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The Firm as a Connected, Temporary Coalition

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The Firm as a Connected, Temporary Coalition

Abstract: The paper elaborates the concept of the firm as a connected, temporary coalition. A range of approaches have theorised the firm in different ways, but always as context and not as process. The paper discusses rationalist and socio-economic perspectives on the nature of the firm, and outlines three main problems that they share: (1) their theorising of the firm as a legal entity – a stylised shell; (2) their treatment of the firm as the site of timeless processes; and (3) their neglect of personal wealth creation as a driver of enterprise. The firm as a temporary coalition is elaborated and exemplified in relation to both SMEs and corporate organisations, and including upper echelons theory. Processes of coalition formation and dissolution are seen as time and place specific, and class-based. It is concluded that theories of the firm in economic geography currently theorise the wrong object.

Key words: Theory of the firm, SMEs, large corporations, temporary coalitions, timeless process, wealth creation, enterprise, entrepreneurship, new firm formation, business ethnographies.

JEL codes: L14, L16, L21, L22

1. Introduction

The purpose of this paper is to elaborate, in a preliminary way, a conceptualisation of the firm as a *connected, temporary coalition*. By this interpretation, the firm is a *coalition* in the sense of being a group of people who pool their competencies, skills and assets to exploit a commercial opportunity for personal wealth creation. It is *connected* in the sense of being linked through its coalition members into a broader economic and social system that is to a greater or lesser extent 'local' in its orientation. This connectivity is not network membership or being a conscious part of a network. It is much less joined up than that. It is about contacts, the contacts that in other literatures have been labelled linkages. And, the firm is *temporary* in the sense that business opportunities are time and place specific. Firms' linkages and markets wax and wane. Their technologies become obsolete, and their coalition members come and go for a host of reasons from the entirely commercial to the intensely personal. The conceptualisation of the firm outlined here is, in essence, an attempt to unpack the purposive, goal-centred, collective agency that is the firm (Clegg 1989).

This is a different view of the firm to that employed in recent and current research on local and regional economic growth and regeneration. That research has used a range of stylised and largely implicit conceptualisations of the firm to understand the processes shaping economic change. In economic geography, and indeed in most of the social sciences, the firm is an ambiguous concept. In analyses of the dynamics of local and regional economies, it is invariably identified as a key driver of change, innovation and knowledge transfer. Indeed, it holds centre stage in current theorising on the spatialities of growth and change and the clustering of economic activities (Porter 1998, 2000). But, though its role may be pivotal, the firm itself is seldom defined and often obfuscated.

In many regional analyses, the firm is invoked uncritically as the smallest unit of analysis – as a 'phenotype', a formative element in an economic-cum-social system (Nooteboom 1999). It is, in effect, a 'given'. It is not even the starting point of an analysis. It is just a shadowy presence in the background with no more than the vague attribution of being a 'transnational', an 'SME', a 'branch plant' and the like. Or, it is simply 'capital'. But, no matter how ambiguous and obfuscated, the firm still remains the site of timeless processes of production, profit maximisation, decision-making under uncertainty, and employment. It is a collective agency that functions with rules, rituals, habits and 'learning'. Undefined, unrefined and opaque, the firm remains both a basic unit for empirical data collection and a building block for the construction of grand theories of regional economic growth.

It is contended here that successive theoretical approaches to understanding the dynamics of local and regional economies have stylised the firm in a range of different ways, consistent with their epistemological and ontological foundations, but not always appropriate to understanding its role in regional economic growth and regeneration. From the rationality of the *neo-classical* 'black box', and the calculus of transaction costs, to *behaviouralism's* 'bounded rationality' and the *structuralists'* single category – 'capital' – very different perspectives have been offered on the working of the firm within capitalist economies. *Institutionalist, embedded network, resource-based* and *discursive-performative* interpretations have further deepened and extended these perspectives by enriching them with greater socio-economic understanding (Taylor and Asheim 2001).

But, in effecting this stylisation, it is argued here that the firm in these different theoretical perspectives is always context and never process. It is simply the site where processes shaped by other forces in society are played out and 'happen'. Notwithstanding its own collective agency it is, in effect, denied a role in shaping its socio-economic context. Denied this role, the firm is effectively relegated to being a driver that does not drive, but is only ever driven. The argument of this paper is that by recognising the firm as a connected, temporary coalition reinstates it as a driver of local and regional economies in its own right and begins to recognise, unpack and appreciate the impact and workings of its collective agency.

Following the introduction, the discussion of the paper is developed in five sections. In Section 2 the nature and forms of stylisation involved in the different conceptualisations of the firm in economic geography are outlined. This discussion is used, in Section 3, to develop a critique that highlights the more important problems and limitations shared by these different conceptualisations. Against the backdrop of this critique, an alternative conceptualisation of the firm as a connected, temporary coalition is suggested in Sections 4 and 5: in Section 4 in the context of small firms and in Section 5 in terms of corporate organisations. Section 6 offers conclusions.

