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# Revisiting Miles-Snow Typology of Strategic Orientation using Stakeholder Theory

Børge Obel\* and Igor B. Gurkov\*\*

**Abstract:** Miles-Snow strategic typology has been successfully used in research in strategy and organizational design. The key dimension underlying Miles-Snow typology is the organizational response to changing environmental conditions. In this paper a new model is proposed based on the type of relationship of a firm with its stakeholders (shareholders, employees, customers, authorities etc.) who are considered as suppliers of key strategic resources. Relationship between the firm and its particular stakeholder is presented on an input-output like scheme and the variants of the position of the firm towards all its stakeholders serve as foundation for determining strategic orientation types. The proposed model allows interpreting the Miles and Snow typology in a new way and in particular the often neglected reactor type. Examples of the use of the proposed model are also provided. The reformulated model will allow for a new dynamic perspective in the context of the Miles and Snow model.

| *Keywords:* Stakeholder Theory, strategy, economics

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For 35 years, Miles-Snow typology of strategic orientation (Prospector, Analyzer, Defender or Reactor) has been an extremely influential source for understanding both strategy and organizations (Hambrick, 2003). The book itself (Miles & Snow, 1978) was translated in several languages; it has been cited almost 2,000 times in scholarly works. The typology of strategic orientation has been intensively used for two types of studies. The first type of studies takes “strategic orientation” as *a framework for understanding implemented company’s actions*. Therefore, efforts are oriented towards discovery of composition of various industries or sectors by companies of different strategic types and to find the possible differences in strategic and tactical actions and performance between the companies with different strategic orientation (McDaniel & Kolari, 1987; Conant, Mokwa, & Varadarajan, 1990; Zahra, & Pearce 1990, Parnell & Wright, 1993; Doty, Glick, & Huber, 1993; James & Hatten, 1994; Engelland & Summey, 1999; Woodside, Sullivan, & Trappey, 1999; Slater, & Olson, 2000, Brunk, 2003; Hatten, James, & Meyer, 2004; Aragón-Sánchez & Sánchez-Marín, 2005; O’Regan & Ghobadian, 2006; Pinto & Curto, 2007; Gurkov, 2007, Pleshko & Nickerson, 2008). Sometimes such empirical research is conducted in particular sectors or for companies in specific business conditions (see Evans & Green, 2000; Cunningham, 2002; Garrigós-Simón, Marqués, & Narangajavana, 2005; Zinn, Spector, Weimer, & Mukamel, 2008).

The second type of work considers “strategic orientation” as *patterns of strategic intent* (see Hamel & Prahalad, 1989, 2005). These studies are devoted to external and especially internal factors (technologies, organizational structures, forms of knowledge acquisition and internal dissemination, organizational climates, leadership styles, human resource management systems) that may facilitate the translation of such an intent into company’s actions (Dvir, Segev, & Shenhar, 1993; Beekun & Ginn, 1993; Rodríguez & Ventura, 2003; Kabanoff & Brown, 2008; Christiansen & Higgs, 2008; Ruekert & Walker 1987; Laugen, Boer, & Acur, 2006; Shannahan, Shannahan, & Alexandrov, 2010, Håkonsson, Burton, Obel, & Lauridsen, 2012). This direction of work is closer to the original approach of Miles and Snow. Indeed, “the book is unique in that it melds concepts from strategy, organizational theory, organizational behavior, and human resource management” (Ketchen, 2003, p. 95). Burton & Obel, (2004) synthesized the outcome of previous research and created a *normative theory of strategic types*. Their work (see Burton, Obel, & DeSanctis, 2006; Burton et al., 2011) presents a comprehensive list of organizational parameters (the forms of leadership, organizational climates, organizational structures, attitudes towards technologies etc.) considered to be suitable for particular types of strategic intent.

The dualistic nature of Miles and Snow framework as simultaneously a position and a pattern (Mintzberg, Ashlstrand, & Lampel, 1998) impedes quick and consistent identification of a strategic type of the firm. The work to develop reliable measures of Miles and Snow’s strategic types started shortly after the original publication (see Hambrick, 1983; Shortell & Zajac, 1990) and never stopped (see Buchko, 1994; Ghobadian, James, Lui, & Viney, 1998, DeSarbo, Di Benedetto, Song, & Sinha, 2005; Moore, 2005;

DeSarbo, Di Benedetto, Jedidi, & Song, 2006; Pittino & Visintin, 2009; Fiss, 2011). Burton et al. (2006) proposed an elegant solution for the problem – they presented Miles and Snow strategic types on a two-dimensional matrix of “exploration and exploitation”. Prospectors are scored high on exploration and low on exploitation. Analyzers are scored high on both exploration and exploitation. Defenders are scored high on exploitation but low on exploration. Finally, reactors are scored low on both exploration and exploitation. However, the problem remained as it has to specify what is explored and what or who is exploited. In order to use the full potential of Miles-Snow strategic typology it is necessary to deepen the understanding of these issues. In this paper we will show that new insights are gained by mapping stakeholder theory into the thinking behind the Miles and Snow typology. Thus we can be much more precise with respect to exploitation and exploration.

## **1 Using Stakeholder Theory to Reformulate the Miles-Snow Model**

Freeman and Reed (1983) proposed two definitions of stakeholders. In the wide sense, stakeholders are “any indefinable group or individual who can affect the achievement of an organization’s objective or who is affected by the achievement of an organization’s objectives”. In the narrow sense stakeholders were presented as “any identifiable group or individual that control a resource base or set constraints on which the organization is dependent for its continued survival. (Employees, customer segments, certain suppliers, key government agencies, shareowners, certain financial institutions...)” (Freeman & Reed, 1983, p. 91). *For the purpose of our study devoted to strategic orientation of the firm, we should accept the narrow sense of stakeholder.* Thus, the notion of stakeholders to be used to determine the firm’s strategic orientation should include a limited number of clearly identified “actors” in the firm’s environment. In this respect, even the list of “generic stakeholders” proposed by Freeman and Reed (1983) may be excessive.

“The list of generic stakeholders” is usually reconsidered by the top executives of the firm into the list of “key stakeholders” whose resources are necessary for the very existence and development of the firm (see Agle, Mitchell, & Sonnenfeld, 1999). *Thus, we may reformulate the Miles-Snow strategic typology into an attempt to present the variety of possible styles of relationships between the firm and its key stakeholders into a limited number of clearly identified types. This will also allow us to present a dynamic model – the model of changing the styles of relationship, i.e. changing the strategic orientation type.*

Why is the organization dependent on (key) stakeholders for its continued survival? The answer is that key stakeholders are suppliers of key resources for the firm. This position is in tune with resource dependency perspective (Pfeffer & Salancik, 1978). Each firm operates simultaneously on a number of markets -- capital markets, labor markets, markets of goods and services, markets of governmental patronage and public admiration – and routinely seeks “supplies” from these markets. We should note that two types of “suppliers” (suppliers of energy and raw materials and customers) perform irreversible transactions with the

firm. However, even supplies of machinery and equipment may be arranged through leasing, supply of technological solution may be arranged through licenses or franchising agreements, and in many cases customers enjoy the warranty that stipulates the right to return back the purchased goods of inferior quality. Suppliers of capital, human resources and public approval (admiration) are simply “lessors” of particular resources and therefore they may claim back their possessions at any time. Each firm is attempting to secure the uninterrupted supply of such resources by exchanging “benefits” produced by the firm into the “inputs” provided by the owners of particular resources.

