

*healthy business*▪moscow▪december 2, 2015



СТОКГОЛЬМСКАЯ ШКОЛА  
ЭКОНОМИКИ



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**views of the market in order to safeguard healthy business**

*Dr Anders Liljenberg*



## INTRODUCTION i

### DEFINITION

*healthy business is conducting sustainable business <implying a long-term focus>*

## key hypothesis of this address

*the main obstacle to ensure healthy business is the making of basic mistakes*

such as

- 1) short-term profit maximization
- 2) orienting business towards supply-side issues and forgetting about customer benefits
- 3) not properly conducting market segmentation-targeting-positioning
- 4) confusing different kind of market uncertainties (ie parametric vs structural risk)
- 5) **viewing the markets in an old-fashioned way following all others**

**→ *markets are not only made up by actors but also but by relationships among actors!!***

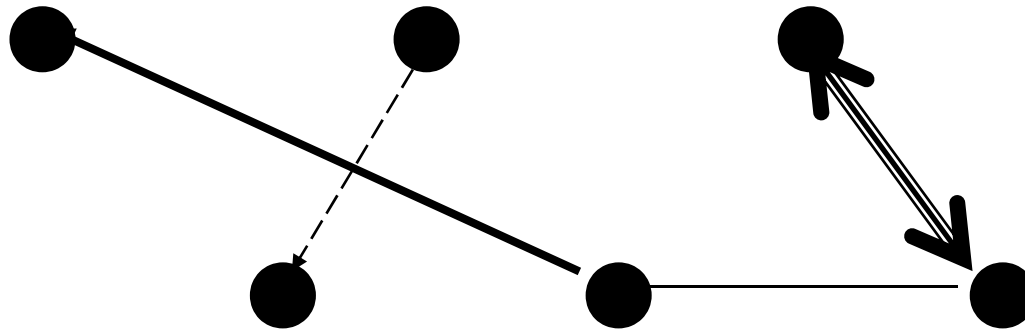
(and Russia is a true paradox in this regard!)

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INTRODUCTION ii

an economics view of markets:



a sociological view of markets:

➔his distinction is crucial in order to grasp any market properly as very few markets today can be characterized as *atomistic*



## INTRODUCTION iii

so whereas ECONOMICS, strategy, marketing *and the majority of **airport books that business people read*** mostly goes for market analysis with

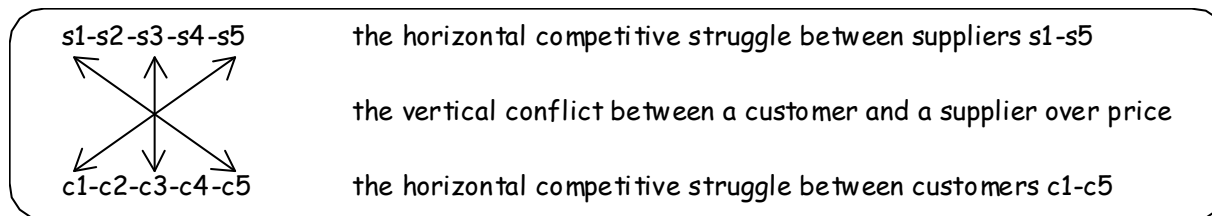
- spatial/intertemporal independence
  - high 'analytical' rigor
  - competition as a key phenomenon
  - assumptions of homogeneity
- ➔ **TRANSACTIONS; isolated EXCHANGE!**  
<ie Kotler's 4p framework>

the SOCIOLOGICAL choice is to go after

- spatial/intertemporal interdependence
  - high 'reality' rigor
  - cooperation
  - heterogeneity
- ➔ **RELATIONSHIPS; connected EXCHANGE!**  
<ie 'relationship marketing'>

## INTRODUCTION iv

so, instead of consuming a large number of **airport books**,  
go and digest Max Weber (ie *Economy and Society*),  
seeing markets as social structures...



insisting that ...  
*... a market may be said to exist wherever there is  
competition... for opportunities of exchange  
among a plurality of partners...* [Weber 1922]



## FIVE CONCRETE LESSONS

1. on market connectivity, understanding how you relate to others...