2. Layers of understanding and the stylisation of the firm

For the purposes of discussion, eight very different and complementary perspectives on the nature of the firm can be identified. For convenience they can be divided into two sets: the 'rationalist' and the 'socio-economic'. The former set is principally concerned with efficiency as the determinant of a firm's fitness for purpose, while the latter emphasises the essential social construction of economy. Each explores the workings of different and quite specific sets of processes within and around the firm – for example, maximising, uncertainty, social

relations, embeddedness, institutions, governance and learning. As such, each contributes what might be interpreted as a separate layer of meaning to what constitutes the firm, and each tends to stylise the firm in a different way.

Rationalist, under-socialised perspectives find expression in neoclassical theory, transaction cost theory, structuralism and behaviouralism. In the neoclassical theory of the firm, the firm is essentially a black box that responds rationally to external pressures and, as such, is completely defined by its production function (Archibald 1971). It is a phantom that appears by name but lacks substance (Coase 1994: 5): a shadowy presence central to the economic game but always beyond the commentary on the play. In transaction cost theory, the firm is stylised as the outcome of the costs of using the price mechanism and the rational decision to minimise those costs (Coase 1937, Williamson 1991). By this interpretation, firms are islands of planned co-ordination in a sea of market mechanisms that function in a timeless, perfectly informed world. The structuralist approach shares many of these characteristics. It, too, all but ignores the firm and relegates it to the position of an irrelevant analytical category subsumed within the logic of capital and capitalist class relations (Walker 1989). However, behaviouralism tempers these views with notions of bounded rationality, and addresses issues of information flows and 'knowledge' in the shaping of enterprise-environment interactions (McDermott and Taylor 1982). The firm by this interpretation is a site of decision-making that involves conflict, uncertainty, problem-stimulated search, learning and adaptation (Cyert and March 1963).

As these 'under-socialised' views on the workings of economies and economic agents have been progressively supplemented, and to some extent supplanted, by a range of socio-economic perspectives, new conceptualisation of the firm have emerged. From an institutionalist perspective, the firm is a refuge from market pressures within which rules and routines can be used to fashion a strategy to counter competitive uncertainty and, to some extent, to supersede the very calculus of costs (Hodgson 1988). An embedded networks perspective envisages the firm somewhat differently, as being embedded in socially constructed networks of reciprocity and interdependence that involve untraded interdependencies (Grabher 1993, 2001, Storper 1997). An alternative, resource-based view of the firm emphasises competencies and 'learning', such that firms are bundles of activity-specific resources combined into firm-specific competencies (Maskell et al. 1998: 4). And, finally, the 'discursive' perspective on the firm draws on actor-network theory, and interprets the firm as a discourse of managerialism centred on information, knowledge and 'talk', involving unequal power geometries and contestation (Thrift 1998b, Yeung 2000). Now, the firm is seen as the site of social relations that to all intents and purposes

transcend economic relationships, even to the point of transforming the firm into a performative choreography.

In these eight very different conceptualisations of the firm it is possible to identify a layering, structuring and progressive deepening of the notion of causality in economic relationships. The black box of neo-classicism highlighted the production function of the firm, while the transaction costs approach envisaged it as enmeshed in a network of contracts but still focused on products and profits. Behaviouralism added a new layer of meaning – the firm as a site of conflict, uncertainty and problem solving – that recognised social relations but still hung on to the need to make products and profits. Deepening notions of causality, the institutionalist, embedded networks and resource-based views of the firm go beyond the framework of commercial ties, emphasising social processes within and between firms. 'Firms', by this interpretation, are bundles of unique competencies that are the emergent products of social interaction that involve more than the calculus of costs. In the discursive-performative view of the firm, human relations within firms are given causal primacy: the goal becomes the means becomes the reality, in a ritualistic dance that is only partially congruent with the world of profit.

3. The limitations of conceptualising the firm as a phenotype

Although the approaches to theorising the firm that were outlined in the previous section successively deepen notions of causality in firms' actions and activities, they all share one pivotal assumption – that the firm is a phenotype, a formative element of the capitalist system (Nooteboom 1999). The firm is seen explicitly in almost every instance as an atomistic crystallisation of commercial endeavour. It is the smallest unit of collective commercial agency. It is, in effect, "the basic unit of the economy, the point of production, the crucible within which both macro- and micro-forces meet and are played out" (Taylor 1984: 8, Dicken and Thrift 1992). Those forces can be interpreted as the different mechanisms and conditions rehearsed in the various theories of the firm that impact on the processes of doing business in the firm: costs, social relations, resources, complexity, uncertainty, search, technology, knowledge, learning, innovation and institutions.

But, is this an adequate or appropriate assumption about the role of the firm within an economy? Associated with this issue is the assumption implicit in all these perspectives that the origins of the firm, its creation and establishment, somehow pre-date and are disconnected from whatever processes act upon it to shape and direct its future structure, conduct and performance. In other words, it is implicitly assumed that the processes involved in creating a firm, 'enterprise formation', are nothing to do with the later running

of the firm and 'enterprise dynamics'. This compartmentalisation of processes is, in effect, a twist on timelessness, and an implicit evocation of parent-less birth. It is little more than collective theoretical amnesia about processes of firm formation. This is a particular problem for the socio-economic perspectives on the firm which highlight the role of social processes and social institutions in shaping knowledge, learning, path-dependent growth and survival, but are largely silent on the issue of new firm formation.

