and systems are applied in products, the more value is created for customer, without the need for additional investments by the manufacturer. Examples are Windows, its applications software. Intel has created a market pull to its processors by both quality and marketing, as did Nike vis-à-vis the its main distributor, Foot Locker.[51] Although fighting the standards war dates back to around 1900, in the case of e.g. electricity, the first time is was described for a wider audience was by Shapiro and Varian.[52] Still why do authors like Porte focus on cost leadership or differentiation?
Dunning and Wymbs define three critical ownership rights for the economy as it develops presently: Property right based on technology (e.g. Intel), property right based on standards (e.g. Windows), property right based on preferred customer interface (e.g. Dell, Amazon).[53] Basically these property rights define the new scarcities in the economy as to be exploited and controlled in terms of spheres of interests.

Related to this others see a new pattern of specialization on industry level. Hagel & Singer see firms specializing either in customer interface, or product innovation (including content development, e.g. movies, games) or operating infrastructures.[54] To these immediately have to be added the standard architects, integrators and orchestrators. Which role an individual firm can take or develop, depends on its power position vis-à-vis others in the relevant industry. Still little of this is reflected, although properly documented, in recent publications on strategy.

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[50] Chandler, *Inventing the Electronic Century: The Epic Story of the Consumer Electronics and Computer Industry*; Yoffie, *Introduction: CHESS and Competing in the Age of Digital Convergence*.
[51] Wall Street Journal, May 13, 2003.
[52] Shapiro & Varian, *Information Rules: A Strategic Guide to the Network Economy*
[53] Dunning & Wymbs, *The Challenge of Electronic Markets for International Business Theory*.
[54] Hagel & Singer, *Net Worth*

What is to be done?

Many in the field of consultancy, of management and organization, talk and teach about learning organizations. I would like to raise the question whether we, in business administration, organization, management, change management, strategy, are really a learning field. We undoubtedly have the capacity to do and to be so. The old Piaget has taught us that we do not start thinking before we hit the wall. So the first question is whether we acknowledge that we have hit the wall? As with the psychology of management of change, the first response to this suggestion will be: denial. I don't need to explain the next phases.

For me, D'Aveni's concept of strategic supremacy was an enormous help to escape from the dead end strategic management had run into. It also demonstrates what is needed, a perception of the field in total one as a practitioner, as an academic is part of. One of my students has written a postdoctoral thesis on the agricultural industry in the Netherlands, using D'Aveni's concept of strategic supremacy.[55] It clearly demonstrates that the problem the farmers live with, gradual eroding income over the years, only can be overcome by changing the perception, redefining their social perception, and acknowledging from what larger power play, not just European politics, they are part of. In the same fashion we have to change the perception of our field. No longer we should look at management and organization from the perspective of our field, we should look at our field from the perspective of management, or even from the perspective of society: what do we contribute to the development of society. We have to acknowledge that our field is subject to power play and power positions: the role of the publishers (books and journals, edutaining seminars commanding huge fees, etc.), the interests of the large consulting firms, and those earning a living in this field. We have to ask ourselves the question whether the configuration of power and interests is beneficial for the innovation of this field or whether it only produces fathom innovations

In the past this field has made a number of significant contributions to the development of society.[56] Now the institutions within which the field made those contributions

[55] Vervaet, *De akkerbouw: Hoe nu verder?*
[56] Strikwerda, *Management-consultancy in de nieuwe economie*.

are changing. As any field, ours tends to see and define what is happening in the framework we have, and thus not really seeing and appreciating what is going on.

Due to the recent problems in corporate governance, chartered accountants place themselves on the foreground to provide solutions, but being as much a product of the economy of the second industrial revolution, they tend to regress to old control models, thus hampering economic growth. Lawyers in the same way are risk averse and tend to define new developments in risks and litigation, instead of thinking through the basics of their field, the relevance and irrelevance of the institutional concept of the corporation. In 2000 I talked in Brussels to lawyers on the changing nature of the firm[57], undermining their proposals how to introduce corporate governance legislation. Typical French lawyers accepted the issue to discuss the changing economic realities, whereas German and Austrian lawyers demonstrated fierce resistance.

Most free and fundamental thinking is to be found by some economists[58] and some sociologists[59], most likely because they are not trapped in the interests of fee based consulting for firms (although for governments).

My judgment is that we face a situation in which the institutionalized professions of the economy of the second industrial revolution are part of the basket of problems in creating economic growth. Neither our field of management and organization should itself let restrict by the more powerful position of lawyers and accountants, which is presently the case, nor should we wait for them to innovate. It is our responsibility to cross boundaries, to involve us in the fundamentals of our field, if even in terms of academic and professional turf others master these. They are as much part of the problem as we are. It is a classic case of management of change: waiting on Godot. We have to stand up, redefine our role, make clear what changes are needed in society, adapt the curriculum of our business schools, change the subjects of our research, and change the way we do research.

If we do so, this will be acknowledge as a contribution to the solutions managers are looking for. As a result we will be able to acquire more funds for research, experiments, for consulting, for educating new generations and restoring the trust in our field.

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[57] Strikwerda, *Internal Governance versus Corporate Governance*,

[58] e.g. Jensen, Zingales, DeLong.

[59] Giddens, Beck, Dahrendorf, Sennett.

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