

## EDITORIAL

### THEORY IN STRATEGIC MANAGEMENT

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SMJ welcomes papers that focus on theoretical contributions, empirical contributions (quantitative and/or qualitative), or combinations of these. The “Editorial Policy” statement on the SMJ website reflects this goal. The purpose of this editorial is to add clarity to what “theory” means in SMJ. It is intended to be useful to SMJ editors, referees, and potential authors. Our hope is that other scholars may also find it useful. In general where the word “theory” occurs in what follows it can be read as “theory in SMJ.” The editorial does not seek to engage in a philosophical analysis/debate of the nature and role of theory in science.

Theory in SMJ is interdisciplinary. It often uses and extends the development of theories originally developed in other fields, but also includes theory developed within the field of strategic management. Theory has several core elements: simplification, assumptions, concepts, and causal relationships. It is widely agreed across natural and social science that theory involves simplification in varying degrees. Reality is too ambiguous, complex, broad, and diverse to be fully perceived, understood, or

represented without some level of simplification. Hence, theory must make simplifying assumptions. Such assumptions should be obvious or be stated. For example, microeconomic theory assumes profit and utility maximization, while the behavioral theory of the firm assumes bounded rationality.

Theory is about logical, causal relationships among a set of concepts. Theory is concerned with causality, not with association. The nature of the theoretical concepts and the relationships among them should be explicitly and carefully elaborated. Theoretical concepts are not necessarily the same as the measures that may be used for them in empirical studies (e.g., the concept of absorptive capacity measured as the ratio of R&D expenditures to sales). The correspondence between empirical measures and the theoretical concepts is often imperfect and varied (e.g., technological capability has been studied using different measures.). A theoretical contribution may extend or modify an existing theory, for example, by changing or dropping an assumption, by adding a new concept and/or new relationship, or by showing how a theory typically applied to one issue can be applied to another issue. Alternatively, the contribution may establish an entirely new theory. Attempts to combine or connect separate theories should be done with full

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awareness of the differences in assumptions and whether this can or should be overcome.

Testing the implications of theories is a process of questioning them, often using various statistical methods. Theories can always be questioned, and potentially revised, extended, or even discredited, regardless of how long they have existed and how much they have been applied.

The term “model” is often used for both empirical and theoretical work. A common metaphor for a model is a map. A map of a city is not the city, but it is a representation of the city that is helpful for understanding where things are located and how to get around in the city. At SMJ, a theoretical model alone is not identical with a theory, although it may be an important component of the representation or expression of a theory.

In empirical work, a model is usually a statistical model, although there are other possibilities. Here the coefficients are derived from the data sample and subjected to various statistical tests. Such models are subject to simplifications in specifications and underlying stochastic processes. Statistical models need to commit to a functional form, and possibly a simple one. This is because of computational constraints on estimation and the limitation of data: samples may not be large enough to support complex nonlinearities. Such functional simplifications are weaker constraints in theory and theoretical models, where we can conceptualize a variety of functional forms (relationships) that can be used among variables in a model.

In theory, the relationships among concepts can be complex, incorporating both direct and indirect flows of causality, leads, lags, and feedback loops that complicate full empirical testing. Theoretical work can be expressed or represented in many different ways such as, but not limited to, logical verbal descriptions, hypotheses, propositions, metaphors, diagrammatic or schematic models, mathematical models, stochastic models, computational models, and various combinations of these. Seldom does any single one of these fully represent a theory.

SMJ does not view any one or any particular combination of these ways as preferred. Specifically, SMJ does not require hypotheses or propositions to be a component of a theoretical contribution. In SMJ, models of various kinds can be used to help express, represent, or clarify a theory.

SMJ also does not require any particular way of developing theory. Theory development is a creative process that can take advantage of a variety

of previous or contemporaneous theoretical, empirical, and qualitative research to a greater or lesser degree. In addition, there are certain categories of mathematical, stochastic, and computational models that are useful theory development tools. A few examples include game theoretic models, NK landscape models, k-armed bandit models, and agent-based modeling.

Theories either *explicitly or implicitly* usually include time as a variable, since by definition strategy, competition, competitive advantage, industries, organizations, and environments are considered dynamic in strategic management. Chains of cause and effect are embedded in time and often engender path dependence. Examples of variables that *implicitly* bring time into theory include experience, learning, and cohort effects. Firm performance heterogeneity and competitive advantage in strategic management are seen at least partially to come from managers making strategic decisions that impact results across time. SMJ also recognizes that theoreticians working from an equilibrium perspective can produce theory of considerable interest to strategic management scholars.

Hypotheses in SMJ are used to elaborate *predicted* relationships between a dependent and independent variable in a statistical model and/or to express a *theoretical* explanatory relationship. The distinction is not rigid and the two sometimes overlap. Both types of hypotheses are important in SMJ. Predictive hypotheses are testable statistical hypotheses derived from theory. Thus, they are often removed at some distance from causal parent theory or theories that cannot be expressed or tested in the functional forms and/or data required by statistical models. This distancing often includes elimination of time as a variable, thereby allowing relatively simple statistical models to be used to test predictive hypotheses regarding complex dynamic theory. For example, many predictive hypotheses have been developed and tested regarding organizational learning, which is theoretically anchored in complex feedback processes that generate path dependencies. Such predictive hypotheses are important in their own right and because they provide partial indirect tests of dynamic theories that are sometimes difficult to test directly with statistical models.

Many of the theories that have been used and developed in strategic management research, as in other established disciplines, implicitly or explicitly reflect understandings of business activity and other social behavior that has taken place in

traditional developed markets. Currently, much of the growth of business and social activity is taking place beyond these traditional borders. Many of the assumptions, concepts, and causal relationships of traditional theories remain highly relevant in the new settings. However, there are clear opportunities to develop new theoretical understandings that reflect assumptions, concepts, and relationships that differ from traditional settings – whether as fully novel elements or as substantial differences

in intensity. Therefore, the SMJ welcomes research that seeks to expand our general understanding of world-wide strategic management.

The Strategic Management Journal is committed to advancing the discipline of strategic management research. Theory-building is a central part of advancing the discipline. Hence, we welcome submissions that seek to extend or modify existing theory and/or create new theory that moves forward the frontiers of our field.