It can be argued that this treatment of the firm as a phenotype in current conceptualisations of the firm creates a compound of additional, debilitating problems of which at least three can be identified. First, in all the approaches canvassed in the previous section, the firm is almost invariably theorised as a *legal unit*, and this tends to obscure and deflect attention away from more organic, social processes of people 'being enterprising'. Legal frameworks have profound impacts on the workings of economic systems. They define 'stylised shells' to contain economic activity so that it can be regulated, controlled and made socially responsible (Taylor 1999). Coase (1994: 11) has argued that, in an environment of positive transaction costs (denied only in general equilibrium theory in economics), law determines the rights, duties and privileges of actors in an economic system that would otherwise have to be renegotiated and established for each and every transaction. It codifies social regulation and, recursively, impacts on that social regulation to shape the rules of meaning and membership of economic activity at a particular time and place (Clegg 1989, Taylor 1995). In other words, the legally defined firm is an institutional construct, but only to the extent that it embraces those aspects of capitalist behaviour that it is possible to regulate. By this argument, regulation maintains and enforces a set of rules over parts but not all of the capitalist game played by entrepreneurs. For example, contract law creates a set of circumstances that allow the provisions of commercial contracts to be enforced, but it does nothing to modify or ameliorate the unequal power relations between firms that can influence the negotiations that establish the contracts in the first place.

To achieve even this imperfect degree of regulation, the firm itself must necessarily be defined. In other words, the institutional products and patterned outcomes of people "being enterprising" need to be contained, codified and solidified in some way. Such a definition, according to Chesterman (1977: 46-47), might comprise five elements, for example:

(i) a line of business (an activity or series of activities) directed towards profit or gain;

(ii) repetition and continuity of activity;

(iii) the employment and use of assets, both fixed and variable;

(iv) the involvement of two or more persons in the business as owners, managers and/or workers (either a partnership or company form of ownership); and

(v) a degree of autonomy, both day-to-day and long-term, plus an entitlement to surplus profits.

Defined in this way, the firm can be regulated through competition law, tax law, financial regulation, labour regulation and environmental controls, for example. What is important here is not the detail of regulation but that the means (regulation) have become the reality (the firm). All those elements of capitalist behaviour and 'entrepreneurship' that cannot be regulated – especially the exercise of power, control and coercion – are to all intents and purposes dropped from the calculus, leaving the firm as the smallest unit of capitalist endeavour. This mutation of the object *to be regulated* into an object that *can be regulated* is only too evident in the seemingly endless academic discussion about what is a small firm (see Bolton Committee 1971). This is a discussion that has tended to be tidied away neatly and ignored using the comfortable label, 'SME'.

The point of this discussion is simple. Research and theory building on the firm tend to be concerned principally with the stylised shells of legal form (including transactions as enforceable contracts), rather than with the more organic processes of enterprise and 'being enterprising' that lie behind them. Only the more recently developed 'discursive' view of the firm, with its broaching of issues of relational power geometries within firms, has begun to unpack this issue.

Second, it is argued here that the conceptualisations of the firm reviewed in the previous section of this paper are all essentially *static* and treat the firm as the site of timeless processes. Cyert and March (1963) were, in fact, quite aware that their behavioural theory of the firm was, to all intents and purposes, static and that this imposed limitations on their work. By their own admission, only limited attention was paid in their theory "to processes by which the coalition [of interacting groups] is changed". They recognised that this limitation involved "clear risks when [the models are] generalised to long-run dynamics" (Cyert and March 1963: 27). This static timelessness inherent in most conceptualisations of the firm, also involves an element of what might be termed 'truncation', since the functioning of the firm tends to be considered only after it has somehow been set up. In essence, theories of the firm are concerned principally with firm growth, effectively divorcing those processes from the equally important processes of firm formation. In the behavioural, institutional and embeddedness conceptualisations in particular, firms, without ever having been 'born', apparently progress along a biological, evolutionary trajectory, so that timeless processes are configured into an historical time-dependent sequence. Such a conceptual leap is fraught with dangers. Most importantly, it

makes the implicit inference that all processes of enterprise operate at all times and all the time, despite what might be thought of as countervailing processes of factor ubiquification, for example, that very clearly make those processes time-specific. Any, as perpetual processes, those processes of enterprise are also available to be mobilised by government policies at any time and in any place – be it a lagging region or developing country. In other words, most conceptualisations of the firm make the heroic assumption that 'enterprise' as a process is timeless and placeless, and waiting in the ether to be mobilised.

However, this apparently truncated dynamic – implicit in static conceptualisations of the firm – can also be viewed from an entirely differently perspective, as a specific representation of *timeless processes* (Massey 1999). Massey's work in this area of timelessness and historical time is particularly important in considering the conceptualisation of the firm in economic geography. Most detailed research in economic geography in the past 30 years, as in economic sociology and management science, has been concerned with detailed, micro-scale, immanent processes. This focus is particularly evident in work on clustering, regional innovation systems and process of learning and knowledge transfer, with its concern for trust-based relationships, information flows, decision-making, flexibility, transaction costs, untraded interdependencies, managerialism, and especially learning and innovation. To breathe a dynamic into these theoretical propositions, short-term and timeless micro-processes have been bulked-up to create descriptions of economic landscapes at odds with time-bound descriptions involving path-dependence and open futures. In this way, it is perhaps understandable how Silicon Valley could be typified as a site of reciprocal, socially based learning by Saxenian (1994) while also being underpinned by growth stimulated by heavy government defence spending and the US industrial-military complex and large corporations (see the discussion in Markusen 1999). It also goes some way to explaining how the branch plant economy of South Wales, dominated by plants of multinationals (Phelps 1997), can also be interpreted (or mis-interpreted (Lovering 1999)) as a 'learning region' (Morgan 1997).