The idea of presenting the relationship between the firm and its stakeholders in input-output model is not new. Attempts to present a complete picture of benefits for all classes of stakeholders lies behind the Balanced Scorecard (Kaplan & Norton, 1996) and RAVE™ models (Strack & Villis, 2002). An attempt to make a full input-output model of relations between the firm and its stakeholders was made by Bendheim, Waddock & Graves (1998). However, even Bendheim et al., (1998) did not introduce specific measures of stakeholders’ “inputs”; instead, they used a dummy variable for costs of all stakeholders. The problem here is the possible heterogeneity of interests (“expected benefits” and assessment of the “occurred costs”) within one group of stakeholders. This makes it difficult to determine the exact position of a firm against the particular group of its stakeholders. We may overcome that shortcoming by introducing the excessive lists of *intrinsic* benefits, common to all stakeholders within a particular group (see Table 1).

**Table 1.** Resources Supplied to the Firm: Intrinsic Costs and Benefits of Particular Classes of Stakeholders

<b>Stakeholders</b>	<b>Resource supplied for the firm</b>	<b>Costs (Inputs)</b>	<b>Benefits (Outputs)</b>
<b>Company’s founders</b>	Initial business idea, initial equity	Time, intellectual effort and other efforts, the risks	Entrepreneurial rent
<b>Other shareholders</b>	Additional (subsequent) injection of equity	Risk, opportunity cost of capital	Dividends and increase in the value of assets (TSR)
<b>Customers</b>	Revenues transformed into working capital of the firm	Perceived price of goods and services	Perceived use value of goods or services purchased
<b>Banks/creditors and bondholders</b>	Short-term and long-term credits to form current and fixed assets of the firm	Risk of loan default	Interest received on loan

<b>Employees</b>	Working time, skills and knowledge contributed to the firm	Operating time, efforts, moral discomfort	Material and moral compensation, congruence with organizational climate, rise in employability
<b>Suppliers</b>	Energy, raw materials, subcontracted works including technological and business solutions for the firm	Quality of goods and services supplied to the firm	Revenue generated from goods and services supplied to the firm
<b>Government</b>	Legal approval of the firm's operations, protection property rights, contract enforcement, arbitration of business disputes, maintaining security and public order, allocation of the access to some resources (land, water, air frequencies)	Time, efforts and money to assist the firm in its actions or to compensate the socially/politically undesirable consequences of firm's actions	Taxes, fruits of corporate social responsibility and good corporate citizenship

Now we proceed to model the relationship between the firm and its stakeholders depicting “intrinsic” costs and benefits of “key stakeholders”.

## 2 Depicting the Relationship between the Firm and its Stakeholders

Let us present the relationship between the firm and its particular key stakeholder on a two-dimensional figure. The axes of the figure are benefits and costs of a particular supplier of crucial resources to the firm respectively. The bisecting line of the figure starts at the lower left hand corner and extends to the upper right hand corner reflects the situation where the stakeholder receives the adequate return for its supply of resources to the firm. *This line will be called equilibrium line (line of equivalent exchange)*. Along this line, e.g. customers who supply funds to the firm through the purchase of the goods or services receive adequate amount of perceived use value of the purchase for the price paid. Employees placed on equilibrium line receive adequate compensation for their time and work efforts supplied to the firm. Shareholders counterbalance along the equilibrium line their risks with dividends and increase in the value of firm's assets.

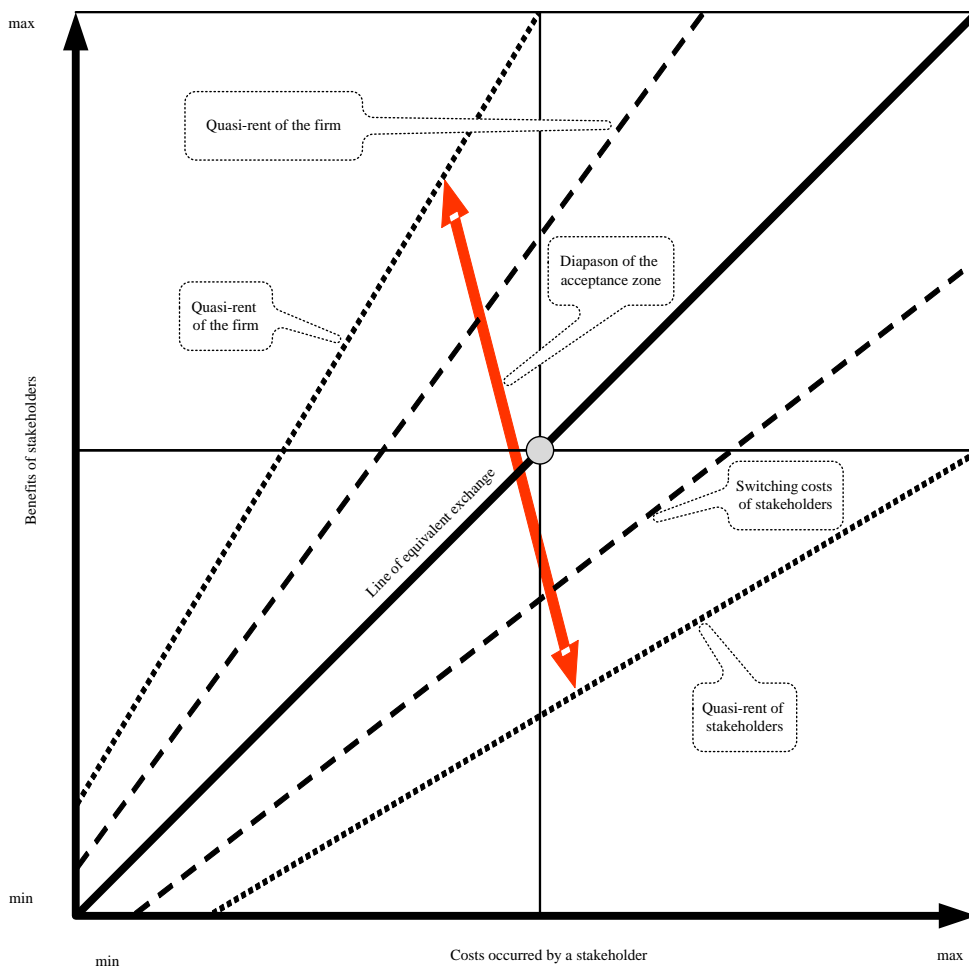
The lines above the equilibrium line represent:

1. the direct switching cost that the firm faces in its relationship with the supplier of a key resource (discovery costs and transaction costs) and

2. the quasi-rent that the firm has accumulated from its relationship with the supplier and discovery costs.

The idea of switching costs in determining relations between the firm and its stakeholders is obvious. The notion of a quasi-rent in determining the peculiarities of relationship between the firm and its stakeholders was proposed by Scholes (1998) and further developed by Johnson and Scholes (1999).

