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Strategy, credibility and the (inter)national business system

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## ABSTRACT

In this paper I will discuss the relations between the concepts of strategy, credibility and the national and international business system. With the illustrations of a case company, which has chosen a strategy that is novel and challenging regarding its business system, I want to explore how a differentiation strategy is dependent on credibility and how the credibility is affected by the national and international business system. I will also exemplify how these relationships can be handled in practice.

## INTRODUCING MY STORY

This is a story about strategy and about strategies as stories. By approaching the concept of strategy as a form of narratives, I want to highlight some of the special challenges when it comes to strategy formulation. Strategy formulation has been discussed thoroughly the last decades, but, I will argue, with too narrow focus upon firm-internal conditions and/or actor-specific prerequisites. The discussion can be said to have been in many ways under-contextualized, to paraphrase Granovetter's (1985) discussion of over- and under-socialized descriptions of the organisation of economic activities. There are many reasons for the studies of strategy making and strategy to include a broader socio-economic context in the discussion. In this paper I will investigate some of the theoretical background to this proposal and illustrate it with the help of a case from the financial sector. In my discussion some traditional strategy concepts are complemented with a discussion of a national and international context that hopefully brings further light to the process of strategy formulation.

The purpose of the paper is therefore to bring the two levels together: the organisational level and the contextual level. I want to show how the strategy formulation in a company is affected by, and must consider, the socio-economic context in which it is embedded, and thereby to further the understanding of the importance of strategy credibility.

## ONCE UPON A TIME -STRATEGY AS NARRATIVES

Strategy can in a general sense, according to Chaffee (1985), be described as guiding frames of references that make the organisation, its activities and environment understandable for different internal and external actors and stakeholders and motivate them to contribute to the organisation and its business. This effort includes an act of convincing, because of the objective to create a sense of direction in the organisational activities and guidance for collective action. Chaffee (1985) notices for example the importance of gaining legitimacy for the organisation. The strategy process can be described as an act of creating shared frames of references and

structures of meaning (Smircich and Morgan, 1982). The leader/strategist has not only to create meaning, but a certain meaning, to make collective and coordinated action possible internally and an understandable account of the company's direction externally. Strategies have therefore a strong rhetorical aspect (Eccles and Nohria, 1992; Müllern and Stein, 1999) and needs (or must) be convincing, even persuasive.

Barry and Elmes (1997) describe these guiding frames of references in the form of narratives<sup>1</sup>. They argue that strategy can be seen as the most influencing and costly narrative that is told in organisations. This narrative has both an affecting and a convincing function, which among other aspects makes the credibility of the strategy of central importance. Barry and Elmes (1997) writes that a narrative approach to strategy

...stresses how language is used to construct meaning; consequently, it explores ways in which organizational stakeholders create a discourse of direction (Barry and Elmes, 1997:432).

Following the discussion above Barry and Elmes (1997) argues that strategy is something that is created with the purpose of convincing others to adopt a certain understanding of the organisation and its activities and to make them perform certain actions. This implies that the strategy should be expressed in an understandable, inspiring and convincing way, in a way that encourages re-telling and in a way that is distinct from other organisational narratives (Barry and Elmes, 1997).

A narrative about being different...

A fundamental concept in much of the strategy discourse is differentiation. To differentiate has for instance been discussed as one fundamental competitive strategy (Ansoff, 1965/1988; Porter, 1980)<sup>2</sup>. Porter (1980) argues that strategy is about establishing a unique and advantageous position relative to other actors in an industry. There can however be more than one attractive position in an industry, depending on the previous position of the company. It is therefore essential to choose a position (Porter, 1991:102) because a distinct position has according to Porter more chances for success than one that is split up on many ambitions.

Porter argues further (1996) that strategy and the establishing of an attractive position is a matter of differentiation from the competitors:

...the essence of strategy is in the activities -choosing to perform activities differently or to perform different activities than rivals (Porter, 1996:64).

Deephouse (1999) stresses also that firms benefit by being different, for instance because it then faces less competition from direct substitutes. He defines strategy as a firm's realized position, that is the markets it serves and the technology and resources it uses to serve the market. The goal is to select a position that is seen as un- or underexploited and to create defensive barriers around the position towards potential competitors (Deephouse, 1999).