Third, in adding successive layers of understanding to the processes operating within firms, there has been a tendency in attempts to conceptualise the firm to push into the background the reasons for the expenditure of entrepreneurial effort. Increasingly, innovation, learning, embedding, institutionalisation, the attainment of trust and performance are being treated as ends in themselves. These are the implicit goals of individuals and firms in institutionalist interpretations of local growth. The managerial literature on 'clusters' would put a harder edge on these goals, seeing them as significant only if they contribute to enhanced productivity and the competitive edge this is said to bring to the firm. However, it can be suggested that even the goal of improved productivity

is secondary to the more powerful, individualistic goal of *personal wealth creation*. As Starbuck (1971) pointed out over 30 years ago, the strongest correlate with corporate growth was not rising profitability or increased turnover, but increase in executive salaries. Current corporate scandals in the US and Europe would hardly suggest that this motivation has diminished. Indeed, are international software entrepreneurs driven by the altruism of being innovators, or by the commercial leverage innovation gives them to make money, principally for themselves, but co-laterally and incidentally for others?

To achieve personal wealth creation requires a particular entrepreneurial talent – the ability to commercialise knowledge. Without doubt, knowledge and learning are important for creating business opportunities. However, while it is one thing to learn, it is another to put learning into practice to achieve a hard commercial outcome in terms of personal wealth creation. Knowledge on its own is of little or no use until it is transformed into commercial action and returns. Indeed, between a *bright idea* and running a *business* is an important, intermediate, entrepreneurial step of *translation* and knowledge transformation. That translation is the application of commercial knowledge. Knowledge and competencies must certainly be performed, as the adherents of the 'discursive' view of the firm would argue. But, they have to be performed not just for the sake of performing, though that may appear to be the case at any single instant in time. Knowledge and competencies have to be performed to achieve a hard commercial outcome. Thus, market knowledge plus commercial knowledge can create new firms as vehicles for personal wealth creation, and scientific knowledge plus market knowledge plus commercial knowledge can create new high-tech firms. This is the skill of the entrepreneur, who brings 'the knowledge of the practical circumstances of time and place' to bear on a commercial opportunity to achieve personal wealth creation. Profits have to be made because owners and shareholders demand returns on their investments, as do other investors and bankers, but this is all part of the process of personal wealth creation. That is, in essence, capitalism's inescapable bottom-line. Unfortunately, in the socio-economic interpretations of the firm, this imperative has been all but swamped, buried and obscured by researchers' zealous embroidering of the purely social dimensions of doing business rather than the individualistic goal of personal wealth creation.

The firm as a temporary coalition

Although institutionalist approaches to theorising have explored progressively deeper layers of causality in the workings of the firm, it is argued here that the limiting assumption of the firm as a phenotype, that is central to them all, needs to be discarded. The essence of the argument is that the legally defined firm is an inadequate specification of the container

of place-specific and time-specific acts of enterprise and entrepreneurship within capitalist societies. To meet, at least in part, the limitations of current conceptualisations of the firm in the social sciences it is necessary to disentangle *processes of enterprise* (of people being 'enterprising' to create personal wealth) from the operations of *the enterprise, the firm,* (as a disconnected, legally defined object). Only when this separation is made can the processes that create and shape enterprises – both small firms and large corporations – be better understood.

The legally defined firm is, in essence, a 'stylised shell', connected to other 'stylised shells', through formalised transactions structures, involving legally enforceable contracts and morally enforceable relationships. These are the codified outcomes of regulation: the real regulation of law and the social regulation of convention. Stylised in this way, firms are containers of timeless processes: economic, commercial, technological, social and relational. They are also the entities from which we collect formal statistics and qualitative data that we then use to analyse, model and explain *processes of enterprise and people being enterprising*!

As has been argued elsewhere (Taylor 1999), processes of enterprise are broader than the terrain of legally defined 'firms' and business enterprises that only weakly reflects them.

> "Business enterprises are ... temporary expressions of the processes of enterprise: legal and operational entities that are *temporary coalitions of networked venturers and entrepreneurial endeavour* that are crystallised and dissolved as conditions (economic, social and regulatory) change and are modified" (Taylor 1999: 7).