- *power-dependence* constellations (*a* and *b* are in a commercial relationship)

$$P_{ab}=D_{ba} \quad \& \quad P_{ba}=D_{ab}$$

whereby

$D=f(\text{level of relationship attractiveness} \ \& \ \# \text{ of relationship alternatives})$

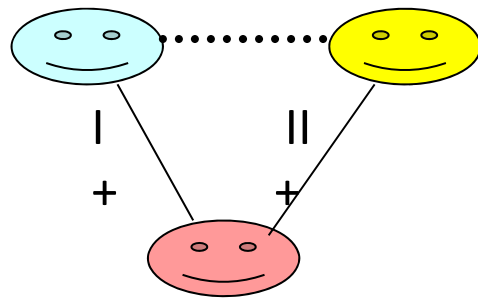
➔ having more power/being less dependent means commercial freedom!

➔ markets with uneven power-dependence constellations are less stable!

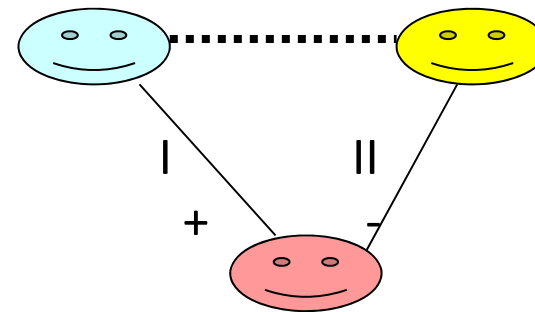
## FIVE CONCRETE LESSONS

### 2. on market connectivity...

- positive/negative *interconnectedness*, understanding how you relate to others' others
  - two exchange relations are connected if frequency and magnitude of exchange in relation II is a function of exchange occurring in relation I



'positive interconnectedness'  
<'complementarity'>



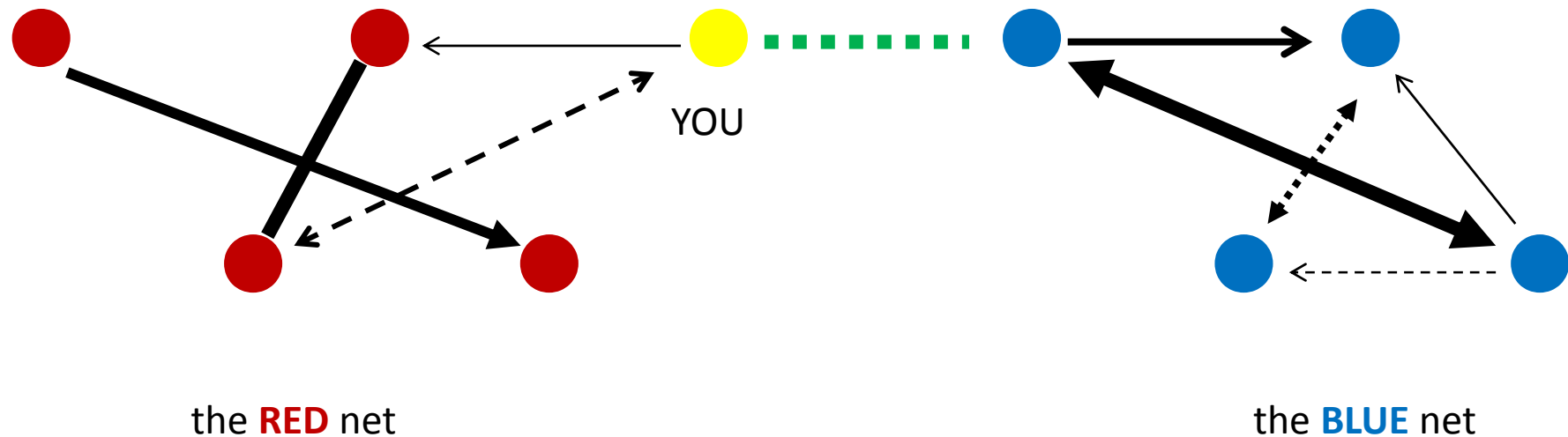
'negative interconnectedness'  
<'substitutability'>

➔ make sure you understand your business partner's other relations – they impact you!