...but being the same

But there is also much agreement on that firms benefit also by being the same as others, because it therefore gains legitimacy in its context (DiMaggio and Powell, 1991; Meyer and Rowan, 1977). The differentiation must therefore be proper balanced to the familiarity of the firm's activities (Deephouse, 1999).

It has for instance been argued that firms' strategies should resemble others in the same field to gain the legitimacy that is crucial for the securing of important resources (Deephouse, 1999). A set of 'normal' strategies becomes therefore often institutionalised in the specific field<sup>3</sup> and is spread by imitation, or

isomorphism as it is called by DiMaggio and Powell (1991) among the companies (Scott, 1995). So called "industrial recipes" becomes established, that is strategic norms based in cognitive consensus among managers in the field, regarding which strategies that are considered 'reasonable' to pursue (Deephouse, 1999). I will elaborate further on the concept of industrial recipes later in this paper and for now only pointing at this contextual dimension of strategy formulation.

This does not mean that every company in a field have to pursue the same strategy to become legitimate. Deephouse (1999:152) states that there is a "range of acceptability" because of slightly different perceptions on acceptable differentiation strategies among the actors in the field, but that companies that selects strategies outside of this range risks being questioned and challenged. With this in mind, Deephouse (1999) argues that companies must balance the effort of differentiation towards the need to be similar to the established and institutionalised strategies on the organisational field. Deephouse further suggests that the concept of attractive position, argued for by Porter (1991), could be described as a position that is different from other firms' positions, but similar enough to be considered understandable and reasonable.

## THE IMPORTANCE OF CREDIBILITY AND HOW TO ACHIEVE IT

Before elaborating on the contextual dimension of the strategy formulation and the foundations for why different strategies and business conduct becomes legitimate, let us return to the narrative concept of strategy. Barry and Elmes (1997) build on narrative theory and argue that a narrative to be effective demands both credibility and defamiliarization and novelty value. These two demands is in dialectic relation, because of the fact that a well-known and credible strategy probably not is perceived as unique and novel, and that a strategy that is not familiar often lacks credibility, at least when it first gets introduced.

To gain credibility the strategy must according to Barry and Elmes (1997) be perceived as realistic and rational. Therefore the fictionality characteristics of strategies must be disguised. The authors describes a number of narrative techniques to achieve this, for instance:

- Materialization, which means both actual materialization in the form of documents and other descriptions and that the strategy refers to concrete phenomena rather than abstract ideas. Also how the strategy is expressed in texts or speeches is important.
- Order and plot, which means that the plot of the strategy is ordered by a known pattern, patterns that is for instance represented in literature.
- Adapting to the expectations and vocabulary of the readers, in this case different internal and external stakeholders with interests in the strategy.

The novelty value of the strategy and its divergence from what is considered familiar and known is the second demand on an effective narrative. But what is considered novel and divergent differs of course between different contexts. The view of divergence is also under more or less constant change. Strategic narratives have therefore according to Barry and Elmes (1997) a limited lifetime before they have to be renewed. This can for instance be done by pointing at new challenges and demands in the strategy narrative, something that in my view can be seen several times a year at press conferences and at shareholders' meetings. With this in mind, it is time to turn our attention to the contextual dimension in which companies and strategic behaviour is embedded.

## THE (INTER)NATIONAL BUSINESS SYSTEM

Several researchers are according to Whittington (1993) and Sveningsson (1999) stressing that strategies do not evolve in vacuum, or in a purely economic context but that organisations and strategists are part of a larger social system. Strategies, which are the focus of this paper, will therefore differ, and be similar, depending not only on the strategist's efforts to achieve competitive advantage, but also on the socio-economic system that it is embedded in.

Although some differences in approaches can be identified, there are according to Hellgren and Melin (1992) two main theoretical perspectives that discuss the contextual framework in which organisations are embedded, and tries to explain how this contextual dimension affect the organisation at the company level. The first of these are the cognitive perspective, where industries are seen as cognitive constructs with shared beliefs that guides or regulate the behaviour of the managers in the industry. The second perspective focuses on the broader social and institutional context in which companies, industries and the mentioned cognitive structures are developed.