The switching costs and quasi-rent of the firm form the upper boundary of the “acceptance zone” in relationship between the firm and the supplier. As far as the rent-seeking claims of the supplier will not reach this boundary, the firm will prefer to keep the relationship with the particular supplier. Similarly, the lines below the equilibrium represent the switching costs of the supplier and quasi-rents of the supplier<sup>1</sup>. Added together they form the lower boundary of the “acceptance zone”. As far as contractual terms of the firm and supplier remain between the upper and the low boundaries of the acceptance zone, the relationship is considered as perhaps not perfect but reasonable by both the firm and its stakeholders and the resource base remains stable over time (see Figure 1).



**Fig. 1.** Presentation of the Relationship between the Firm and its Key Stakeholders as Suppliers of Resources

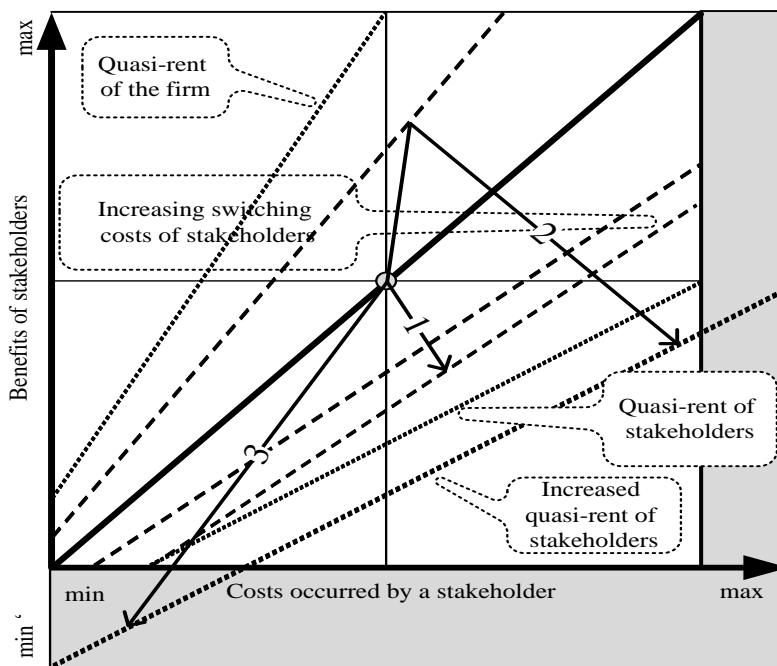
We should also note that the “penetrability” of the lower and the upper boundaries of the “acceptance zone” are different. The lower boundary is impassable as the consequences for the firm of putting its stakeholders below the acceptance zones are disastrous (drops of sales, consumer boycotts or simply avoidance of firm’s products, massive voluntary lay-offs of employees, shareholders’ discontent, legal prosecution etc.). The firm may try to shift the lower boundary of the acceptance zone downwards, but in any case, the firm must stay within the lower boundary of the acceptance zone to survive over time. At the same time, any stakeholder would be happy to be placed above the upper boundary of the acceptance zone. Intentional or occasional location of a stakeholder higher the upper boundary of the acceptance zone manifests e.g. in skyrocketing of the firm’s stock price, excessive lists of job applicants, long queues of customers etc.

### **3 Deriving the Strategic Types of the Relationship between the Firm and its Stakeholders**

In our model of relationship between the firm and its stakeholders, *the “exploitation” is simply putting a stakeholder below the “equilibrium line”* i.e. providing the inadequately low return for stockholder’s input (capital injected into the firm, time and efforts of employees, price paid for the purchased goods and services etc.). The firm may achieve exploitation of its stakeholders by several measures. In most cases, it is related to both decrease of benefits and increase of costs for particular stakeholders. It may be obtained by small “invisible” steps downwards within the figure of firm-stakeholders relations (compromises on quality invisible for customers, incomplete reporting of risks for shareholders, implementation of new remuneration schemes that demand higher efforts for less home-take pay for employees etc.). By such methods, stakeholders are moved from the equilibrium line to the lower boundary of acceptance zone. It may also be obtained by moving the lower boundary of the acceptance zone downwards. This may be achieved in two ways. First, firms may simply increase the shifting costs for a particular stakeholder. However, another, more complicated way may turn to be more effective. Providing for some period an abnormally high return for a particular stakeholder, the firm provokes the stakeholder to make specific investments into the relationship with the firm (customers develop specific consumption habits and rituals; suppliers tune the supplies according to the specific demands; shareowners choose “to go private”, i.e. to transform open joint-stock companies into closed partnerships; employees master specific skills to be used nowhere else. *Such specific investments aimed to capture in full the offered abnormally high benefits assists to accumulate quasi-rent by this stakeholder, thus shifting downwards the lower boundary of the acceptance zone.* The malevolent firm may change the whole contractual system for that stakeholder, asking higher inputs in exchange for fewer benefits<sup>2</sup>. Exploitation may also be obtained not by shifting the lower boundary of the acceptance zone, but by shifting downwards the equilibrium line. This usually requires an orchestrated effort of oligopolistic groups. We remind that the equilibrium line connects the left lower and the upper right corners of firm-stakeholders relationship figure. Thus, the task is to move down the left lower corner, so customers must



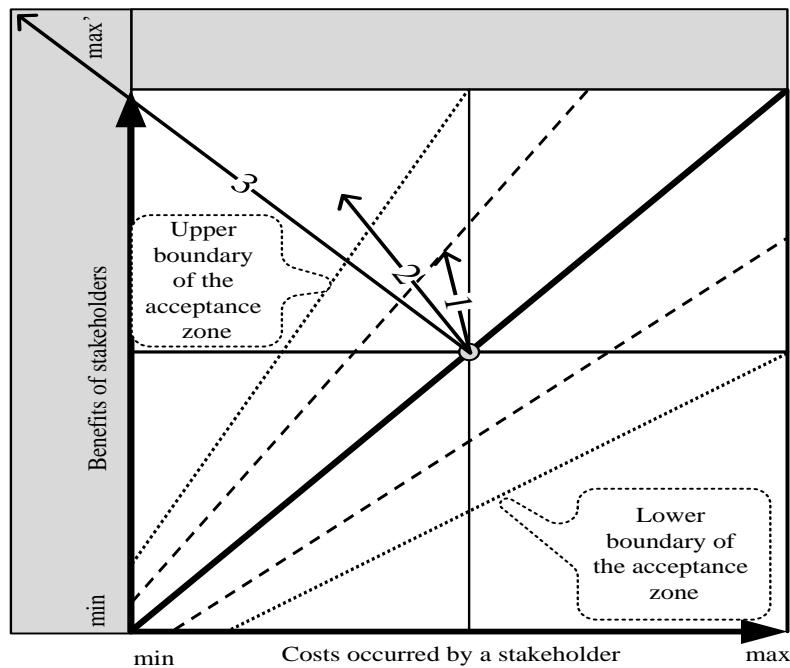
accept previously unacceptable level of quality and or a previous unacceptable price<sup>3</sup>, investors must accept negative return on zero-risk investment<sup>4</sup> etc. (see Figure 2).