Here it is suggested that playing behind those stylised shells are processes of enterprise, orchestrated by temporary coalitions of people concerned to mobilise and employ whatever bundles of assets (competencies) they can assemble at a particular time and in a particular place to generate personal wealth, *in those specific circumstances*. The coalitions may be formed sometimes through social acquaintances, sometimes through business acquaintances, and sometimes through third party referrals brokered by solicitors, accountants and other intermediaries. The coalitions may be established as partnerships, close companies or corporate boards. But, they are never stable. They dissolve and re-form, as investments pay-off or fail, as people's interests wax and wane, as owners and directors age and retire, and as their personal circumstances change. These processes of enterprise – of people being 'enterprising' – extend beyond the legal entities of the firms they create. They run through the structures of serial and multiple small firm entrepreneurs of which researchers are becoming increasingly aware. They run through directorship interlocks and boardroom overlaps, and the third-party referral networks that ease the processes of coalition formation.

It can also be contended that the relationships that create and maintain temporary coalitions are best seen as 'connections' rather than 'networks'. Networks infer the mutual and knowing interlinking of people or business organisations. But, is this the way the relationships that lead to the creation of new small firms or new elements of a corporate operation are experienced? The notion of a network downplays the significance of dyadic relationships, as in the concept of the 'strength of weak ties'. However, strong dyadic relationships, involving key power brokers for example, are often pivotal to the creation and maintenance of firms. Those relationships only appear as networks to external observers of those systems of connections rather than the individuals who depend on them for their commercial survival and who put enormous amounts of time into their businesses. What we need, it can be suggested, is a better understanding of the way in which temporary coalitions are formed and dissolved and connected with other individuals and enterprises, as this might get us closer to a more nuanced understanding of the commercial outcomes of enterprise processes and the specifics of wealth creation.

4. SMEs as temporary coalitions

The creation, dissolution and reformation of coalitions of individuals for the purpose of wealth creation was particularly clear among small businesses and this was abundantly clear in interviews with entrepreneurs in the South Hampshire area in the late 1990s. Through the reconstruction of the histories of people owning, operating and working within small companies, the centrality of space-time in the processes of 'enterprising' became very plain. The histories show a point and counterpoint of activities that works behind or even tangentially to formally registered companies and their contractually defined transactions – i.e. behind the legal landscape that has preoccupied economic theory and analysis for so long. Four examples, drawn from the Hampshire electronics industry in the late 1990s illustrate these processes.

The first example is of a small electronics firm, here given the pseudonym MITON, that wrote and designed software employed in automatic testing equipment that was used to test printed circuit boards. It was born of necessity, in a period of recession that was compounded by major government defence cuts and corporate down-sizing. The co-founders 'M' and 'T' met in the early 1990s when they worked for a defence contractor, Fergusons, in Gosport. 'M', a local man, had moved there after having been made redundant from Marconi, and 'T' had transferred within Fergusons after their Enfield, London, plant had been closed. In early 1992 they were both made redundant again. But, by their own admission, they received generous redundancy payments, and also assistance from their former employer to buy redundant equipment once they said they were planning to set up their own business.

They identified a market niche, to sell their electronics expertise to corporate clients who were fashionably down-sizing and out-sourcing. They set up as a partnership working first in a friend's garage and lived off their reserves for 8 months as they established their business. Here, then, was the first coalition, 'M' and 'T' working as a partnership.

To expand business and to achieve sound long-term growth, however, 'M' and 'T' reasoned that they needed additional technical expertise. In their opinion, the only way to secure that expertise was to offer a suitable person a share of the business. So, in 1996, the company was incorporated and a third director, a friend of 'T', was brought in. A new coalition was thus formed, one that was recognised as having significant internal tensions.

A second example demonstrates a different historical dynamic and illustrates coalition shifts from another perspective. The focus of interest here is 'G', an engineer-draftsman. After an apprenticeship in boat building and National Service in the RAF in the late 1940s, 'G' moved from one job to another in small engineering firms in Eastleigh, outside Southampton. He settled in one, engaged in sheet metalwork and light steel fabrication and, in 1968, was appointed a director. He was now part of his first coalition, a coalition not dissimilar to that of the first Hampshire example. The coalition persisted for 13 years when, in the recession of the early 1980s, business turned sour, internal relations followed suit, and 'G' left the company. In the interview there were veiled hints of dismissal and compensation, and quite intense bitterness. After a four-week hiatus, a former client, 'C', the owner of another business making compressors and compressed air equipment, suggested establishing a partnership in the same sheet metal and light steel fabrication line of business. A new business, here called INFAB, was formed in 1982 with a new coalition, 'G' and 'C'. 'G' took care of production and 'C' dealt with finance. Indeed, it was 'C', himself now a multiple entrepreneur, who finances the ventured. The venture continued for 17 years with 'G' as part of a single coalition and 'C' with his fingers in two coalitions. Time took its toll. 'C' died and his wife became a new coalition member. 'G', now 65, wanted to retire and pass his directorship to his son who was already working as the General Manager of INFAB. It was age and succession that brought about this last transformation of the coalition.

The third example from Hampshire further complicates the picture of shifting coalitions. In 1969 in Southampton, a draftsman 'D', a welder 'W' and a builder 'B', who worked together building Esso's Fawley refinery set up a business, FAB, with Esso's assistance, doing contract pipework maintenance for the refinery. They were in the right place at the right time. A coalition (coalition 1) was created mobilising three people's competencies. On incorporation in 1971, however, 'B' was bought out for a reason unknown to the person who was interviewed. The adjusted coalition (coalition 2) continued for 22 years, until 1993. Two more companies were set up so that other work could be taken on without being tied to the

high wages paid at the unionised Fawley refinery site. The FAB coalition now comprised two multiple entrepreneurs with a small network of companies and on-site offices with their main clients. As FAB's business expanded to employ some 120 people, 'D' and 'W' took on managers: 'K' and 'J' in 1985; 'P' and 'M' in the late 1980s; and 'A', who was taken on as a manager in a sister company, in 1990.

