Revisiting Miles-Snow Typology of Strategic Orientation using Stakeholder Theory

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Abstract

Miles-Snow strategic typology has been successfully used in research in strategy and organizational design. However, the key dimension underlying Miles-Snow typology (the organizational response to changing environmental conditions) has been taken too narrow, accounting only for market environment. A new model is proposed which is based on a broader definition of environmental conditions that include 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. Examples of the use of the proposed model are provided.

Introduction

For more than three academic generations (as in average 10 years separate a person from starting his/her undergraduate studies from his/her regular post-doctoral teaching), Miles-Snow typology of strategic orientation has been an extremely influential source for understanding both strategy and organizations. The book itself was translated in several languages; it was cited almost 2,000 times in scholarly works, including articles in Portuguese (Lopes, Moura, Olivera, 2010), Turkish (Akbolat, 2009), and Russian (Gurkov, 2010). Among this flow of studies we may distinguish three “streams” – the first, most numerous type of works simply applies Miles and Snow typology in different settings. The second type of works attempts to assess the reliability and validity of particular measures within the model or the whole model. Such attempts started shortly after the original publication (see Hambrick, 1983; Shortell and Zajac, 1990) and never stopped (see Desarbo et al., 2005). However, there is also the third type of works that may be considered to be as close as possible to the authentic authors’ approach – normative and descriptive studies of organizations of various strategic types. As was stressed, Miles and Snow clearly resisted the widespread belief that their book was a “strategic management book”.

Indeed, “the book is unique in that it melds concepts from strategy, organizational theory, organizational behavior, and human resource management” (Ketchen, 2003: 95). Thus, several studies are trying to present the patterns of internal organization of the firms of various strategic types (Prospector, Analyzer, Defender or Reactor) (see Burton and Obel, 2004). The last attempt in that direction (see Burton, Obel, deSanctis, 2011) presents a comprehensive list of organizational parameters (the forms of leadership, organizational climates, organizational structures, attitudes towards technologies and operations etc.) suitable for particular strategic types. Such attempts to create a “normative” framework for an optimal organizational design for each Miles-Snow strategic type may be considered as generally successful – both theoretical and empirical evidence demonstrated that elimination of misfits brings higher smoothness for firms’ operations and better performance results. Nevertheless, one element of these and similar studies still prevents to exploit the full potential of Miles-Snow strategic typology – the narrow understanding of the firm’s environment.

Evaluating the true composition of the firm’s environment and reformulating the Miles-Snow problem

The key dimension underlying Miles-Snow typology is the organization’s response to changing environmental conditions. However, in most of the studies environmental conditions are presented as changes in product market conditions. Therefore, the attribution of a firm to a particular strategic type is simply based on the wideness of the product-market domain of the firm and/or the intensity of product-related innovations. In such an approach, reactors are claimed to lack a consistent strategy as they simply respond to environmental pressure and often such types of firms are excluded from both theoretical and empirical studies. We believe this to be a very incomplete and misleading interpretation of the firm’s environment. Indeed, 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. Each firm is attempting to secure the uninterrupted supply of resources from these markets by exchanging “benefits” produced by the firm into the “inputs” provided by the owners of particular resources. It should be noted that only two types of “suppliers” (suppliers of energy and raw materials and customers) perform irreversible transactions with the firm (although supplies of machinery and equipment may be arranged through leasing, supply of technological solution may be arranged through limited 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.

Here we are entering the field of stakeholder theory. The very first definitions of stakeholders identified such persons and organizations as “those groups without whose support the organization would cease to exist” (Stewart et al., 1963) or who “are depending on the firm in order to achieve their personal goals and on whom the firm is depending for its existence” (Rhenman, 1964). Thus, from the very beginning the resource dependence was the primarily concept of the notion of stakeholders (see also Snow, 2011; Freeman et al., 2010). Later on, the notion of stakeholders was extended towards “any group or individual who can affect or is affected by the achievement of the firm’s objectives” (Freeman, 1984: 25). Since that time, the meaning of stakeholders has oscillated between two extremes. In one extreme they merely “influence achievement of the firm’s objectives”, in the other they “supply crucial resources for the very existence of the firm, are capable to claim for an adequate return for the resource supplied and thereby may demand the right to participate into setting the firm’s goals (Gurkov et al., 2011). Pertaining to the key concept of the Miles-Snow strategic typology – firm’s strategic orientation – we should return to the original Rhenman’s definition and limit the set of would-be-stakeholders of the firm to “generic stakeholders” (customers, shareholders, employees, suppliers of material and technological resources, authorities). First, “orientation” by definition is identification of somebody’s position regarding a few landmarks. Second, in a ferocious world of business the firm rarely may distract its attention from “whom the firm is depending on for its existence”. Thus, even the proposed list of “generic stakeholders” may be excessive (for example, software developers have virtually no material suppliers or a firm may prefer to work for a prolonged time without sales, stockpiling its products for a unique market opportunity). In this respect, “the list of generic stakeholders” is usually reconsidered by the firm into the list of “key stakeholders” whose resources are necessary for the very existence and development of the firm. 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.

