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No business is an island: The network concept of business strategy ☆

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Abstract

The purpose of this article is to explore the contributions that could be made to the conceptual frame of reference for business strategy management by one of the research programmes which focuses on the organization–environment interface, and to which a network approach has been applied. We start by examining some of the assumptions underlying the current "strategy management doctrine". The network model of the organization–environment interface is then reviewed and three central issues of the strategy management doctrine are discussed from the viewpoint of the network model: (1) organizational boundaries, (2) determinants of organizational effectiveness, and (3) the process of managing business strategy.

The conclusion reached is that in all three areas changes are required in the assumptions of the business strategy model. Our arguments stem from a basic proposition about the situations described by the network model: continuous interaction with other parties constituting the context with which the organization interacts endows the organization with meaning and a role. When this proposition applies, any attempt to manage the behaviour of the organization will require a shift in focus away from the way the organization allocates and structures its internal resources and towards the way it relates its own activities and resources to those of the other parties constituting its context. Such a shift in focus entails a somewhat different view of the meaning of organizational effectiveness: what does it depend on and how can it be managed?

Keywords: Network; Strategy; Environment; Interaction; Efficiency

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1. Introduction

Looking back over what has happened in the study of business organization over the last 20 years, we can see that two major trends emerge quite clearly. Firstly, there has been a growing interest in business strategy and how it is managed. Secondly, a shift can be noticed in the focus of organizational theory away from the internal processes of organizations and towards the organization–environment interface. Both trends have produced valuable new insights and have advanced our understanding of the behaviour of business organizations.

There is an interesting contraposition between the two fields of research. Organizational theory studies which focus on the interface between the organization and its environment have tended to conclude that the individual organization is often embedded in its environment and that its behaviour is thus greatly constrained if not predetermined, which means that it is not a free and independent unit. In contrast to this, research on strategy management has been concerned with the opportunities for directing and managing the behaviour of the individual organization, consequently assuming that the organization possesses a certain degree of freedom of choice. Cross-fertilization between the two fields of research has so far been limited, possibly because of this difference in perspective.

The purpose of this article is to explore the contribution that could be made to a conceptual frame of reference for business strategy management by one of the research programmes which focuses on the organization–environment interface, and to which a network approach has been applied. We start by examining some of the assumptions underlying the current "strategy management doctrine". The network model of the organization–environment interface is then reviewed and three central issues of the strategy management doctrine are discussed from the viewpoint of the network model: (1) organizational boundaries, (2) determinants of organizational effectiveness, and (3) the process of managing business strategy.

2. The concept of business strategy

The conceptual frame of reference of business strategy management is not easy to grasp. It consists of a large and growing body of quite varied contributions from such groups as industrial economists (Chandler, 1962; Porter, 1980, 1985), organizational theorists (Hall & Saias, 1980; Miles & Snow, 1984; Mintzberg, 1988; Pfeffer, 1987) and management theorists and consultants (Ansoff, 1965; Hofer & Schendel, 1978; Hendersson, 1979; Ohmae, 1982). These multifaceted contributions are pretty heterogeneous in their approach as well as in the areas covered. In their current forms they can only be loosely linked together in what will be referred to below as the doctrine of business strategy management.

The concept of strategy as applied to business studies has only been appearing with any great frequency since about 1960 (Ansoff, 1965; Chandler, 1962). Since that date, it has gained wide acceptance, although "strategy" remains an ambiguous and elusive concept. Its meaning in the military context, "the art of so moving and disposing troops as to impose upon the enemy the place and time and conditions for the fighting preferred by oneself" (Oxford *English Dictionary)* does not seem to lend itself easily to business organizations. In particular, it is argued, because resources of business organizations (i.e. their "troops") are largely fixed in place and time (Pennings, 1985, p. 2) it is difficult to dispose resources in time and space. In business organization contexts "strategy" has sometimes been defined with a certain degree of opportunism. Its definition often remains implicit, open to intuitive interpretation. (Among others Ansoff (1965) avoided any definition of strategy.) Explicit definitions of strategy are nevertheless quite numerous. The content assigned to the concept varies from one author to another, but the essence of the many definitions converges in the concept of strategy as "the pattern in the stream of decisions and activities... (Mintzberg & McHugh, 1985, p. 6) ... that characterizes the match an organization achieves with its environment ... and that is determinant for the attainment of its goals..." (Hofer & Schendel, 1978, p. 25). The emphasis is on the pattern of activities which has an impact on the achievement of the organizational goals in relation to its environment.