Note: 1 – shifting the lower boundary of the acceptance zone  
 2 – facilitating accumulation of the quasi-rent by stakeholders with subsequent change of contractual relations  
 3 – shifting down the entire market space

**Fig. 2.** Tricks in Exploitation of Stakeholders

Let us proceed from “exploitation” to exploration. In our model, exploration is putting a stakeholder above the equilibrium line, thereby exploring new space of the corresponding market (market for goods and services, capital markets, labor markets, market for political patronage and public admiration). We mentioned that the upper boundary of the acceptance zone is easily penetrable from the point of view of the particular stakeholder. Therefore, the simplest form of exploration is keeping stakeholders above the equilibrium line but within the upper boundary of the “acceptance zone”. The true exploration begins when the firm puts one or several stakeholders above the existing upper boundary of the acceptance zone, thereby expanding the acceptance zone for the whole market. However, the highest form of exploration is putting the stakeholder above the existing highest point of stakeholders’ benefits, thus creating a completely new market space and simultaneously shifting the previous equilibrium line upwards (see Figure 3).



- Note: 1 – reaching the upper boundary of the acceptance zone  
 2 – penetrating the upper boundary of the acceptance zone  
 3 – shifting up the entire market space

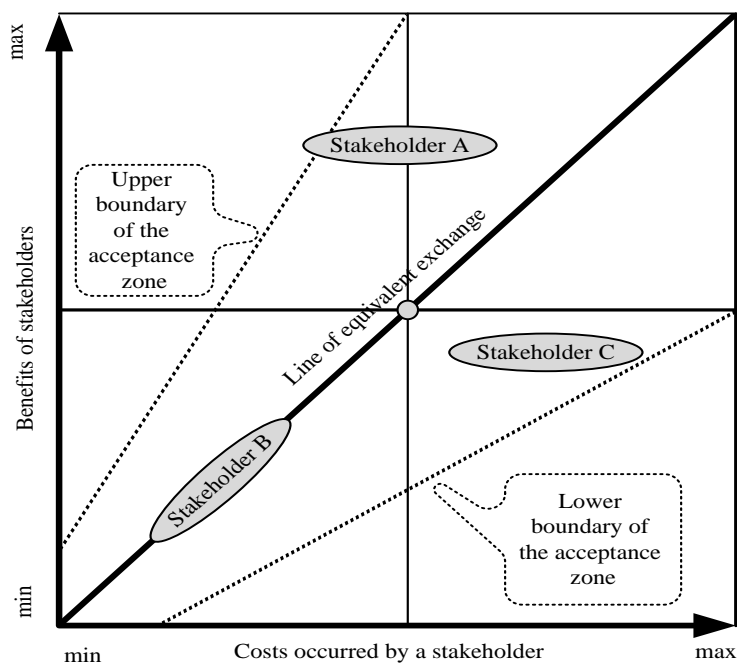
**Fig. 3.** Tricks in Exploration for Stakeholders

We should stress that putting a stakeholder above the existing upper boundary of the acceptance zone may be caused by various motives (motive of accumulating the stakeholder’s quasi-rent was already presented, other motives will be discussed later), but in all cases such moves are based on innovations. They may not only be breakthrough product innovations that bring unique new products to the markets; process innovations may be less spectacular but equally effective. For example, radical improvement of production technology, relocation of production facilities to low-cost areas or simply reaching the maximal capacity utilization may bring enormous gains in unit costs that will enable the firm to offer goods at bottom-rock prices. Another example of a process innovation that led to exploration of several new market spaces was recently documented (Saidov, 2010). It consisted in changes of contractual relations between the cotton-processing company in Tajikistan (a land-locked post-Soviet republic in Central Asia) and its suppliers – local cotton-growers. The company dared to offer generous advance payments for its suppliers. Such funds have been used for major upgrading of agricultural techniques that in turn caused radical improvement of the quality and increase of quantity of the cotton supplied. The company was able quickly to reach the higher level of capacity utilization, to decrease unit costs of the processed cotton and to penetrate into new markets with its moderately priced and high quality product.

Finally, we should mention innovations in human resource management systems that may explore new spaces in labor markets. For example, offering to employees an additional health insurance may drastically

improve attractiveness of the firm on the local labor market. Similarly better working conditions may decrease number of sick days and increase employee satisfaction thus leading to higher productivity.

After these preliminary thoughts on methods to achieve exploration and exploitation we can now present each of Miles and Snow strategic type on our figure of firm-stakeholders relationship. *Analyzers*, who are high on both exploration and exploitation, keep some of its stakeholders at the upper boundary of the mutually accepted zone or even above that boundary, exploring new ways to bring abnormal returns for some of its stakeholders. At the same time, it borrows the necessary resources from other stakeholders, placing them at the very bottom of the acceptance zone or expanding that zone downwards (by increasing switching costs for particular stakeholders or exploiting the quasi-rent accumulated by that stakeholder). It is easy to imagine a firm that reaches abnormal return for a controlling shareholder by overexploitation of the labor force and mistreatment of customers (see Figure 4).

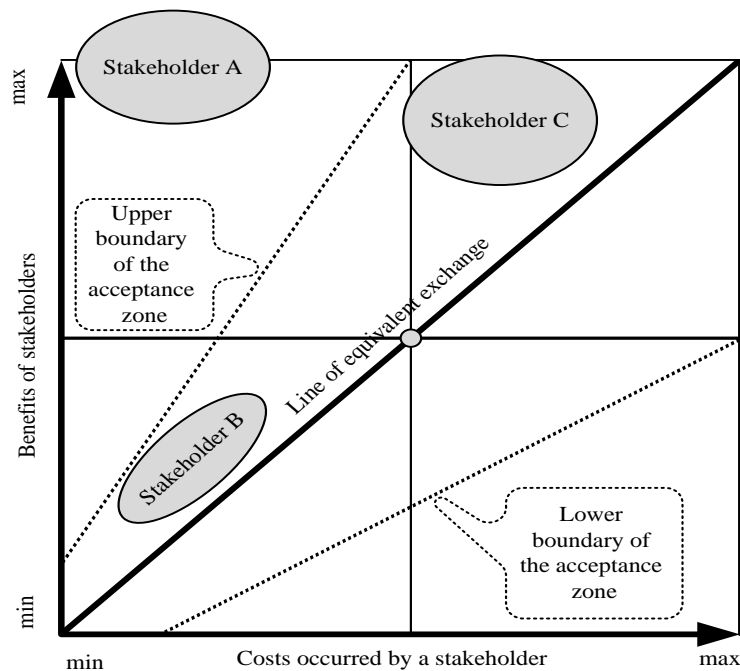


**Fig. 4.** Analyzer

An example of an analyzer is Wall-Mart Stores, Inc. It uses the market power to “squeeze” its suppliers (as one supplier noticed, “we entered there as grapes and exited as raisins”), keeps customers on the equilibrium line in the lower left corner (low prices – low quality) and, despite the bad publicity in employment relations, delivers extremely high benefits for a considerable share of its employees – with 2.1 million persons of total workforce and workforce turnover of 40-50% per year Wall-Mart presents unique opportunities for new Americans to obtain their first legal jobs.

