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**Resources, Routines, and interfirm Relations:
Entrepreneurial and Evolutionary Dynamics within an
Industrial Market System**

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Abstract

Scholars concerned with economic processes in industrial economies have long been concerned with the dynamics of firms' adaptation to new circumstances. This paper develops a conceptual framework within which industrial dynamics and competitive interfirm interactions can be analyzed in terms of adaptive responses to changes in the complex system of which the firms form part – rather than in terms of anomalies and exceptions, such as the “market failures” and “externalities” favored in mainstream microeconomics. In order to do so, a conceptual framework is introduced, dubbed an Industrial Market System (IMS), in which firms play a central role as actors, and where their resources, routines and relations with each other generate complex structures such as networks, consortia, and development blocks which mediate and shape the strategic responses made by firms.

The argument developed within this framework draws on insights from three current business perspectives, namely the dynamic capabilities perspective on the firm (incorporating the resource-based view) as developed in the literature on strategic management; the markets-as-networks view of interfirm coordination within industrial markets; and the entrepreneurial discovery perspective of Schumpeter and of the wider Austrian school. The paper seeks to bring these perspectives into alignment with the evolutionary economic view that accounts for changes in firms' competitive performance in terms of variation in their underlying organizational routines, and to do so within an integrated conceptual framework.

The motivation for this exercise is the increasing complexity of global economic processes, involving multiple interfirm linkages and evolving institutional frameworks, calling for renewed efforts towards theoretical integration. Firms operate in a world economy rich in interfirm connections, rich in resources. The most nimble firms today are quick to take advantage of these resources, accessing them through a variety of international interfirm contractual relations. The theoretical models utilized in management and economics ought to reflect this wealth of opportunity that firms can discover. The aim of this paper then is to build conceptual bridges between these various theoretical perspectives.

It is long overdue that these perspectives should be brought into closer and mutually reinforcing alignment. The dynamic capabilities perspective goes a considerable way in doing so, but it stops short of developing a model that engages directly with evolutionary theorizing and with network dynamics. Calls have been made to develop a synthesis of the RBV of the firm with evolutionary economics. Economists have sought to extend the capabilities view to encompass “distributed capabilities.” Likewise there have been efforts to take the insights of industrial markets theory into the wider sphere of economics. Yet the disciplines and frameworks remain stubbornly apart.

This article takes as its starting point a somewhat radical proposal for bringing these intellectual traditions into closer alignment, or at least to a point where they conceptually meet and mutually reinforce each other. The proposal is couched in the form of a simplified representation of economic reality, which is dubbed an *Industrial Market System* (IMS). It is this abstraction that provides the neutral conceptual ground where analysis may be conducted that draws simultaneously on the different traditions. In a nutshell, the IMS models an economy in terms of six categories: *actors* (or firms), their *activities*, the *resources* they assemble in order to be able to conduct

their activities, the *routines* they build so as to actually perform their activities, the *relations* they establish with other firms, to create networks of influence and coordinate their activities, and finally the *strategies* (or *fitness functions*) employed by actors to provide them with a set of criteria for deciding what kinds of activities to engage in, what kinds of resources to acquire, what kinds of relations to establish, and so on. It is through the choices made in terms of strategy that firms acquire their distinctiveness, or heterogeneity, which then underpins their divergent behaviors and leads to a range of competitive dynamics. The categories specified are those with which the industrial markets and the competitiveness literatures deal. The radical nature of the proposal lies in the claim that these categories are also sufficient for discussing the essential features of evolutionary and entrepreneurial dynamics within an economy.