The cognitive perspective<sup>4</sup> emanates from an idea of ongoing social construction of meaning and sense making in the industry as a collectivity of actors. An industrial wisdom, as a set of common assumption of the industry and the environment that is shared by most actors in the industry through a process of socialisation, affects the beliefs about how to compete and structure business in the industry. This industrial wisdom is often manifested in a common business language and frameworks. Sveningsson (1999:50) describes this as a shared "pool of knowledge" that new managers are tempted to use when strategic issues are to be handled.

The cognitive structures of industrial wisdom should not however be regarded as completely deterministic or stable. Hellgren and Melin (1992:193) write that

New interpretations, thoughts and actions within firms that break with an existing collective belief structure in an industry may produce new collectively shared beliefs, and thereby contribute to the reproduction or transformation of prevailing industrial wisdom.

The second perspective is described under the label "business system" by Whitley (1992), which refers to "particular arrangements of hierarchy-market relations which become institutionalised and relatively successful in particular contexts" (Whitley, 1992:6). Different distinct business system can according to Whitley be identified. The reasons behind the development of different business systems are institutional factors such as political and financial systems, as well as socio-historical patterns of authority, trust and loyalty (Hellgren and Melin, 1992; Whitley, 1992). According to Whitley (1992) not only the organisation of firms differs across business systems (for instance between Chinese and European firms), but also their way of competing and collaborating in the market.

Hellgren and Melin (1992:182) write that

...this means that the context created by institutional and social conditions in a nation (or another defined region) shapes a dominating way of organising business in the nation in question.

Even though Whitley (1992) mainly describe a national perspective on business systems, there is a development towards more a homogenous business system around the industrial world because of cross-national cultural heritages and the ongoing globalisation with more and more international firms and markets. But the nation specific characteristics are according to Whitley still highly present in many aspects. This means that the competition between international firms grounded in different business systems also is a form of competition between those business systems, and that business systems which do not show to be effective will fail to play a leading role in those markets (Whitley, 1992).

## AN ILLUSTRATION TO THE STORY

To illustrate how the formulation of a strategy is affected by the challenges posed by different contextual levels described above I will shortly describe an empirical case from my research<sup>5</sup>. In the description I will try to highlight some of the credibility challenges that this company faced when formulating and introducing a new and novel strategy and how the strategy process was affected by these challenges.

The case I will present is Kpa AB. This company administers pension funds for companies and public organisations, mainly municipalities. Kpa AB launched during 1998 a new strategy that was going to change the company in a radical way. The new strategy was to position KPA AB as an ethical investor, an investor that besides economic revenue aims at letting ethical considerations guide their investments. Investment alternatives based on different ethical considerations was already present on the Swedish market, but KPA aimed at establishing the company as the first alternative with only these kinds of investment products and to become the main alternative in the market, a position that seemed to be both attractive and unoccupied:

It started with market research. These are issues that are much at heart for our customers<sup>6</sup>. It does not feel well when you do not know where the money goes. Child labour and armament industries were mentioned. Suddenly it just was there, an unoccupied niche. (Interview, responsible for marketing and brand development).

Their ethical strategy has been manifested in investment products that have value-based restrictions on all their investments, based on ethical criteria and special environmental demands. The ethical criteria can be described in short that they do not invest in companies related to the production of weapons, alcohol, tobacco and commercial gambling services. Lately they have also started to develop criteria based on human rights. The economic evaluation of investment alternatives are because of this complemented by different screening and evaluation activities based on the criteria and they have established an ethical advisory board where independent researchers and philosophers discuss special issues. This board is however not part of the actual decision process in Kpa AB.

The new strategy was launched also externally with the help of an advertising campaign that attracted much attention and was highly debated. KPA AB, as an old but rather un-known company wanted to establish their company and the ethical alternative before the upcoming general elections of pension alternatives that was going to be held in Sweden<sup>7</sup>. For the first time was the individual person allowed to choose which investor that was going to administer some of their pension savings. This contributed to an increase in the competition between national financial firms as well as foreign firms that was about to enter the Swedish pension market.