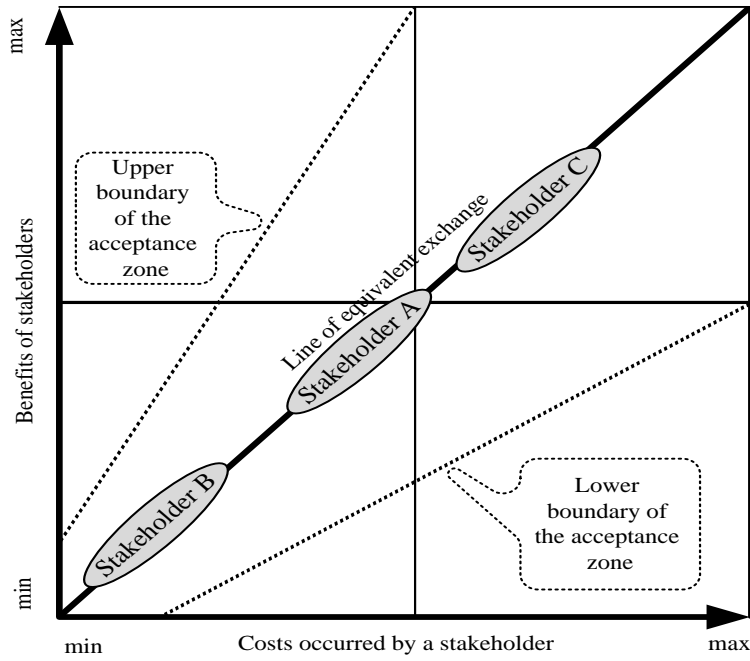
The other strategic types are also easily identified using the concept of exploiting – exploring stakeholders. *Prospectors* intend to put most of stakeholders within the mutually accepted zone while

providing some unusually high benefits for selected stakeholders. In this respect, we may make a distinction between two sub-classes of Prospectors – those that are inclined towards abnormal benefits for some of its stakeholders within the existing boundaries of the respective markets and those who shift the entire boundaries of the markets, leaving the existing market space and creating unique conditions for some of its stakeholders (see Figure 5). For several years, Apple Inc. served as such a prospector, expanding the whole market space for both product markets and capital markets. To be able to have all of its stakeholder on or above the equilibrium line requires a focus on how to locate and exploit new product and market opportunities, how to develop new technologies and how to run numerous of these activities simultaneously (Miles and Snow, 1978).



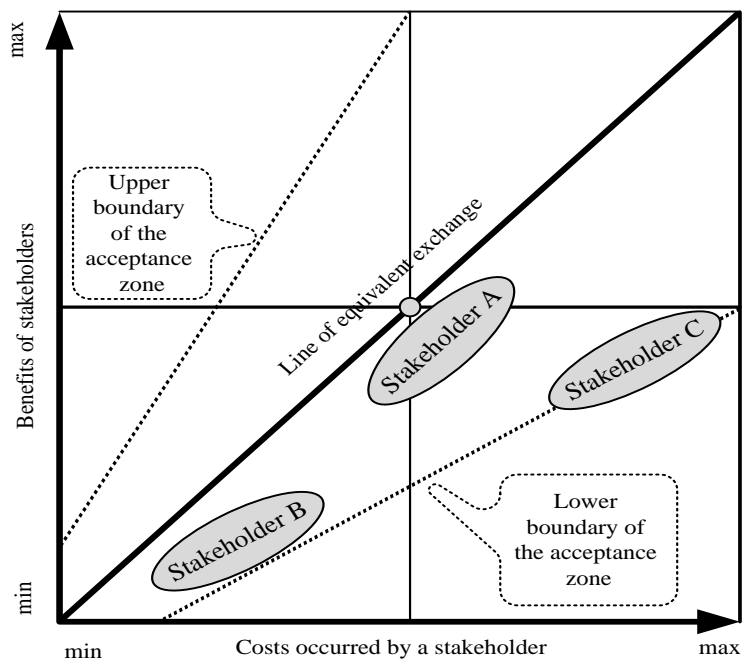
**Fig. 5.** Prospector

*Defenders* are in a situation where they have to exploit some or all of their stakeholders. Usually a defender has to exploit e.g. suppliers or customers to create an acceptable return for shareholders. If we take Miles-Snow strategic orientation as *pattern of strategic intent*, defenders are firms who are trying to exploit some or all of their stakeholders, putting some of them at the very bottom of the acceptance zone. Defenders are also zealous to bring the lower boundary of the acceptance zone further downwards or even shift the equilibrium line in the same direction if they have enough market power and political patronage (see Figure 7). A well-known class of defenders are state-owned public utilities (see Ghobadian et al., 1998) in both developed and developing countries that provides services of inferior quality, have poor record of employment relations and requires a lot of support and protection from state authorities<sup>4</sup>. To be able to exploit some or all stakeholders the defender has to "seal off" a portion of the total market to create a stable set of products and customers (Miles & Snow, 1978).



**Fig. 6.** Reactor

The most interesting case is, however, the strategic orientation of *Reactors*. Despite the usual beliefs that they are companies without strategic direction – they can however in our framework be interpreted as “modal” firms that are trying to keep all their stakeholders as close as possible along the equilibrium line (see Figure 6).



**Fig. 7.** Defender

As the equilibrium line is not stable (it is shifted upwards by the efforts of prospectors and downwards by the efforts of defenders), reactors constantly oscillate around this line. In order to return back to the line they are forced to react constantly and timely to the changing conditions in all markets if they will to survive. An interesting example of successful reactor is Wegmans Food Markets, Inc., a family-owned East Coast supermarket chain. Wegmans' stores sell a variety of foods aimed at an upscale [clientele](#), and in many stores, there are Market Café in-store dining areas and kids fun centers that offer 90 minutes of free childcare while shopping in the Wegmans store. Besides working on the equilibrium line in the upper right corner in the firm-customer relationship figure, Wegmans is situated in the same position in firm-employees relation markets. Unlike many other retailers, Wegmans keeps the slogan “Put employees first”. Indeed, the share of its labor costs in the total costs is 17% that is 3-4 percent point higher than usual 13% of US retail chains. Wegmans offers generous benefits and intensive training for their employees, but its pay rates are good, not extraordinary. In February, 2012 *Fortune* magazine declared it the fourth-best company to work for in America. In 2005, it was number one (Rohde, 2012).

We presented a simplified version of strategic orientation types. However, in most industries it is easy to recognize most or all of the outlines types of strategic orientation. It provides a new way of characterizing strategic orientation types. It shows the relation between resources represented in the way of stakeholders. Looking at strategic types in this way allow us to better understand firm decisions and activities. It will also allow us to better understand means to move the firm to a particular position in the figure.