Research on business strategy has been concerned primarily to understand what makes a business organization effective in its environment, and to explore the organizational processes required to enhance this effectiveness. It is usually assumed that the criterion of effectiveness in the case of business organizations is the accumulation of monetary wealth over time, achieved by way of exchange with other parties in the environment. The accumulation of resources is supposed to be the prerequisite for the survival of the organization. The dominant idea in the conceptual core of business strategy research has been partly derived from biology ("survival of the fittest"). The effectiveness of the organization, its potential for accumulating resources, is assumed to be a function of matching the characteristics of the environment with the capabilities of the organization. A positive balance in the exchange of resources with the environment is ensured by adapting to this environment. The idea of "fit" between the capabilities of the organization and the characteristics of the environment (in particular customers and competitors, referred to as the "market") is the central theme in the strategy management doctrine (Miles & Snow, 1984; Venkatraman & Camillus, 1984).

The fit with the environment is assumed to be good, if the organization out-performs other organizations in competing for the resources held by other entities in the environment. To out-perform others is usually equated with offering "superior value" to one's counterparts in the exchange process (Levitt, 1980; Porter, 1985, p. 3). It is assumed that this "superior value" is based on overall efficiency in transforming inputs into outputs. This efficiency permits a company to "dominate" parts of its environment (Norman, 1977, p. 26; Rhenman, 1973).

Strategy management is seen as a process of adapting the pattern of activities performed by the organization to the external environmental conditions in which the organization operates. Managing strategy thus means managing the process whereby the pattern of activities to be performed by the organization is conceived (i.e., strategy formulation), and then creating the conditions necessary to ensure that these activities are carried out (i.e., strategy implementation). It is often stressed that because the environment is always changing, this has to be a continuous process.

Three assumptions are generally made explicitly or implicitly about the nature of the process of adapting to the environmental conditions in the current strategy management doctrine.

Firstly, the environment of an organization is faceless, atomistic and beyond the influence or control of the organization. Whatever happens to the task environment of the organization stems from forces outside the organization itself. Even if it is sometimes admitted that "political networking" with competitors, for example, may provide a way of exerting influence over some part of the environment, the basic assumption is still that the environment cannot be controlled. Consequently opportunities do exist in the environment, and they are there to be identified and exploited. They cannot be created or enacted; rather, the organization can exploit them by adapting itself to its environment. It is implied that a dividing line exists between the organization and its environment. The environment exists, even without the organization.

Secondly, the strategy, the pattern of critical activities, of a business organization results from the deployment of resources controlled hierarchically (contractually) by the organization. Controlled resources are allocated in certain combinations, providing products/services to be exchanged with the environment. Further resources can be obtained by means of exchange with the environment, across the boundaries of the organization. In the supposedly competitive and "non-controllable" environment, the effectiveness or exchange potential of an organization will depend on its relative efficiency in combining its internal resources. Internal resources can be reallocated in order to adapt to environmental conditions, thus enhancing effectiveness.

Thirdly, environmental conditions change continuously, so that frequent if not continuous adaptation is required of the organization. There is a group of individuals (management) in the organization which is concerned by definition with managing organizational effectiveness. It is assumed that this group can and does interpret environmental conditions, after which it formulates and implements a future strategy. It decides and crafts the pattern of activities to be executed by the organization.