### The new strategy gets under scrutiny

When the new ethical strategy was launched under 1998 it was from the beginning questioned and criticised from many directions, something was brought to attention by the media. To generalise matters, one could say that the strategy of KPA was questioned on two accounts. The first is that the company's own activities are not that ethical as they say, that is, they are no better than any other company and they do not follow their own ethical standards. The approval of different specified companies for investment by KPA AB has been questioned (DI, 22/7, 1999) as well as the use of ethical investments of KPA's type in general when it comes to helping poor people and countries (GP, 14/11, 1999). It has also been said that the ethical criteria that guides the investments are old-fashioned and not up to date with current values, for instance when it comes to abandoning alcohol- and tobacco-companies, and that ethical strategies is guided by a will to be politically correct rather than by genuine compassion (Affärsvärlden, 27/9, 2000). When talking to a KPA employee, this criticism was commented like this:

XX (former vice president of a KPA Company) says that we have one or another competitor that hates us... There are some that think that what we do is rubbish. Why I don't know, why get some people so angry? What is it that evokes so many feelings?

I think that the combination of standing out and say that we stand for something different than the industry in general does, I mean look at the finance industry, it is not the industry that is associated with ethics, so it was some that probably felt pointed out and that reacted. We had a very expressive commercial and we were a very small actor. It is like: "where did thy come from?". But we have got positive reactions by the same reasons, of curiosity, what are they doing etc. (Interviewee, responsible for marketing and brand development).

In a more recent interview, a manager of KPA that acted as the spoke-person during the launching of the new strategy commented the debate in the following words:

I experienced when the debate was the hottest that we got a rather chilly reception by the colleagues in the industry. Our marketing was experienced as an attack on funds that was not expressively ethical and that we made an unjustified claim for the concept of ethics. But it was not we that labelled the funds in that way, we just adopted an already established concept (Interviewee, manager of KPA AB).

The second criticism that was expressed is that the possibility of combining ethical concerns and economic revenue has been challenged. It is assumed that ethical considerations most possibly will negatively affect the economic revenue for the investors and/or KPAs owners. With this assumption implicit, it has been argued that it is not only questionable but illegal for managers of normal companies to take other considerations than strictly economical and that this makes claims of ethical or environmental considerations not credible (Michelson, S and Gennvi, G in DI 30/12, 1998). A KPA manager commented this:

The reaction that is common in Sweden is that there is a conflict between if you do this to make money or if you do this to make good. Because if you do this to make good you can't make money on it, then it must hurt also (Interviewee, strategic developer of the ethical strategy).

In KPA there is an idea that some of these criticisms was expressed because of the dominant view on what ethics means and how the concept is to be used. In other countries, that has had ethical investment alternatives for a long time (for instance USA, Great Britain and the Netherlands) there has not been the same debate, perhaps because of a different view on ethics:

What is more common internationally is that the results of your actions. They do not have the same definition of ethics, ethics is more like values. But not values that are universal and made up by Immanuel Kant but your own. And here you put your foot in a mess in the Swedish perspective. In Sweden it instead becomes the demand that you should have the right reason to do what you do and that people should do the right thing because of the right reason (Interviewee, strategic developer of the ethical strategy).

How did KPA handle the challenges?

KPA AB met joined the debate, in interviews and articles in the media. The strategy was explained thoroughly and the possibility to combine ethical considerations and good economic revenue was argued for. KPA AB has also very consistently approached these issues in their official information to customers and in their annual reports. They have in this way adapted to their stakeholders and met some of the questions that might bother them. This has resulted in a quite comprehensive amount of information where KPA's view on ethical investments is explained and that the possibility to combine ethical considerations and high economic revenue is argued for. This can be seen as a materialization of the strategy, in my impression more

comprehensive and thorough than the competitors has done.

