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978-0-521-68194-0 - Theory of the Firm for Strategic Management: Economic Value Analysis

Manuel Becerra

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This book provides the most comprehensive synthesis of the different theoretical approaches to the topic of strategy. It is also a pleasure to read. I agree entirely with Manuel Becerra's view that the most useful way to think about any company is in terms of an entity whose twin goals are: first, to create value and, second, to appropriate a fair share of this value for its own shareholders. I recommend this book as the first thing that any Ph.D. student in strategy should read before tackling the details of the strategy literature in doctoral seminars.

Anil K. Gupta

Ralph J. Tyser Professor of Strategy & Organization, Robert H. Smith School of Business, University of Maryland

This is a fantastic book that will fill a major gap in the strategy literature. It provides a thorough review of prior theory and research concerned with the economic basis of strategic management. Management scholars and practitioners alike will find this to be a landmark publication that enhances our understanding of strategic decisions.

Luis Gómez-Mejía

Council of 100 Distinguished Scholar and Regents Professor at the W.P. Carey School of Business, Arizona State University

An excellent and very timely book. In times of strategic turbulence the importance of sound theoretical grounding is accentuated. A must read for any serious student of strategy.

Øystein D. Fjeldstad

Professor and Telenor Chair of International Strategy and Management, BI-Norwegian School of Management


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Theory of the Firm for Strategic Management

Strategic decisions deal with the long-term direction of the firm and its main activities, usually the responsibility of the top managers in an organization. Because the firm is the critical unit of analysis in strategy, we need to define what firms are, how they create value, and what their organizational boundaries are, in order to understand their overall performance. However, this must be done in a manner that is most useful for strategic analysis and decision making. In other words, we need a theory of the firm for business strategy. *Theory of the Firm for Strategic Management* integrates and expands key existing theories, like transaction costs economics and the resource-based view, to develop a value-based theory of the firm. This provides a framework to show how firms can create value for customers and, at the same time, capture economic profits for their owners through business, corporate, international, and social strategies.

MANUEL BECERRA holds the Accenture Chair in Strategic Management at the Instituto de Empresa Business School (IE), Madrid. His research interests include topics in corporate strategy, the economic theory of the firm, and trust.

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Theory of the Firm for Strategic Management

Economic value analysis

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Preface

The theory of the firm addresses the fundamental questions that we could ask about business organizations, including those regarding their role, their organizational boundaries, and their performance. It is not surprising that economists have made substantial contributions to our understanding of these issues, from neoclassical economics to the new industrial organization economics. However, it is more puzzling that the field of strategic management has not been able to absorb selectively the abundant literature on the economic theory of the firm and to adapt it to its own goals regarding strategic decision making. Simply put, economic theories like transaction costs economics were not designed to facilitate strategic analysis.

At this moment, strategy does not yet have a core theory of what firms do and their performance in the market, although the entire field somehow deals with an applied and instrumental perspective about the actions of firms and their implications for business performance. A large variety of approaches to the nature of the firm coexists within strategic management, currently dominated by the resource-based view of the firm. Unfortunately, the lack of a core foundation makes progress for the field more difficult through unnecessary controversies, such as market positioning versus resource analysis of competitive advantage.

This book is one step towards the goal of developing a reasonably comprehensive theory of the firm for strategic management. Relevant ideas from transaction costs economics, the resource-based view, competitive dynamics, diversification, globalization, and even corporate social responsibility can be integrated within a framework that begins with the most basic questions and leads to critical strategic decisions of a firm regarding how it should deal with its customers, its resources, and its competitors. I will argue throughout the book that the systematic analysis of how firms create and capture economic value is an

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especially useful approach to address these questions as far as strategic analysis is concerned.

I wrote this book for academics and advanced students in business administration who may look for a structured map of state-of-the-art ideas in strategic management from an economic perspective. The analysis of value provides the glue that connects the wide range of topics covered by the book. Obviously, a few hundred pages cannot summarize the huge literature in strategic management, but a value-based theory of the firm can serve as a basis to get acquainted with the economic foundations of the strategy field. The first part of the book covers these theoretical foundations and the second part explores the implications of economic value analysis for the key strategic decisions of a firm, including business, corporate, international, and social strategy.

Three years were necessary to finish the book. It would have been impossible without the support of many people, including the great editorial team from Cambridge University Press. I would also like to thank all of my colleagues at IE Business School (Madrid) and very especially Juan Santaló, who helped me with lively discussions and detailed comments to each chapter.

More than anyone else, I have to thank my wife Yoana, who made writing this book much easier and life much happier.

Manuel Becerra
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