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A management perspective on market dynamics: Stabilizing and destabilizing strategies in the US defense industry

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Summary Markets are at the same time stable and open. Economists and sociologists explain this double nature by factors of stability and factors of uncertainty. The paper adopts a management science perspective, focusing on strategic actions and reactions and using a sequential analysis. Relying on a case study of the US defense industry, it shows that a distinction has to be made between change strategies (''stabilizing'' and ''destabilizing'' strategies) and strategies aiming at managing the risk created by these change strategies (''maintaining the stability'' and ''maintaining the openness'' strategies). To understand market processes, the paper also shows it is important to take into account the strategies developed by three kinds of players: the customer(s), the suppliers and the regulators (antitrust authorities).

Introduction

Studies on markets emphasize that they are at the same time stable and ''open and fluid'' processes (Djelic et al., 2005, p. 1739).

To understand this apparently contradictory feature, social sciences — especially economics and sociology — have identified factors of stability and factors of uncertainty or openness.

Among factors of stability are the institutions (defined a minima as ''a given set of rules and understandings'' — Fligstein and Mara-Drita, 1996, p. 4). As noted by Aoki (2005), most of recent studies endorse the view that ''institutions matter''. Networks of actors constitute another factor of stability (Uzzi, 1996; Abolafia, 1998), as do market structures. On the other side, technology is seen as a factor of major uncertainty (Fligstein, 1996).

The way these factors combine to produce the double nature of markets (stable and uncertain) remains an issunamics, it is often suggested that market processes are a punctuated phenomenon: a technological breakthrough (factor of uncertainty) destabilizes the established functioning of the market, shakes down prevailing networks, allows for new entry, before factors of stability (new

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institutions, new networks of actors, a new market structure) lead to a re-stabilization (Fligstein, 1996).

This paper assumes that if stability and uncertainty are to be addressed simultaneously, it is fruitful to adopt a more managerial perspective. The stress is put on strategies. A destabilizing strategy will be said a move that aims at modifying the customary market processes in view of creating an advantage. Stabilizing strategies seek to introduce new regularities in the market process, providing the players on the market with a more secure environment. These are change strategies. But as any change strategy can potentially create a risk in the long term, we also use as a complement the concept of risk management strategies. If destabilizing strategies occur, market players can manage the risk of instability by adopting strategies aiming at maintaining some stability, and vice versa.

We try to show that — without neglecting the impact of the factors of stability and uncertainty studied by economists and sociologists — the sequences of strategic actions and reactions better explain that market processes are at the same time stable and uncertain. The strategies that are to be taken into account are those of the buyers, the suppliers and the regulatory institutions.

Given this proposed dynamic perspective, the choice of methodology rests on a case study analysis (Yin, 2003) combined with an approach in terms of strategic sequences (Abbott, 2001; Dumez and Jeunemaître, 2006a).

The US defense industry serves as the selected case study. It is well suited as it exhibits a number of key characteristics. On the one hand, it is a case where buyers and suppliers have close strategic interactions. Besides, the industry has been subject to important antitrust decisions. Hence, it enables to highlight stabilizing and destabilizing strategies of the three types of actors. On the other hand, the end of the Cold War in the 1990s has constituted a major rupture in the business cycle of the industry; spurring renewed competitive strategies. The new setting makes the case for discussing how a shift in environment may trigger instability prior to later returning to stability (Fligstein, 1996).

From the above considerations, the paper is organized in four sections. Section 1 develops the theoretical framework. It discusses the way economists and sociologists deal with the issue of stability and uncertainty in market processes and supports the input of a management science approach. Section 2 defines the research methodology, i.e. the choice of a case study approach and, in that regard, the choice of the US defense industry case. Section 3 focuses on the dynamics of the defense industry, identifying two strategic sequences separated by a disruption. Finally, section 4 reviews the main findings in relation to the analysis of market dynamics through the lenses of strategic interactions.

Theoretical framework

Three areas (leaving aside anthropology) have made major contributions to the study of market processes: economics, sociology and management. All have tackled the issue of stability and uncertainty of markets. Without reviewing all aspects of the literature, the main aspects of the articulation of stability/uncertainty are recalled.

In economics, three main schools of thoughts have dealt with the question of market stability and instability: industrial organization, institutional, and Austrian economics.

To orthodox industrial organization economists, the stability of markets depends above all on the existence of a reduced number of competitors. Under a narrow oligopoly structure, participants may more easily stabilize the market, even without explicitly sharing information or rules. Game theory is consistent with the findings. It shows how the coordination is made thinkable when the number of players is small and much harder when the number of players rises (Philips, 1995). Under these conditions, destabilization is due to an exogenous shock.

Institutional economists (Williamson, 1998; North, 2005) have added the dimension of institutions to the traditional economic perspective, which takes them for granted. The existence of institutions is a necessary condition to ensure trust and foster the functioning of markets.

From a different angle, the Austrian economic school emphasized the role and importance of uncertainty. In particular, von Mises (1996) puts uncertainty at the heart of human action and market decisions: ''That man acts and that the future is uncertain are by no means two independent matters. They are only two different modes of establishing one thing (...) To acting man the future is hidden. If man knew the future, he would not have to choose and would not act. He would be like an automaton, reacting to stimuli without any will of his own'' (p. 105). Other scholars have also stressed that the existence of a market is in itself a process based on uncertainty. A chapter from Lachmann (1986), ''The market is not a clockwork'', uses the metaphor of the kaleidoscope: the market is both difficult to understand and changing. It is a fundamentally dynamic and uncertain process, which is made possible through the existence of institutions that maintain the indispensable order: ''both equilibrating and disequilibrating forces'' are at work (Lachmann, 1986, p. 9). To Lachmann (as well as Schumpeter), the entrepreneur is the market participant who, by means of his/her own choices, has the role of maintaining and creating uncertainty.

It is no secret that the three schools of thoughts — industrial economics, institutional economics and the so-called Austrian economics — do not easily debate and fit with each other. The first two rather highlight the factors serving stability in the functioning of markets, the third one concentrates on the factors of openness, and the interplay is not without difficulty.

Sociologists have for their part underscored the structural conditions for the stability of markets (Swedberg, 1994).

The degree of concentration and institutions are common features with economics in the analysis of markets. However, they add the power dimension — usually where market power is in the hands of supply side (Baker et al., 1998). From that setting, sociologists have studied how stabilization is rooted in market processes.

To Fligstein (1996), dominant players, at first, share and impose a common vision of the market (the ''conception of control''), a shared vision that helps them controlling the behavior of agents in the marketplace. Moreover, they manage to capture the State so that it defines ''property rights'' in their interest, thus creating profit opportunities.