Because of the position that KPA AB wants to establish, combined with the attention that the launching of the strategy got, the question of credibility has become something that is often mentioned when talking to KPA employees. They express the important need to "live as they learn", that is to work internally with the same issues that they have put in their investments criteria. It is also highly present in their official information, both aimed at external stakeholder, but also in the internal information. The issue of credibility seems to have become one of the most important issues in the strategic work of KPA AB.

## INTERPRETATION AND SOME CONCLUDING REMARKS

KPA AB formulated and launched a highly expressive differentiation strategy when it tried to establish itself as an all-through ethical investor. This niche was not un-exploited but at least under-exploited in the Swedish financial market and market research indicated that the position could be developed in an attractive way. But the new ethically based strategy challenged both the prevailing industrial wisdom in the financial industry and the broader institutional Swedish business system. The credibility of the strategy was therefore put into question.

The Swedish business system has been described as "liberalist in its market orientation and corporatist in its political orientation" (Hellgren and Melin, 1992:183). To meet international challenges domestically has Sweden adopted a policy with active state intervention and a large public sector. The division of different societal tasks between the public and the private sector has been quite sharp. Business in general has for long been dominated by a number of large, multinational firms, often tied together in networks of ownership. The financial industry in particular has been highly regulated towards the establishing of foreign financial companies in the Swedish market, which has become dominated by few actors.

KPA challenged the prevailing industrial wisdom in the Swedish financial market with ideas that was mainly brought in from abroad. The strategy was a little too un-familiar and the expressive marketing campaign used to launch the strategy probably caused some nervousness among the competitors. It also challenged the strong institutionalised Swedish view that the public organisations and the government alone should handle questions of social responsibility. This interpretation is supported by an other study that has indicated that Swedish companies that are engaging in social issues are often afraid of informing officially about it because the risk of not being considered credible (DI, 24/11, 1999).

The result was that the question of establishing the credibility of the new strategy became a crucial one, which manifested itself in many ways. Interestingly enough, the industrial wisdom in the Swedish financial sector seems to have changed. Most of the dominating financial firms now have different forms of ethical investment alternatives, more small niche-actors with ethical approaches has started, and the critical debate has stopped. My interpretation is that KPA, together with the ongoing liberalisation of the Swedish financial market, has managed to re-write the industrial wisdom, making ethically based alternatives part of the established wisdom and "pool of knowledge". But it demanded much work from KPA and affected, and still affects, the ongoing process of strategy formulation in the company.

To conclude, I have tried to discuss the importance of strategy credibility and relate this need to different contextual dimensions. I have illustrated this discussion with the help of a case and pointed at how the formulating and implementing of a strategy was affected by a broad socio-cultural context. It seems for me that the research on strategy processes should take this multi-level approach seriously, thereby avoiding a too narrow focus on the firm level. It also avoids the fallacy of approaching the firm as a demarcated construct. Organisations are cultural phenomena, embedded in their socio-cultural context and reflecting

institutionalised practices. It is important that this gets the proper recognition in the strategy process research.

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1 Narratives are defined by Barry and Elmes (1997:431) as "thematic sequenced accounts that convey meaning from implied author to implied reader". 2 Porter (1980:56) discusses differentiation as one of the generic competitive strategies together with cost-leadership and focusing and Ansoff (1965/1988:111-113) writes about different form of differentiation as a basic strategy together with maximizing of market share with low prices and niche-strategies. 3 The concept of organisational field is different from the industry concept. Field refers to "those organisations that, in the aggregate, constitute a recognized area of institutional life: key suppliers, resources and product consumers, regulatory agencies, and other organizations that produce similar services or products" (DiMaggio and Powell, 1991:64-65). A similar concept is that of sector, proposed by for instance Räsänen and Whipp who "contains organisations which provides similar goods or services, together with those who regularly transacts with them in supplying, servicing, regulatory or customer roles" (1992:47). 4 Strategic cognition can accordingly be discussed on different levels, the individual, organisational and industrial (Hellgren and Löwstedt, 1997). 5 This paper builds upon a larger phd-project concerning the use of ethics as a strategy. 6 This remark refers mainly to employees in the public sector, dominantly women. 7 The so-called PPM-election and the PFA-election.

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