Contents

List of figures xi
List of tables xii
Preface xiii

Part I Theories of the firm

1 Introduction 3
   The emergence of strategic management 3
   The scope of the field 7
   The multidisciplinary basis of business strategy 8
   The concept of firm 11
      The firm as a production unit 11
      The firm as a decision-making process 13
      The firm as a contracting solution 16
      The firm as a collection of resources 17
   The theory of the firm for strategic management 19
      A value approach to the analysis of firm strategy 21
   Structure of the book 22

2 The contracting view of the firm 27
   Coase and the nature of the firm 27
   Williamson and transaction costs economics 31
   Property rights and incomplete contracts 35
   Agency theory 39
   Limitations of the contracting view as a theory of the firm 41
      The role of opportunism, hold up, and trust in the emergence of firms 42
      Comprehensiveness of the contracting view 45
      Usefulness for strategic management and its practice 49
   Contributions of the contracting view to a theory of the firm for strategy 51
   Contractual analysis in a make-or-buy decision and its limitations 53
   Example of an in-house cafeteria 53
3 The nature of the firm in strategy 56
   The resource-based view of the firm 56
   Firm growth 57
   Competence building 59
   Firm heterogeneity and differences in performance 60
   Questions about the resource-based view 64
      Does it provide tautological explanations about performance? 64
      Is it a useful theory? 66
      Does it explain why firms exist? 68
   The firm in strategic management 70
   A value-based model of firm strategy 71
   The effect of firm boundaries on the value created by internal resources 76
   Internal effects 77
   External effects 79
   Why do different firm strategies exist? 80

4 Creating economic value 85
   What is economic value? 85
      Value in economics 86
      Value in marketing 88
      Value in finance 90
      Value in strategy 91
   Sources of customer value creation 92
      Value creation through enhancing customer benefits 95
         Greater utility in existing product or service features 96
         Different combinations of product or service features 97
         New products and services 98
      Value creation through reducing customers' costs 99
         Reducing monetary costs (price) 99
         Reducing nonmonetary costs 100
      Value creation through reducing firms' costs 103
      The influence of externalities 104
      Innovation, entrepreneurs, and new value creation 106
         The role of entrepreneurs in value creation 108
   Value analysis versus transaction costs economics (TCE) as drivers of firm boundaries 109
      Williamson's example of mines and houses 109

5 The appropriation of value by firms 114
   Where do profits come from? 114
      Profits as a residual income in neoclassical economics 115
Contents

Profits as implicit compensation to factors of production 117
Profits as retribution to the entrepreneur 118
Contextual conditions for profits 120
  Uncertainty 121
  Innovation 122
  Specificity 124
Profit generation through resource combinations 127
The sustainability of profits through barriers to competition 129
  Barriers with perfect replicability 131
  Barriers with asymmetric replicability 132
  Barriers with limited substitutability 132
Value analysis, profits, and competitive barriers 134
  Profit sustainability of a new restaurant 134

Part II  Firm strategies

6  Business strategy 141
   Elements of business-level strategy 141
   Managing resources to create value for customers 143
      Value created by products 145
      Value created by professional services 147
      Value created by networks 148
   Market positioning 152
      Segmentation 153
      Differentiation 156
   Competitive dynamics 160
   The interaction among the different elements of strategy 164
      The influence of the industry and the top managers on
      business strategy 165
   Value analysis at the business level 168
      Why do schools exist, but not firms for long-term
      secretarial services? 169

7  Corporate strategy 174
   Value creation at the corporate level 174
   Horizontal diversification into new businesses 177
      The benefits of diversification 177
      The costs of diversification 181
      The effect of diversification on performance 184
   Vertical integration 186
   Mergers and acquisitions 189
   Strategic alliances and cooperation 192
### Contents

- Value analysis at the corporate level
  - The integration of channel and content in Vivendi

8 **International strategy**
  - The theory of the multinational
  - A value approach to the MNE
  - International presence
  - Global strategy
  - Value analysis in internationalization
    - The internationalization of retailers Wal-Mart and Ikea

9 **Strategy and social value**
  - Markets and social value
  - Market imperfections
    - Monopoly
    - Externalities
    - Other market imperfections
  - Wealth distribution
  - Corporate social responsibility
  - Value creation and CSR
    - A dual standard for business and CSR activities
  - Ethics and social strategy
  - Value analysis in corporate social responsibility
    - CSR in The Body Shop

10 **Value analysis in strategy**
  - Economic value and the theory of the firm
    - What is a firm?
    - Why do firms exist?
    - What determines firms’ boundaries?
    - What causes performance differences across firms?
  - Implications for strategy research and practice
    - The strategic definition of firm boundaries
    - Focus on the customer’s perspective
    - Sources of differentiation
    - Industry change and replacement
  - Towards a value theory of the firm in strategic management
    - Areas for future research
    - Limitations of value analysis

**Further reading**

**References**

**Index**