#### **4 Using the Revised Model to Better Understand Strategic Orientation**

Which factors are important for the choice of a particular type of the firm’s strategic orientation? The answer is important for both management theorists and corporate executives. For example, *Prospectors* should possess (or, at least, their executives should believe) the highest innovative capabilities in order to launch and successfully implement breakthrough innovations without “squeezing” resources from some stakeholders. *Reactors* should have sufficient absorptive and adaptive capabilities as they must exhibit higher strategic flexibility (Sanchez, 1995) in order to stay on the “elusive” equilibrium line. *Analyzers* should possess all types of capabilities but put special emphasis on adaptive capability as adaptive capability focuses more on effective search and balancing exploration and exploitation strategies (Staber & Sydow, 2002). Finally, intentional *Defenders* should have unique capabilities in order to keep most of their stakeholders as “hostages” – capabilities to implement successfully all the described tricks in exploitation for most of their stakeholders. An often mentioned example of a defender is LEGO. It is exploiting most of its stakeholders. Customers, suppliers, stores, competitors, etc. but the family (as one specific stakeholder) is explored). Strategic types which intentionally keep some or all of their stakeholders below the “equilibrium line” (analyzers and defenders) may exist only in calm environment. Despite suggestions from some models, not only defenders cannot survive in high velocity environment, where changes are not only rapid but also

discontinuous (Bourgeois & Eisenhart, 1988); strategic orientation of an analyzer in high velocity environment is also extremely risky. For example, during the times of the financial crisis the dependence of a firm on suppliers of financial resources (equity and credits) drastically increases, so both the upper line and the low line of the firm's acceptance zone on the market for capital move upwards. Ironically, during the crisis the previously accepted levels of financial performance become unacceptable. For example, the Danish company VESTAS, the world's biggest wind turbine maker, came under severe pressure from shareholders because of short term profit problems. The long term goals of sales, change towards more income from maintenance contracts, building up capacity and customer satisfaction have all been met. However, the increased pressure from stakeholders has forced the company to make short-term adjustments including replacing the chairman of the board, deputy CEO and the CFO (Olsen, 2012).

In this respect, it was suggested that strategic orientation of a prospector (keeping most of stakeholders above the equilibrium line and providing abnormal returns for some of stakeholders) may be the safest position during the times of high uncertainty (Gurkov, 2010) as it creates additional "slack" in relations with stakeholders and keeps the company as far as possible from the low boundary of the acceptance zone.

Multinational corporations (MNCs) operate simultaneously in many geographical locations, thus, the composition of their customers, employees and the national governments to deal with are highly heterogeneous. Stakeholders of a multinational corporation exhibit assessment of benefits that the company provides and of the costs with such benefits, thereby the "equilibrium lines" for the same class of stakeholders do not overlap. This causes many interesting effects of *strategic disorientation* of the firm, including an effect of "*unintentional prospector*". Indeed, despite the usual critiques of MNCs, penetration of MNCs into developing countries may bring unique benefits for both customers and employees in such countries. For example, you may not like the taste of Coke, but as the Coca-Cola Corp. has a single reported case of mass poisoning by its products in its whole corporate history (and that case was related not to the content of the bottle, but to dirty palettes the bottles were stored on), in many countries you will prefer a drink "bottled under authority of Coca-Cola" to other locally produced drinks. However, the effects of "unintentional prospector" may happen not only in developing countries. For example, a Yuri Milner's deal of purchasing in May 2009 a 1.96% stake in Facebook for US\$ 200 million in the midst of the banking crisis made his company DST a prospector among investment institutions operating in the USA. Indeed, "pre-IPO investments in even high-flying tech companies that are not yet profitable usually conform to a specific pattern: A prestigious VC firm gets certain preferences when it invests (i.e., it gets its money out first should the company go public) and gets seats on the board (which means it gets a direct voice in the future of the company—almost always one that advocates an IPO as soon as possible). Milner offers something radically or foolishly different: an investment with no such preferences and no board seats. In effect, his money is like IPO money—no advantages for regular shareholders—without the burden of an IPO (the time suck of a road

show, the administrative costs of being public, the short-term earnings pressure of the market)” (Wolff, 2011).

However, besides positive effects of intentional or unintentional “over-accommodating” of some stakeholders, heterogeneity of stakeholders’ claims may cause serious problems. For example, we mentioned unique benefits Wal-Mart offers to a specific category of its employees – new entrants to the legal jobs’ market. Without that specific category Wal-Mart is transformed into an inflexible reactor or even defender. This has been proved, for example, by an unsuccessful experience of Wal-Mart to enter the German market. The similar but even quicker exit of Carrefour from the Russian retail market following the demand of the controlling shareholders who could not tolerate the country-specific risks of Russian operations (see Gupta & Perepu, 2010) is another example of the challenges MNCs face to imply a uniform strategic orientation on all its foreign subsidiaries.

Commentaries on the abovementioned Yuri Milner’s deal with Facebook acknowledge another distinctive feature of the arrangement: “The proposal represents, too, a philosophically new and audacious view: Once a company reaches a certain size—a billion-dollar valuation by Milner’s reckoning—its investment profile changes. It holds enough market share and has established enough brand identity that it represents significantly less risk than VCs have traditionally considered startups to have” (Wolf, 2011). This example indicates the presence of another factor behind the choice of strategic orientation of the firm -- the strategic mindsets of its executives. Although this term is not strictly defined, it is used widely in management research, especially in studies on international management (see Kriger & Solomon, 1992; Puffer, McCarthy, & Zhuplev, 1996; Young, 1999; Herbert, 2000). Accordingly to Herbert, mindset refers to “a set of deeply held internal mental images and assumptions, which individuals develop through a continuous process of learning from experience” (Herbert, 2000: 188). We may claim that analyzers and defenders differ from reactors and especially prospectors in a crucial point – *whether they see stakeholders’ benefits as purely contradictory claims, so the excessive return to one-two classes of stakeholders may be obtained only through diminished return to other stakeholders, or they consider abnormally high return for one stakeholder as a source of generating similar results for other stakeholders?*

A view of interests of stakeholders as totally contradictory claims was expressed in the very first texts on strategic planning (Ansoff, 1965) and is regularly reproduced in both management and economics studies (Agle, Mitchell, & Sonnenfeld, 1999; Jensen, 2001). Such a view on opportunistic behavior of stakeholders has strong theoretical and especially empirical foundations. As was recently noted by Gurkov, Saidov and Settles (2011), “customers (always) ask for higher perceived use value of firm’s products. This demand leads to necessary increase of firm’s technical and marketing competences that usually comes at higher unit costs. As simultaneously, customers also demand to low down prices, the competitive position of the firm is improved at the expenses of decreasing profitability of sales and return on capital employed. This clearly contradicts to the claims of shareholders, who demand higher return on investments. The opportunistic