## FIVE CONCRETE LESSONS

### 3. on market connectivity...

- *the strength of weak ties*, understanding the potential value of your relations to others



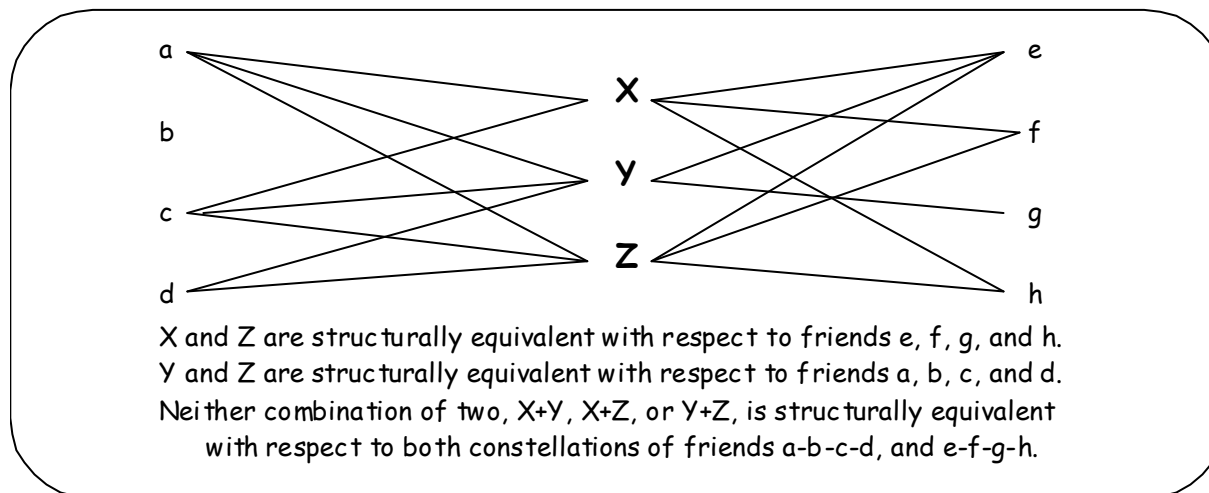
- by **connecting** the **red** and the **blue** nets **you** mediate two different resource bases!
- even a weak tie to the **blue** net is often more important than to add another **red** tie!
- by acting as a broker you are in the position to make arbitrage!