In 1993, the owners 'D' and 'W' wanted to retire and the five senior managers agreed to buy them out. In the terms used here, a new coalition (coalition 3) had acquired the assets of FAB and its sister companies, and began to deploy them differently in a bid to generate wealth from them for themselves. They diversified the client base and started taking on new forms of fabrication work for, for example, roller coasters. Quickly, two of the coalition, 'P' and 'M', moved out, taking their gains. The new smaller coalition (coalition 4) grew the companies but also wanted to realise some of their own investment. It was, in the informant's words, "time to move on". So, in 1998, the companies were sold to a larger public company engaged in different but complementary work. The wealth creating coalition dissolved and only 'K' remained and moved on to the new owner's main board. Now a new coalition, the fifth in FAB's existence (and with a small element of continuity) were to begin using this particular accumulated set of assets to continue to generate wealth in its own particular way.

The point of this example is not just to demonstrate coalition shifts, succession and management buy-outs. It is to show how the historical sequence of passing the asset baton from one coalition to another in an era of shifting management fashions can see the assets of a partnership become the assets of a corporation. The bundle of assets had been passed from one coalition to another to create private wealth. It was the five coalitions that had been enterprising, mobilising and remobilising a particular bundle of assets. The firm did not evolve in any organic sense, it was just a company name demarcating a legally owned collection of assets used by different combinations of people, not all of whom would be classic entrepreneurs.

A fourth example further elaborates the links between the corporate sector and SME coalitions, and demonstrates the international dimensions of small firm, shifting coalitions. The company in question, GI, made electronic data displays, and was set up in 1984. The company had a complex early history and was passed from one coalition of private owners to another, as in the previous examples. By the late 1980s, it was part of a conglomerate of small, privately held companies. In 1989, it was bought by its managers, and was financed by a Middle East investment company that, in effect, syndicated the ownership of small businesses. At the time, the investment company had a portfolio of 62 businesses. GI was

left to manage itself. For six years it made very little for its owners and, in 1996, they put it into receivership.

Down-sized, GI was bought from the receivers by another family-owned conglomerate, DD, working in a complementary line of business. DD had itself been set up by an engineer with executive experience in the corporate sector. He had worked in the Netherlands for a subsidiary of the corporation before executing a management buy-out during the expansionary years of the mid-1980s. DD used the purchase of GI to establish a manufacturing base in the UK in 1996. At the same time, it bought a similar manufacturing base in Ireland, and began to conduct business through offices in France and the US. This example shows only too clearly that a firm, in this case GI, was really no more than a collection of assets that were passed between small firm coalitions and a corporate investment operation eventually to become part of the asset base of a small multinational enterprise.

These four case studies demonstrate the nature of the small firm as a temporary coalition, with successive groups of people using the same or modified asset bases to generate personal wealth. The commercial strengths and weaknesses of these coalitions reflected, in part, the adequacy of the coalitions themselves. However, just as the formation of new coalitions was time and place dependent, the historically specific conditions of time and place also affected commercial performance.

5. Corporations as temporary coalitions

The argument that small firms as *enterprises* are driven by temporary coalitions of individuals being *enterprising* within a particular configuration of time-space, can readily be extended to the corporate sector. The proposition here is that corporations too are temporary coalitions of strategic decision-makers who assemble and disassemble structures of subsidiaries, associates, strategic alliances and joint ventures for the purposes of wealth creation. These strategic decision-makers can be conceived of, in the first instance, as the corporation's executive and non-executive directors. Ostensibly, the wealth creation they orchestrate is for the good of shareholders (the owners), but that is a moot point. It is, indeed, an issue of great controversy that has been at the heart of the managerialism debate since Berle and Means (1932) seminal work on the separation of ownership and control in large corporations. The notion of the corporation as a coalition finds resonance in the literature on networks and interlocking directorships in economic sociology (Powell and Smith-Doerr 1994). There is, however, one major difference. That literature is essentially static and a-historic, concerned with patterns and configurations shaped by

timeless processes. There is no central recognition of either the temporary or the temporal nature of those coalitions. The strongest resonance of the temporary corporate coalitions idea is found in Pfeffer's (1981) work on power in organisations and the processes of board member co-optation and imposition to achieve strategic ends. The temporary nature of corporate coalitions is also at the very core of Schoenberger's (1997) interpretation of the corporate cultural crisis.

The Fosters Brewing Group Ltd (FBG) in Australia offers a striking example of the workings of temporal and temporary coalitions of the corporate sector during the 1980s and 1990s. This reconfigured corporation was constructed in the recession of the early 1990s from the demise and selling down of Elders IXL Ltd, one of Australia's entrepreneurially driven corporations that had itself been created in the very particular circumstances of the1980s. (see the detailed account in Fagan 1990). Elders IXL Ltd was a creature of its time (or rather its time-space), as globalisation forced the deregulation of the Australian economy and the abandoning of import-replacing industrialisation.