All three assumptions have been challenged, directly or indirectly by several streams of research, particularly in organization theory. Hannan and Freeman (1977) with their concept of the collective dependence of organizations, Pfeffer and Salancik (1978) who talk about the resource dependence of organizations, Weick (1969) who discusses the ex-post rationality of organizations, and Hall and Saias (1980) and Mintzberg (1988) who examine the nature of the strategy formulation process, are but a few examples of those who advocate the adoption of different assumptions regarding a number of issues.

In this paper we will examine in particular the position adopted by the proponents of the network model of the organization–environment interface. This proposition draws on the work of the organizational theorists referred to above, but it also constitutes a somewhat more elaborate set of propositions, particularly about the market behaviour of business organizations.

3. Network model of organization–environment interface

What is referred to below as the network model is the outcome of a fairly broad research programme dealing primarily with the functioning of business markets, which originated in the mid-1970s at the University of Uppsala. The research programme has spread to a few other research institutions, mainly in Europe. The programme can be described as a collection of studies with a largely common frame of reference (Ford, Håkansson, & Johanson, 1986; Hägg & Johanson, 1982; Håkansson, 1982, 1987, 1989; Hammarkvist, Håkansson, & Mattsson, 1982; Kutschker, 1985; Mattsson, 1985; Thorelli, 1986; Turnbull & Valla, 1986).

The network model of the organization–environment interface stems originally from casual observations that business organizations often operate in environments which include only a limited number of identifiable organizational entities (actors). These entities are involved in continuous exchange relationships with the organization. In such cases each individual party exerts considerable influence on the organization. This situation is encountered most often by industrial companies operating in business markets which include a limited number of suppliers, competitors and customers. However, some more extensive empirical studies (Håkansson, 1989; Turnbull & Valla, 1986) suggest that this type of situation may be the rule rather than the exception for a wider population of business organizations in general. The propositions of the network model refer to situations and cases in which the environment of the organizations is of a concentrated and structured kind, i.e. it is constituted by a set of other active organizations.

When the entities constraining and impinging on the behaviour of the organization are few in number, they are usually treated as unique counterparts, i.e. each one is endowed with a distinct identity. As a result of an organization's interactions and exchange processes with any of these, relationships develop that link the resources and activities of one party with those of another. The relationships (linkages) are generally continuous over time, rather than being composed of discrete transactions. They are often complex, consisting of a web of interactive relations between individuals in both organizations.

Within the framework of such an interorganizational relationship, a complex set of interdependencies gradually evolves. Activities within one party are connected with activities carried out in the other. Activities are carried out by actors pursuing their own goals and possessing their own perceptions of the interacting party's activity pattern, among other things. Activities undertaken by the parties in a relationship cannot, therefore, be connected without the active and reciprocal involvement of both parties. The establishment and development of an interorganizational relationship requires a "mutual orientation" (Ford et al., 1986).

Relating the activities of the two parties to one another entails adaptations and the establishment of routines on both sides. Given the distinctive nature of the parties, the interdependencies in the relationship become further strengthened. Through their relationship either party can gain access to the other's resources. To some degree actors can therefore mobilize and use resources controlled by other actors in the network. An organization's relationships with others represent the framework and form for the exchange processes with other parties.

The interaction between the parties in a relationship entails more than just passive adaptation. While the two parties are interacting, their problems are confronted with solutions, their abilities with needs, etc. Reciprocal knowledge and capabilities are revealed and developed jointly and in mutual dependence by the two parties. Distinct capabilities are thus generated and have meaning in an organization only through the medium of other parties. They are unique to each party, since no two sets of related organizations are alike. In this sense the identity of an organization is created in interaction with its major counterparts.

When the environmental conditions of a business organization are of the kind described, when it is gravitating towards a set of other active organizations, then analogous environmental conditions can be assumed for the whole set of organizations with which the focal organization is interacting. The organization is then embedded in relationships with identifiable counterparts. This web of relationships can be called a network. One of the salient properties of such a network consists of the interdependencies between the different relationships (Cook & Emerson, 1978). These interdependencies exist as regards activities, resources and actors. The activities in two different relationships can complement each other, if they are part of the same activity chain. Or they may be in competition. Similarly resources used, accessed or exchanged in one relationship can complement or compete with those used, accessed or exchanged in another relationship in which the organization is involved. Actors can use the existence of complementarity or competitiveness in their relationships in different ways, as they interact with one another. This can create not only triangular relationships, but even "dramas" involving four, five, six, or more participating business organizations.