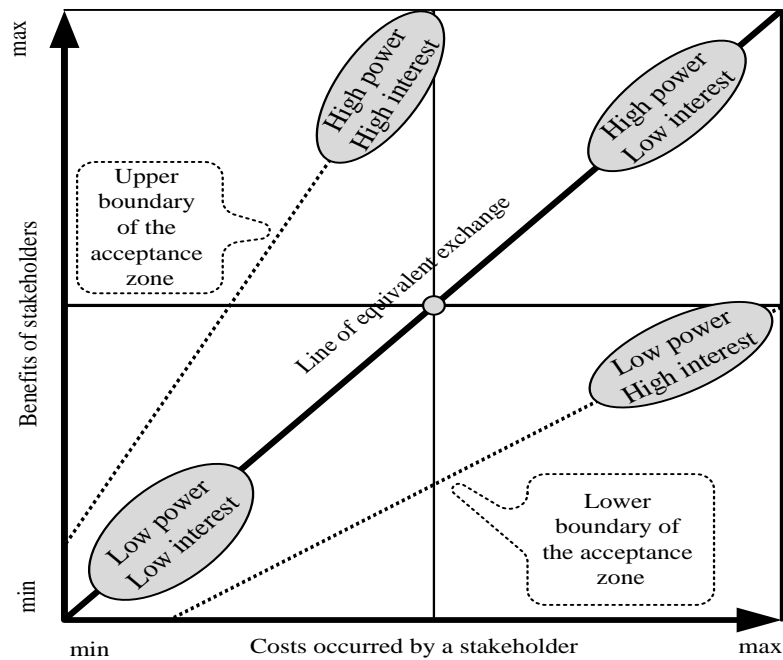


demands of employees are to increase remuneration and to decrease efforts. The decrease of efforts results in destruction of firm's competencies while increased remuneration is translated into higher unit costs. Again, the competitive position of the firm is changing, this time towards the lowest segments of markets, while profitability is suffering. Suppliers of raw materials, equipment and solutions on the way of opportunistic pursuit of their interests are inclined to demand higher prices for their supplies and to compromise on quality of deliveries (including timing of physical deliveries, accuracy of agreed assortment of deliveries etc.). This directly leads towards increasing firm's unit costs and decreasing quality" (Gurkov et al., 2011: 8). If a company for development and growth needs to exploit a stakeholder to create extra benefits for other stakeholders it may consider mixing the two types of stakeholders. It is a common setup in entrepreneurial companies at the early stages to provide employees with a low wage but at the same time to give the employees stocks or stock options. Here the employees will allow for exploitation on the one side with a high return on the other. With the Facebook IPO more than 1000 US\$ millionaires suddenly appeared in Palo Alto, CA.

To deal with consequences of pursuing contradictory company's goals, both ready-to-use textbook solutions (Scholes, 1998; Johnson & Scholes, 1999) and more cautious academic suggestions (Mitchell, Agle, & Wood, 1997; Frooman, 1999) were proposed. They serve to determine which stakeholders "should be served first", i.e. which claims should be prioritized. This logic works extremely well for analyzers. For example, following the Scholes' (1998) model of "stakeholders mapping":

- Stakeholders that have both "power" and "interest" (i.e. both the firm and the stakeholder have high switching costs and accumulated quasi-rents) are labeled as "key players" who force the firm to generate the specific returns at the very top boundary of the mutual acceptance zone.
- Stakeholders that have "power" but no "interest" should be "kept satisfied" (i.e. placed above the equilibrium line).
- Stakeholders that have no power but high interest should be "kept informed" (about their switching costs and quasi-rents in order to accept the return below the equilibrium line".
- Stakeholders that have neither power nor interest devote minimal effort (so they may be placed on equilibrium line in the lower left corner of firm-stakeholder relationship figure).

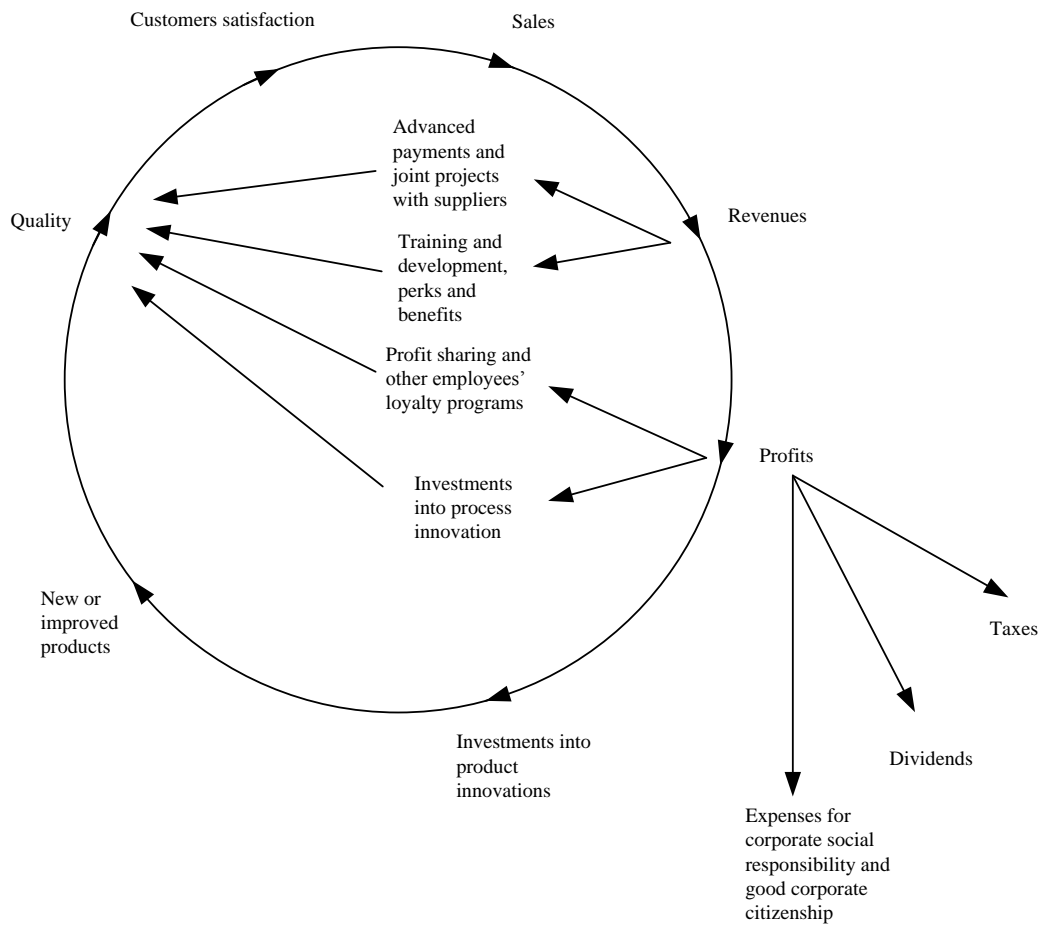
All together this makes a "perfect analyzer" who uses widely both exploration and exploitation (see Figure 8).



**Fig. 8.** Discrimination of Stakeholders by a “Perfect Analyzer”

Defenders are also operating within that logical framework, but their major attempts are devoted towards complete elimination of powerful stakeholders, especially “key players”. To decrease “interest” of such stakeholders, defenders may simultaneously decrease the switching costs and destroy the accumulated quasi-rent for some stakeholders and put restless efforts in ensuring alternative sources of supply of resources (new sources of recruiting, new markets, new ways of company financing, offshoring locations of company registration etc.).

Reactors and especially prospectors exhibit another approach to stakeholders’ claims. This approach follow the completely different logic of “integrated value management” (Gomez, 1999) when abnormal returns for one class of stakeholders serve as a trigger for improving returns for other stakeholders (see Figure 9). The same logic was proposed by Kaplan and Norton (2001), where “motivated and prepared workforce” strengthens “customer value proposition” that, in turn, leads to improvement in shareholder value.



**Fig. 9.** Assumptions of “Integrated Value Management”

Apple Inc. recent stock performance demonstrates how abnormal return to customers (innovative products) results in abnormal returns to shareholders. Saidov (2010) presented a case in which higher return for suppliers (high price for purchases) resulted in higher return to customers (increase in products quality) that in turn led to higher returns for employees (higher stability of employment and higher remuneration).