The three companies that were to merge in the 1980s to form Elders IXL Ltd were experiencing major problems in the 1970s: Elders Ltd as a pastoral and trading company; Carlton and United Breweries Ltd (CUB) as a brewer; and Henry Jones IXL Ltd as a food processor. They were facing problems of rising costs, falling profits and declining market growth. Trading companies sought profits in agribusiness, the food industry was restructuring and the once regionally based brewing industry was faced with a national struggle for market power (Fagan 1990: 654).

The result in Australia in the 1980s was a take-over and merger boom fuelled by debt financing, encouraged by global finance and local tax advantages, accompanied by the emergence of a class of aggressive entrepreneurs. Three of these entrepreneurs were pivotal in the Fosters story: John Elliott (Carlton and United Breweries), Alan Bond (Bond Corporation Ltd), and Robert Holmes à Court (Bell Group). In their struggle with Australia's 'old money' (the nemesis being BHP), these individuals became key agents in reshaping Australia's corporate coalitions.

In the first half of the 1980s, Bond and Elliott competed in the brewing sector. In 1981, through Bell Group, Holmes à Court made a play for Elders Ltd. The Melbourne establishment defended (expensively) through the vehicle of Henry Jones IXL. Bell Group withdrew and sold its stake in the merged Elders IXL to Carlton and United Breweries (Elliott). Thus emerged Elders IXL Ltd, and a new coalition of directors embarked on an aggressive strategy of acquisition, control of Australia's export trade, rationalisation of manufacturing capacity, internationalisation of brewing and food processing, entry into the mineral sector, and growing their fiscal strength (Fagan 1990: 658-61). In short, a new coalition of strategic

decision-makers began to deploy the assets it had acquired to generate wealth using their skills and the commercial opportunities available at that time.

But, debt financing on a large scale breeds complex financial manipulation and a short-termism that obscures longer-term views of profit. Business becomes a power play between coalitions, and it was just such a power play that led to the break-up of Elders IXL. Between 1986 and 1988, Elders IXL Ltd became embroiled in a costly defence of the Australian mining giant BHP Ltd against Robert Holmes à Court's Bell Group, involving share swaps. The key event was when BHP Ltd sold its 20 per cent of Elders IXL to "... an investment company 'friendly' to Elders, or more particularly to its Board of Directors" (Fagan 1990: 663). The Elders board split, the coalition was fractured. And, with the onset of recession in late 1989, debt became unmanageable and the corporation had rapidly to restructure. In 1990, the company changed its name to Fosters Brewing Group Ltd and set about reconstructing itself as a single purpose, international brewing company.

The fracturing of the coalition saw nine board members retire or resign within eighteen months. New board members were appointed including two representatives of a major Japanese shareholder, Asahi Breweries Ltd. It was in this period that a boardroom faction, centred on Elliott, made an abortive attempt to secure control of the company using BHP's share holding. By the company's own admission, it could have gone under in 1992 (FBG 1998). In quick order there was a fresh spate of resignations and new appointments to the board through 1992. Three seats on the board were filled by representatives of BHP – now the somewhat reluctant owner of a large block of Fosters Brewing Group's stock – and that situation continued until 1997. In other words, between 1992 and 1997 a new coalition of strategists had been constructed, overseen by the directors nominated by BHP and Asahi, but including significant new people, who fashioned a new vehicle of wealth creation by reshaping the assets they had inherited. They created a new corporate philosophy (FBG 1997: 6, 1998): to be a 'lead enterprise' in terms of markets and innovation; to be a global player with a strong base in Australia; and to be a premium brand beer and wine company. They sold-off non-core assets, focused on their "global iconic" Foster's brand, shifted into wine production and sales internationally, expanded brewing operations into the Asia Pacific region (including China), and moved into the leisure and hospitality sector in Australia. By 1999, the new coalition's deployment of assets was beginning to reap commercial rewards (FBG 1999: 5). However, by 2003 it had been decided to pull out of the leisure and hospitality sector (FGL 2003).

The inference to be drawn from the complex pattern of corporate restructuring that led to the creation of Foster's Brewing Group Ltd (now Fosters' Group Limited) is that, in the corporate sector as among SMEs, coalitions of strategic decision-makers can configure

assets in fashionable ways to create wealth. Significantly, those strategic configurations are time-specific and place-specific. Whether the wealth is created for coalition members or for shareholders can be open to question. As the example shows, however, coalitions have the capacity and opportunity to fail as well as to succeed. That the coalition is temporary as well as temporal is quite obvious, though the speed of coalition change is clearly time-space contingent. Going beyond the detail of the case study, it is clear that processes of coalition formation and dissolution appear to constitute universal processes of enterprise, but processes that are only poorly understood.

The formation of corporate coalitions: third party referral and 'upper echelons'

An important question remains, however, concerning the manner in which corporate sector coalitions are formed. The inference to be drawn from SME case studies is that coalitions are frequently formed through mutual acquaintance – sometimes social, sometimes through previous business contacts. Taylor (1999) has suggested from a City of London case study that the mechanism is one of third-party referral. Other work on solicitors and accountants as business service providers suggests that these professional service providers may perform an important function in these third party referral systems, introducing potential collaborators and brokering new coalitions of people to commercialise opportunities and to set up new firms (Search and Taylor 2002).