The performance and effectiveness of organizations operating in a network, by whatever criteria these are assessed, become dependent not only on how well the organization itself performs in interaction with its direct counterparts, but also on how these counterparts in turn manage their relationships with third parties. An organization's performance is therefore largely dependent on whom it interacts with.

Before we can summarize the propositions of the network model, we must mention the concept of the environment of the organization. What appears to give a business organization its identity and to define its field of operations in the network view cannot be fruitfully covered by the concept of the "environment", or by the more circumscribed concept of the "relevant environment". The environment is not a meaningful concept in these situations; more meaningful is the set of related entities. Moreover, the (inter)dependence of an organization on other entities makes it difficult to disconnect the organization from its network, since a business organization without its interactive environment loses its identity. It therefore seems useful to adopt the concept of the "context" of an organization rather than its environment, when we want to refer to the entities that are related to the organization. The context is enacted, it is created by the organization itself, and in a sense it even constitutes the organization itself. The propositions of the network model can at this point be summarized as follows:

1. Business organizations often operate in a context in which their behaviour is conditioned by a limited number of counterparts, each of which is unique and engaged in pursuing its own goals.
2. In relation to these entities, an organization engages in continuous interactions that constitute a framework for exchange processes. Relationships make it possible to access and exploit the resources of other parties and to link the parties' activities together.
3. The distinctive capabilities of an organization are developed through its interactions in the relationships that it maintains with other parties. The identity of the organization is thus created through relations with others.
4. Since the other parties to the interaction also operate under similar conditions, an organization's performance is conditioned by the totality of the network as a context, i.e. even by interdependencies among third parties.

When and if organizations operate under the conditions described above, then acceptance of the propositions of the network model calls for a review of the assumptions underlying the business strategy management doctrine. We will undertake such a review in the following discussion. Our intention is to contribute to the development of a frame of reference for the strategy management doctrine, relevant to organizations operating under the kind of conditions for which the network model has proved its descriptive adequacy. We shall try to see how far the present frame of reference for business strategy can be enriched to become a more effective conceptual tool for intervention in the functioning of an organization if and when the organization is operating under the circumstances assumed by the network model.

4. Organizational boundaries

The definition of a "boundary", when applied to any social system, is naturally quite arbitrary (Hall & Fagen, 1956) and depends on the intentions and aims of the observer. When the perspective of management is adopted, as in the strategy management doctrine, the intention is to embrace within the boundaries of the organization those resources and activities that can be controlled and influenced by the organization, and to leave outside those that cannot be influenced. This control is assumed to be necessary in order to adapt and relate effectively to the environment. An organization's boundaries should thus be set as coterminous with the limits to its activity control: "the organization ends where its discretion ends and another begins" (Pfeffer & Salancik, I978, p. 32).

The conventional view is that the boundaries are given by the hierarchical (proprietary or contractual) control of resources (including individual actors). This view implies what can be referred to as a "membership criterion" for the definition of the boundaries of an organization. Such a criterion gives an apparently clear dividing line between the organization and its environment, in effect between internal and external factors. Apart from the problem of the type of contractual arrangement that permits "hierarchical" control and discretion in the exercise of deliberate choice behaviour (Cheung, 1983), the issue that remains to be dealt with is whether such a view permits us to capture, within the boundaries of the organization, all the resources and activities that have a significant impact on its effectiveness. In a network perspective, this is hardly the case.