**Depicting the relationship between the firm and its key stakeholders**

Let us present the relationship between the firm and its particular key stakeholder on a two-dimensional matrix. The axes of the matrix are respectively benefits and costs of a particular supplier of crucial resources to the firm. The bisecting line of the matrix that 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. For example, customers who supplies 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 receive adequate compensation for their time and work efforts supplied to the firm. Shareholders counterbalance the risks with dividends and increase in the value of firm’s assets.

The lines above the equilibrium line represent the direct switching cost that the firm faces in its relationship with the supplier (discovery costs and transaction costs) and the quasi-rent that the firm has accumulated from its relationship with the supplier and discovery costs. Added together switching costs and quasi-rent 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 line below the equilibrium represents the switching costs of the supplier and quasi-rents of the supplier. As far as contractual terms of the firm and supplier remain between these two lines, the relationship is considered as perhaps not perfect but reasonable and the resource base remains stable over time (see Figure 1). We should also note that the “transmissivity” of the lower and the upper boundaries of the “acceptance zone” are different. The lower boundary is impassable as the consequences of 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.). At the same time, any stakeholder would be happy to be placed above the acceptance zone. Such actions manifests in skyrocketing of the firm’s stock price, excessive lists of job applicants, long queues of customers etc.).

This model may easily illustrate not only the static but also the dynamic relationship between the firm and the supplier. Providing for some period of time an abnormal return for a particular stakeholder, the firm assists to accumulation of quasi-rent by this stakeholder, thus shifting downwards the lower boundary of the acceptance zone. The malevolent firm may change overnight the whole contractual system for that stakeholder, asking higher inputs in exchange for fewer benefits for such a stakeholder.
Deriving the strategic types in the relationship between the firm and its stakeholders

Here we are approaching the key element of our model. According to the interpreters of Miles-Snow model (Burton et al., 2011), the true measure of the firm’s strategic orientation is the level of exploration and exploitation (see Figure 2).
Analyzer is scored high on both exploration and exploitation, prospector is trying to make many explorations but is weak on exploitation of opportunities, and defender is low on exploration but high on exploitation. Finally, reactor is scored low on both exploration and exploitation. However, how is possible to interpret and, especially, to make operational the measures of exploration and exploitation? The model presented in Figure 1 serves as a key for depicting Miles-Snow strategic types. Analyzers, who are high on both exploration and exploitation, may prefer to keep some of its stakeholders (presumably, the most powerful ones) 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 (presumably, weak) 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 imaging a firm that reaches abnormal return for a controlling shareholder by overexploitation of the labor force and mistreatment of customers (see Figure 3).

Figure 3. Relationship between Analyzer and its stakeholders

Other strategic types are also easily identified using the proposed techniques. 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 4). For several years, Apple serves as such a prospector, expanding the whole market space for both product markets and capital markets.
We also may identify merciless Defenders, who are trying to exploit all of their stakeholders, putting all of them at the very bottom of the acceptance zone. The well-known class of defenders are state-owned loss-making public utilities in 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 for their very existence.

The most interesting case is, however, the strategic orientation of reactors. Despite the usual beliefs, they are not companies without strategic direction – they are simply “modal” firms that are trying to keep all their stakeholders as close as possible along the line of equivalent exchange (see Figure 5). As this line is not stable (it is shifted upwards by the efforts of prospectors and downwards by the efforts of defenders), reactors are indeed forced to react constantly and timely to the changing conditions in all markets.
Conclusions

The proposed model does not contradict the initial Miles-Snow strategy typology built along exploration—exploitation space, but it presents more 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 shifting costs and/or accumulated quasi-rents).

References