## 5 Discussion

The primary objective of this study was to develop operational measures of exploration and exploitation within the Miles-Snow typology of strategic orientation. The proposed model presents a clear explanation of the both variables and provides guidelines for possible quantitative measurements of such variables and more reliable identification of particular strategic types in sectorial and industry studies. It also easy to predict that in mature industries the majority of established firms will exhibit the patterns of Reactor (striving to be an “average” firm) or Analyzer (striving to provide some abnormal benefits for a few key stakeholders by exploiting other stakeholders with higher switching costs and/or accumulated quasi-rents). At the same time,

revisiting Miles-Snow strategic types put several challenges for the established images of particular strategic types.

The biggest challenge for the established images of particular strategic type came from a different representation of reactors. Executives of reactor indeed do not put too much efforts to anticipate, plan, or project into the future, but this does not signifies that “there is no innovations” (Burton et al., 2006, p. 25). Quite the opposite, we have demonstrated that reactor should maintain high flexibility, which in turn require constant process innovations. In addition, reactor is not necessarily scored low on product quality or have poor record of employment relations. We mentioned a case of Wegmans as an example of a reactor located in the upper zone of the equilibrium line. However, in most cases Reactor puts the customers and employees together with other stakeholders in the very middle of equilibrium line where despite the Porter’s suggestions “do not struck in the middle” (Porter, 1980) a considerable share of companies is really located. The logic is simple – if bad news affects the position of the *majority* of companies in the industry, “staying in the middle” means that the competitive position of a company remains stable as its closest competitors experience the same problems. The final divergence between the conventional and our view of reactors is longevity of such a strategic orientation. There are examples of industries that are populated mostly by reactors (for example, cutting and polishing of diamonds) and companies in such industries may survive for many decades if not centuries.

## 6 Suggestions for Further Studies

Besides significant correction of views on reactors our study presents other challenges in several areas of social sciences. We may identify four promising areas of further studies that belong to strategic management, organizational design domain, industrial organization domain and the domain of political sciences.

The biggest challenge to further studies in strategic management using our model is to desalinate within “strategic orientation” the strategic intent from strategic actions being really implemented by the firm. We mentioned unintentional positioning of analyzer as prospectors or defenders. However, much empirical work still has to be done to retrace actions of particular strategic types and to distinguish between

- generic actions, implemented accordingly to the strategic orientation of the firm,
- emergent actions, undertaken as involuntary but necessary compromises with the given strategic position and strategic patterns of a firm;
- actions resulted from the attempts to changes the existing type of strategic orientation.

The last class of actions also brings us towards challenges to organizational design theory. The biggest challenge for organizational design domain concerns *identification of the internal mechanisms for intentional change of strategic orientation*. We have noted that many factors that shape the choice of a strategic orientation of the firm (dynamics of the firm’s environment, globalization and raising heterogeneity of stakeholders) are beyond the direct control of the company and its executives. Changing the managers’

mindsets and mental models is slow and very painful process (Puffer et al., 1996; Pfeffer, 2005) but such task at least depends on own efforts of executives to re-examine their experience and to reformulate their assumptions. However, the changes in managers' mindsets in the very first step in triggering the change of strategic orientation of a firm. Such changes should be reinforced by corresponding changes of the "human side of the enterprise" (McGregor, 1960). We mean here not the "theory Y" itself, but the whole set of closely interrelated organizational parameters – type of organizational climate, remuneration schemes, allocation of resources through the levels of managerial hierarchy, modes of coordination and control. Gurkov and Settles (2011) observed that "would-be-prospectors" intentionally create misfit between the existing strategy of the firm (reactor or defender) and the organizational climate. Unfortunately, that observation was made on a very limited sample of companies. More intensive large-scale observations (surveys in executives, synthesis of case studies) should be made in that direction.

The third promising area of studies utilizing the proposed model of firm-stakeholders relationship is industrial organization. We remind that two key parameters of our model – switching costs and quasi-rents are borrowed from industrial economics. More precise algorithms and methods to calculate switching costs and quasi-rents for particular types of stakeholders should be developed. However, we expect that the proposed model may also serve to "personalize" the whole domain of industrial organization theory, moving it from continuous functions describing the actions of abstract firms towards mapping discrete positions of prospectors, analyzers, reactors and defenders and to evaluating their counterbalancing actions of shifting the limits of "acceptance zones" for particular stakeholders or expanding the whole limits of the existing markets for goods, capital and human resources.

The fourth area of study that may profit from the proposed model is the domain of political sciences. We mean here to present the government as a stakeholder beyond its "intrinsic costs and benefits". Most of business research seems to have taken for granted that the business firm exists in democratic societies. However, the realities of global markets demonstrate that the same marketplaces (like the world's oil market) are shared by the firms operating in different political regimes such as the open control of the Communist Party, invisible control of spiritual leaders, softer or harder personal claims imposed on companies by "elected dictators". Our model will be incomplete unless we clearly identify the government's interests in different political settings. Modern cases suggest that the democratic government may act as the powerful ally of shareholders, customers, employees, and communities. Corrupt authoritarian government will prefer to act as an additional controlling owner of a business located within its reach. However, this is just general reasoning based on the common sense. Much work should be done in that direction in particular because we see an increase in globalization.

## 7 Conclusion

The present study intended to expand the Miles-Snow strategic typology by positioning the firm not on one market (market for firms' goods and services) but on several markets (capital market, human resource markets, market for acquisition of necessary raw material, equipment, technical and business solutions, markets for social acceptance and political patronage). The resulted "multi-dimensional analysis" of the firm's positioning enabled us to amend the traditional views on about particular strategic types and to formulate several challenges for strategic studies, organizational design theory and for other fields of social sciences.

### Footnotes

1. Switching costs correlate positively to the level of costs/benefits of the exchange between the firm and its stakeholders. Quasi-rents are proportional to the level of costs/benefits of the exchange between the firm and its stakeholders, so both switching costs and quasi-rent increase from the lower left to the upper right corner of the figure of firm-stakeholders relationship. Added together, switching costs and quasi-rent form an angle with the line of equivalent exchange, so the zone of mutual acceptance widens from the lower left to the upper right corner of the figure of firm-stakeholders relationship.
2. This was the case of introducing Windows 2000 by Microsoft Corporation.
3. Eruption of the Icelandic volcano in June 2010 caused major disorder in the European air traffic system, including massive cancellations or delays of flights. However, two years after the eruption the accuracy of European air traffic still has not returned to the "pre-eruption" standards.
4. Like Swiss banks that demand payment and do not provide interest on obscure anonymous bank accounts.
5. State-owned monopolistic defenders are not necessarily loss-making firms. In many cases they manage to produce healthy profits, however, such profits seldom please their shareholders. A good example of a defender is state-owned open joint company Russian Railways that occupies a monopolistic position in both suburban and long-haul railway passenger transportation and near monopoly of railway cargo traffic in Russia. In 2008-2010, the company managed 1) to decrease the passenger traffic by 21% (partially by constant cancellations of loss-making suburban trains); 2) to reach the rise in net profits by six times without paying any dividends; 3) to achieve a partial financing of the gigantic investment program (26.5% of the total revenues) by additional injection into company's equity by the controlling shareholder – the state.

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