Where the network view of the organizational context holds, some of the organization's relationships with other organizations in the network constitute in themselves one of the most—if not the most—valuable resources that it possesses. Through these relationships with other parties, resources and activities are made available and can be mobilized and exploited by the organization in order to enhance its own performance. Access to the other party's resources—resources that complement those of the focal organization—constitutes an important asset (Fiocca & Snehota, 1986). According to a somewhat more extreme view of the assets of a business organization, it is claimed that the "invisible" or "intangible" assets assume a central role in organizational effectiveness, since they are the differentiating factor in performance that gives an organization its distinctive identity (Itami, 1987; Vicari, 1988). The invisible assets, consisting largely of knowledge and abilities, fame and reputation, are mainly created in external relationships. Furthermore they cannot be separated from these relationships.

Quite apart from the resource argument, another aspect emphasized in the network view of the organizational context has considerable bearing on the problem of boundary setting, namely the interrelatedness that prevails in networks and the possible impact on the focal organization of relationships among third parties. The concept of interrelatedness is inherent in the network view. The magnitude of these effects on the behaviour of the organization has been stressed, for example, in some studies of technology development processes. The importance of resources and activities "external" to the traditional boundaries of the organization, and the inter-relatedness with relationships to third parties, has been documented in studies that focus on the process of technology diffusion and technology development (Håkansson, 1987; Imai, 1987; von Hippel, 1982;

Waluszewski, 1988) and in some of the research on growth patterns in new-venture organizations (Aldrich, Rosen, & Woodward, 1987; Lorenzoni & Ornati, 1988).

In view of the role of "external" resources and interdependencies stressed in the network view of business organizations, it becomes meaningless and conceptually impossible to disconnect the organization from its context. The organization appears without boundaries in as much as it is to a certain degree constituted by resources and activities controlled by other parties forming the network, and exists only in the perceptions of other parties. It develops its distinctive capabilities in relationships with others. The organization is constrained in the exercise of its discretion, as much as it constrains the discretion of those with whom it interacts. The organization exists and performs in a context rather than in an environment, in as much as it has a meaning and a role only in relation to a number of interrelated actors. This makes it difficult to define "where the discretion of an organization, and thus the organization itself, ends and another begins".

In comparison with the conventional view of an organization's boundaries, this approach means on the one hand that some of the resources and activities traditionally considered "internal" can hardly be controlled and influenced by the organization, while a number of what have been considered "external" resources and activities do actually constitute an integral part of the organization itself and are subject to its influence and control. The "membership" criterion, while legally clear and important in determining the outcome of exchange, does not permit a focus on the variables determining an organization's effectiveness.

The purpose of setting the boundaries of an organization in the business strategy management doctrine is to focus on the variables which determine the effectiveness of the organization and which are also subject to the influence of the organization (that can be managed). In this management perspective it is essential to make the distinction between controllable and non-controllable variables. If this is to be done with a view to identifying the determinants of the organization's performance then the boundaries of an organization should be defined more broadly so as to include the critical connected activities and the resources that can be mobilized as a result of the ongoing network relationships—in other words, the context of the organization. How much of the context constitutes the organization depends of course on the degree of interdependence within the context. To assess the interdependencies we need to look a little more closely at the question of organizational effectiveness.

5. Organizational effectiveness

The issue of organizational effectiveness is central to the whole business strategy management doctrine. The content of a strategy, the activity patterns that affect the achievement of goals, can only be defined by reference to the factors that determine the organization's effectiveness. Assuming that survival is the overriding goal of the organization, which in the case of a business organization is based on the accumulation of monetary wealth through exchange, the effectiveness of the business organization is determined by its "bargaining position". An organization's bargaining position is "the ability of the organization to exploit its environment in the acquisition of scarce and valuable'resources" (Yuchtman & Seashore, 1967, p. 898). The effectiveness of a business organization is thus given by its capacity to acquire resources through exchange with other parties in its context.

After relating effectiveness to "bargaining position" we have to ask ourselves how a certain bargaining position is reached by an organization and what are the determinants of this position. In organizational theory, the bargaining position is often interpreted in terms of organizational power, in the sense of a capacity to influence the behaviour of related actors. Few issues have been discussed with as much heat and as little result as the issue of interorganizational power. Hoping to avoid entanglement in the intricacies of this concept that have little bearing on our subject, we will resort to a slightly different view of the bargaining position.