Upper echelons theory from management science, backed by a range of empirical studies, would suggest a similar but more complex set of processes behind the formation of corporate sector coalitions as boards of directors. The strategic decision-making role of boards of directors is seen as being increasingly important for firms to cope with modern, volatile commercial environments (McNulty and Pettigrew 1999). The actions of boards of directors, their composition, skills, knowledge and abilities send signals to the market that are reflected positively and negatively in share values (Daily and Dalton 1993, Brickley et al. 1994, Westphal and Zajac 1998). The evidence from the UK and USA suggests, however, that CEOs and existing board members select new board members with similar demographic, educational and social backgrounds to themselves.

Recruitment to board room coalitions in the UK has been explored in detail by Hill (1995), who has put flesh onto the sanitised, scientific bones of theory. His study suggests that "getting the right people in place seems to account for more than structures, systems and procedures, particularly in the boardroom itself" (Hill 1995: 251). Patronage is central to the process, with the faces of new directors "having to fit". That 'fit' is virtually assured because over half of British company chairmen have previously served as executives in the

same firm. The selection of new members is achieved through informal soundings of board members, in the first instance, with formal proposals coming only after there is perceived to be broad agreement. Especially significant, according to Hill (1995: 248), are networks of personal recommendation – of being known by the 'right' people with influence on the board. These are third-party referral networks. In this interpretation of the formation of boards of directors, the world of boardroom elites in the UK is one where reputation and influence count high. "It is a small world that is bounded by the space of its networks, by the number of people who know each other directly or second hand" (Hill 1995: 273). The pool of potential directors available for appointment is, in fact, heavily populated with ex-CEOs. It is only to be expected then that "boards ... reproduce themselves in their own image, selecting people like themselves" (Hill 1995: 276).

The implication is, therefore, that there is a strong class component to the formation and reproduction of the strategic coalitions of corporate boards of directors, especially in the UK. That class dimension is built on and reinforced by conformity: conformity of social background, conformity of professional background, conformity of ideas and conformity of action. Here is one fraction of the class system creating and appropriating wealth through the mechanisms of managerialism. Small firms, too, are a particular and different class fraction (the petty bourgeoisie) creating wealth but with a more limited resource base and far less well developed networks, support mechanisms and norms of conformity. Theirs, it can be argued, is wealth creation through entrepreneurialism.

6. Conclusion

It is suggested here that exploring 'temporary coalitions' and the dynamics of creation and dissolution that underpin them, might provide significant new insights into the processes of enterprising and entrepreneurship that run through capitalist societies. The principal contention of this paper is that the firm as it is currently conceptualised and stylised in economic geography is inappropriate to the task it is asked to perform. The conceptualisation outlined in the paper are concerned, almost exclusively, with the 'stylised shell' of the legally defined enterprise, and with its transactions as legally enforceable contracts and morally enforceable relationships. These, however, are the codified outcomes of regulation: the real regulation of law and the social regulation of convention. And, when firms and their transaction structures are conceptualised as networks they are still no more than patterned outcomes. Stylised in these way, firms are containers of timeless processes: economic processes, commercial processes, technological processes and learning processes. They are not, however, an adequate or appropriate specification of the processes of enterprise that lead to the creation of those stylised shells.

Here it is suggested that playing behind the stylised shells of legally defined firms are processes of enterprise orchestrated by temporary coalitions of people concerned to employ whatever bundles of assets they can assemble at a particular time and in a particular place to generate personal wealth. The coalitions may be established as partnerships, close companies or corporate boards. But, they are never stable. They dissolve and re-form, as investments pay-off or fail, as people's interests change and as owners and directors age and retire. They change as people's connections and connectivity change, as the links they experience wax, wane and multiply. The processes of enterprise themselves extend beyond the legal entities they create. They run through the structures of serial and multiple small firm entrepreneurs of which researchers are becoming increasingly aware. They run through directorship interlocks and boardroom overlaps, and the third-party referral networks that ease the processes of coalition formation. We urgently need a better understanding of the way in which temporary coalitions are formed and dissolved.

What we have from the analyses presented here is a view that the processes of coalition formation and dissolution are fundamentally time and place specific, and class-based. By moving beyond propositions based on timeless process it is possible to recognise the impact of fashions in management, business cycles and styles of governance and government, as well as the problems of human frailty and ageing, as they impact on coalition formation and dissolution. Class also impacts on the process, limiting the types of coalition to which membership can be gained, constraining performance through the conditioning of boardroom conformity, and limiting the assets that a coalition can assemble.

Put bluntly, theories of the firm in economic geography currently theorise the wrong object. It is argued here that the only way to understand processes of enterprise and entrepreneurship is to get beneath the stylised shell of the firm as a legal entity. We need to better understand how temporary coalitions of people in both SMEs and corporations are created and dissolved, and how they function and are maintained.

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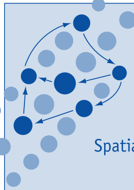

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