## FIVE CONCRETE LESSONS

### 4. on market connectivity... <not only about cooperation!>

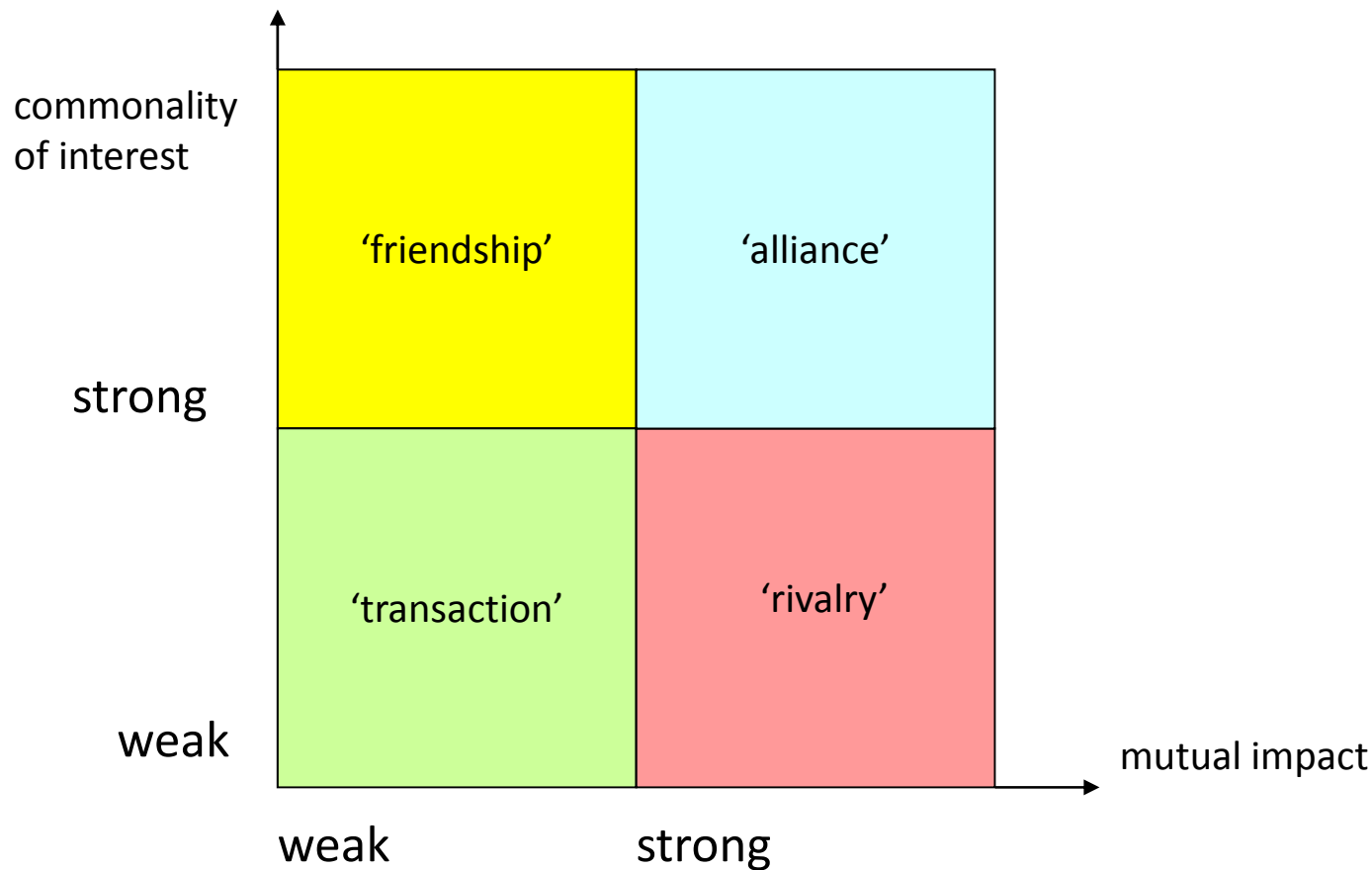
- market competition as *structural equivalence*



→ you do not only compete for customer transactions but for network position!

## FIVE CONCRETE LESSONS

5a. your relationships can be looked upon as portfolio components, and each relationship can then be classified...



➔ make sure to have a balanced portfolio in order properly to handle resources!

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## FIVE CONCRETE LESSONS

5b. what is the character of your 'social balance sheet'?  
<confer Jim Coleman>

ASSETS	LIABILITIES
<ul style="list-style-type: none"><li>• I paid for Sergey's beer yesterday</li><li>• I drove Olga to the airport in August</li></ul>	<ul style="list-style-type: none"><li>• I borrowed RUR 100.000 from Alexey last x-mas</li><li>• Natalia always lets me use her skiwax in wintertime</li></ul>

→ in which cases is it an advantage/disadvantage to have assets>liabilities and vice versa?



## A WORD OF CAUTION

RELATIONSHIPS not only enabling but also *constraining* market action by...

- forming and conditioning an actor
- consuming resources
- entailing asset specificity
- being risky; you always hurt the one you love
- meaning sunk costs thus entailing inertia
- creating over-dependency on others; choice is no longer free
- making change very costly because of lock-ins
- rendering benefits and losses difficult to track
- putting a cap to pressure for innovation
- fostering narrowmindedness vs the creative outside
- being 'unruly/undetermined/demanding/exclusive/sticky' [Ford et al]

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A WORD OF WONDER FROM A FOREIGNER-IN-RUSSIA



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# РУССКИЙ ПАРАДОКС

IF 'personal relationships' are now so very important in Russian business life, how come that so many businesspeople complain that business overall is so short-term oriented?

Does the type and level of trust play a role here? Too instrumentally perceived trust tends to mitigate the benefits normally associated herewith...

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