In order to elaborate the idea of the bargaining position, it seems necessary to examine the nature of exchange transactions. A few disciplines such as economics, social anthropology and marketing have been concerned with this topic. The common view of the nature of exchange transactions is that the object of any exchange between two parties is some form of activity or performance, e.g. products and goods, services, and money. The purpose of exchange is the acquisition of "performance" regardless of the form in which it is represented. What is acquired by the exchange is not goods or services or money, but what these things can do for the party engaged in the exchange (Belshaw, 1965; Levitt, 1980). Even when the purpose appears to be the acquisition of resources, the underlying rationale is the acquisition of activities (utility or performance). The outcome of an exchange process is thus determined by what the objects of the exchange can accomplish for the exchanging parties; it is therefore individual and subjective. (It should be noted that this view contains some elements of the notion of "distinct counterparts" rather than generic environment or market.)

The traditional view of economists and organizational analysts is that an organization's capacity to reach a favourable bargaining position, a position that permits a positive balance in exchange with the environment, depends mainly on the organization's efficiency in transforming input resources into output. It is said to be so, since in a certain situation the expected value of the organization's output (product, service, etc.) is assumed to be the same for all kinds of different counterparties. What can be obtained through exchange is, therefore, largely outside the control of the individual organizational unit. The unit can only exercise a certain amount of control over the cost side of the transformation. The bargaining position is thus assumed to be dependent on the arrangement of resources and activities internal to the firm (within the narrow boundaries). The fit of the activities of the organization with the characteristics of the environment is achieved by rearranging the activities and resources internal to the organization. It is conceded, mainly by those who adopt the management perspective and in particular by marketing theorists, that to a certain degree organizations can choose their environments, especially their customers, thus improving their bargaining position (Abell & Hammond, 1979). But it is still assumed that the move is achieved autonomously and unilaterally by the organization by making adjustments in its internal resources. The bargaining position of the organization is therefore conceived as determined by the deployment of the organization's own assets.

Two concepts that appear in the network model—"network position" and "strategic identity" (Håkansson & Johanson, 1988; Johanson & Mattsson, 1985)—could be useful to anyone exploring the issue of the bargaining position and the effectiveness of the organization. Both concepts have been used to stress some of the characteristics of the exchange processes in the network setting. To a party engaged in a transaction relationship with an organization, the expected value of the exchange is given by the amount of resources that can be accessed and the activities which the organization can perform for the focal party within the relationship. To the individual party the value of the performance available through the relationship is a function of the position that the organization assumes in that party's network. This ''microposition'' (Johanson & Mattsson, 1985) is the bargaining position of the organization vis-a-vis one specific counterpart. It depends on the efficiency of the resource deployment of the organization, and also on the effectiveness of the organization in relating to other entities constituting the network. It reflects the perceived potential of the organization to constitute a link with parts of the network that the focal party cannot access or relate to, or at least not with reasonable efficiency.

The composite of the micropositions—the macroposition—is qualitatively different. It reflects the role of the organization in its own network. Again, it is dependent on the capacity of the organization to constitute a link with resources and activities among the parties making up the network. It is therefore given partly by what is done within the organization itself, and partly by what the organization does in relationships with others.

The network position, on the other hand, is a relative concept. Since no two parties' positions are alike, the network position means different things to different parties related to the focal organization. Moreover, the performance of an organization in a relationship is perceived and evaluated by another party on the basis of previous experience and present expectations. It is thus enacted rather than given by the amount and type of resources directly controlled. It exists only if perceived and recognized by the parties in the context. Recognition is dependent on the outcome of the interaction processes in an organization's relationships. The concept of ''strategic identity'' (Håkansson & Johanson, 1988) is thus included in the network model. Such a view seems to provide a slightly different picture of the means for achieving fitness with the context. It suggests that the fitness is obtained largely by establishing and maintaining relationships with other parties. For a relationship to come into existence requires that some action at least is taken by the other party. The action, or reaction, of the other party can only be triggered by the perceived exchange potential of the focal actor. The perception of exchange potential between the actors is largely determined by social interaction, and is therefore enacted rather than predetermined and given.

This leads us to regard the effectiveness of the organization as given, not by the organization's ''adapting'' to the environment but by its ''relating'' to the context. These ''relating'' activities include the quasi-integration of activities; the connection of resources in order to branch out into several actor levels, both to gain influence over others and to become dependent on others; and the influencing of one's own and other parties' perceptions of important dimensions in the context. While ''adapting'' necessarily leads to a focus on the internal processes of the organization, ''relating'' induces a shift in focus to its context. It is through its relationships with others that the distinctive capabilities of an organization are acquired and developed. It is therefore the activities taking place between the organization and the other parties, rather than activities within the organization itself, which are the determinants of the bargaining position and of the overall effectiveness of the organization in achieving its goals.

The concept of strategy, the pattern of activities determining effectiveness, thus acquires a different content from the one assumed in the prevailing strategy doctrine. Activities connected with positioning in the network and performed within the framework of external relationships—i.e. the process of relating—assume the primary role. The concepts of fit and misfit, which refer to states only, thus lose a great deal of their analytical power.

Such a view of strategy content has a significant bearing on the issue of management strategy, or the management of organizational effectiveness. We will now explore this further below.

6. Managing the effectiveness of an organization

The traditional view of how the effectiveness of an organization is managed seems to concentrate mainly on what is to be managed and how it is to be done, and to a lesser degree on who does it. What is to be managed in order to enhance the effectiveness is, of course, related to the concept of effectiveness itself. Consequently the allocation of the organization's resources and its efficiency in transforming inputs into outputs are traditionally considered key issues. Positioning vis-à-vis the environment is said to be achieved by the type of output generated. The adaptation of output and internal efficiency are therefore the means to achieving a fit with the environment.

How is this done? Treatment of this issue has often been vague, except for the normative recommendations of the strictly managerial approach. The prevailing interpretation of the process is that strategy is first conceived and formulated on a basis of an assessment of the current and projected state of the environment and of the organizational resources. The assessment permits the identification of the adaptations that will be required of the organization, and which will subsequently be implemented (see among others Hofer and Schendel (1978) and Galbraith and Nathanson (1978)). This process is continuous, or at least frequently recurring. It can be more or less explicit and formal, depending on the complexity and culture of the organization and the rate of change in its environment.

This view of the process of managing effectiveness could be called "the planning approach". It implies that decisions are taken after the scanning of environmental conditions, changes and opportunities; a plan of action is then formulated and implemented. It assumes that the management of the pattern of activities involves drafting a master plan of the pattern, which is then followed. Getting the organization to follow the plan may cause problems, but these can be solved by clear target setting, incentives and control. This view of the strategy management process has been challenged from quite different standpoints (Kagono, Nonaka, Sakakibara, & Okumura, 1985; Peters & Waterman, 1982; Weick, 1969). Its critics have invoked the bounded rationality of complex organizations in a complex and dynamic environment as their main objection.

When it comes to the question of who manages organizational effectiveness, the various opinions are delivered in disguise, especially and somewhat surprisingly in organizational theory. A clearcut but less convincing position has been offered elsewhere. It is generally suggested, sometimes implicitly, that strategy formulation and implementation are the concern of a group of individuals in the organization, namely management, whose primary function is to interpret the environment, to formulate strategy, and to make the adaptations required of the organization in order to pursue this strategy.

The network model seems to generate another approach to the question of effectiveness management in organizations. It was claimed above that relating to the context is the central issue of the strategy. Relating to the context, that is to say creating a distinctive identity, is something that has to be managed. Given the relativity of the context concept, the context itself is conceived not as given beforehand or predetermined, but as enacted; it cannot be assessed. Strategic identity, the basis of effectiveness, is achieved by the interaction behaviour of individuals in relationships. Interaction is the stream of events that ultimately determines effectiveness and constitutes strategy. Thus the effectiveness of an organization—its strategy—is based on interactive behaviour. How can interactive behaviour be directed and managed?

Within a relationship interaction takes place between actors who are pursuing their own goals and acting purposefully. In such a setting, reacting to other actors' actions can be more important than acting itself. And the reactive behaviour in the process of interaction is something that can hardly be planned. Rather, the behaviour of actors in these circumstances can only be guided by norms and values based on past experience, possibly in the form of organizational routines (Nelson & Winter, 1982, p. 124). The pattern of activities that determines effectiveness can thus be directed and managed by values and norms of behaviour, not by prescriptions about the pattern.

This brings us back to the concept of context. The context of an organization is a social symbolic reality in which an organization chooses to exist, and does so by "framing" it (Berg, 1985). The framing of a context, i.e. assuming its structural and dynamic properties, is the basis of any attempt to create an identity for an organization and to position it in the context. The framing of a context can only be achieved by interpreting and rationalizing past experience. This ex-post rationalization constitutes the organization's learning which, when formulated into norms and routines, guides the behaviour of the different actors in the organization (Kinch, 1988; March & Olsen, 1976; Mintzberg, 1988; Weick, 1969). Organizational effectiveness is thus managed by framing the context rather than by designing (planning) a future pattern of activities.

The framing of a context at the organizational level is a social process. It is carried out by individuals but is coded and stored collectively. The individuals who implement the socialization of the context framing are thus those who *de facto* manage the effectiveness and the strategy of the organization. They may not necessarily be identical with those who plan and design the pattern of activities, but it is the management of the organization which is accountable for the results achieved through exchange.

7. Concluding remarks

Throughout the above discussion we have been addressing one broad issue: what contribution can be made to the conceptual frame of reference of the business strategy doctrine on a basis of the insights gained by adopting a network view of business organization. A few areas in which the business strategy doctrine could be developed in the case of organizations operating under "network conditions" have been identified and discussed.

We have touched upon the problems of defining the boundaries of an organization, of assessing organizational effectiveness and finally of managing organizational effectiveness. We have claimed that when a network view is adopted some not inconsiderable changes are required in all the three areas with respect to the basic assumptions of the business strategy model. All our arguments stem from a basic proposition about the situations described by the network model: continuous interaction with other parties constituting the context with which the organization interacts, endows the organization with meaning and a role. When this proposition applies, any attempt to manage the behaviour of the organization will require a shift in focus away from the way the organization allocates and structures its internal resources and towards the way it relates its own activities and resources to those of the other parties that constitute its context. Such a shift in focus entails a somewhat different view of the meaning of organizational effectiveness; what does it depend on and how can it be managed?

By applying the network concept to the analysis of the behaviour of the business organization, we open up another broader issue that we have not addressed here, concerning the assumptions that are made about the very scope of the concept of the business organization. We have been referring throughout to the concept of the business organization as it is used in the literature of strategy management, with its roots in the microeconomic theory of the firm. The firm or organization is viewed primarily as a production function, which is thus concerned mainly with the control and allocation of internal resources according to the criterion of efficiency. This view has also been institutionalized in the legal system, for example, in terms of laws regarding ownership (i.e. the legal boundary of the company), accounting, tax regulations, and so on. It has led to a fairly narrow perspective on the basic issues addressed by the strategy management doctrine. There have been other attempts to broaden and adjust this perspective apart from our own, but hardly any attempts to change it radically.

When we look back over the implications of the network model we get the impression that if the network view is adopted, it will constitute a challenge to the prevailing view of the business organization as a production function. The network model leads to quite a different view of the range and role of the business organization. The emphasis on the linking of activities and resources within a network as a primary task of the business organization seems to suggest that enterprise should be conceived as a transaction function rather than a production function. Such a concept of enterprise could lead naturally to a shift in focus, away from the control of resources towards the integration of resources, and away from the management of acting towards the management of reacting. Although we feel that such a new concept of enterprise is called for, it still seems to be pretty far off.

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