VALUE CREATION AND ECONOMIC DEAL STRUCTURES IN IMP ANALYSIS

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Abstract:

This paper is a work in progress that explores into possible economic implications of IMP thinking for economics as a broader area of theory: It argues that this requires a deep concern also with the monetary and financial aspects of business interactions. It starts by characterizing the fundamentals of IMP economic theory in relation to main stream economics and argues that the IMP theory is rather about value creation processes than about resource allocation. Based on this, the paper argues that we may productively see the economy as two partly separated, partly overlapping processes of interaction, of which one is the social-material and the other is the monetary-financial, and that the intersections of these two represent interesting topics for research by IMP researchers. We suggest that these intersections are constituted by what we call "deals" and "networked deal structures" that are representing the interactional infrastructures of the two kinds of processes, and discuss how this approach may be useful to studies of value creation, -extraction and -distribution processes and outcomes in the economy.

INTRODUCTION

The objective of this paper is to explore into the economic implications of IMP thinking for economics as a broader area of theory. How can we understand the particular roles of money, credit, profit accumulation etc. in the IMP perspective, and what are the potential implications for economic theory?

The IMP offers a radical critique of main stream economics by arguing that the assumptions that resources are homogeneous and that actors are fully informed are unrealistic illusions about fundamental characteristics of real economies, where the opposite assumptions should rather be at the very core of a reasonable economic theory about the real economy. IMP argues that resources as well as activities and actors must be acknowledged as heterogeneous and that knowledge must be seen as relationally dependent. Hence, actors can not be assumed to have any knowledge of phenomena that they have not somehow been related to. The analytical point of departure should accordingly be the state of ignorance, rather than that of full information. It follows from this that the economy at its core must be seen as a relational phenomenon where interactions and interdependencies are necessary requirements for all kinds of learning, value creating, value extracting and value distributive activities and processes.

A fundamental implication of this is that interactions should not be seen as primarily a cost problem to a market model of the economy such as in transaction cost theory, but as representations of the fundamental economic activities themselves. The economic theory offered by the IMP, is based on the idea of economic creation through interaction. However, this creates another analytical problem: how are these complex value creating processer translated into the homogeneous monetary dimension? Thus, economic interactions must be appreciated as complex phenomena, and the objective of this paper is to explore into this complexity and to propose some simplifications as to how these interactions can be productively conceptualized with a focus on the monetary aspects of this. As a point of departure, we argue that productive value creation processes require interactions that on the one hand permit for and support effective and efficient learning and creation processes, and on the other hand handle distributions of gains and losses across the interacting parties. This requires economic abstractions and translations that create spaces and roles for money and credit and the particular networks of interactions that are preoccupied with the production and distribution of these resources through out the economy.

One way to conceptualize these interactions is to maintain the traditional distinction between the "real" economy as represented by the networked social-material activities on the one hand, and the "financial" economy as represented by the networked monetary activities on the other. To characterize the interactions of these two, we suggest using the term "deal". Thus, we argue that the business economy can productively be characterized as consisting of two overlapping processes – one about social-material value creation, and another about monetary extraction and distribution, where the interactions of these are represented by "deals". A "deal" can be seen as a dyadic more or less stable and dynamic "networked deal structure" of its own, and it can be seen as part of more extended deal structures that includes what in IMP theory is referred to as business networks.

In the IMP perspective, the role of capital and credit has been studied in an industry perspective - such as for instance in the steal industry (Axelsson & Håkansson 1982), the banking sector or the

insurance industry. An alternative approach would be to characterize the roles of money and credit as a particular kind of resource to any business, a resource that comes with certain forms, demands and functions and with specific connections to other resources – thus as a network of its own kind. Furthermore it relates to a range of specific kinds of activities and is performed by certain categories of actors or networks of actors. That is, we may analyze the multiple roles of money and credit by expanding from the ARA-model (Activites-Resources-Actors) and the methodological apparatus that is based on it, with the ambition to understand and to theorize the particular roles of money and credit in interacted industrial network economies.

Credit is of course a very important kind of resource to firms. In the most basic form, we may see a company owned by more than one individual as a co-operative of owners (Hansman, 1996) constituted by a "deal" that can be characterized as a particular "networked deal structure". In a typical case, ownership is defined by capital when credit with zero interest payment is being offered by the owners in exchange for control rights over the co-operative's business activities and for rights to the residual economic result after all others have been paid a contract price for their supplies and services. Credit can then be purchased by the firm at a price (interest), be acquired as embedded into other resources or activities or can be generated from positive cash flows from the company's operations. Credit requirements accordingly shape ownership, control rights and profit requirements as well as the ways resources and activities become embedded at the very fundamental level where businesses are defined as economic enterprises. Hence, a more explicit economic theory of industrial networks requires a concern with the credit function and the functions that are associated with it - such as distribution of ownership and control rights, and also with the way financial flows are created and managed.

With these theoretical aspirations, this paper is a first attempt at a systematic approach that is first and foremost aimed at proposing and clarifying an analytical framework for a more explicitly economic oriented IMP analysis of networked economies. It will be using a couple of illustrative examples, but apart from those, it will maintain a conceptual level of discussion.

THE IMP APPROACH TO A THEORY OF VALUE CREATION

As noted, the IMP approach to economics is fundamentally based on a radical critique of two fundamental assumptions underlying main stream economics. One is a critique of the homogeneity of resources assumption, where IMP argues that the world on the contrary must be seen as made of heterogeneous resources. As a consequence, also economic activities and economic actors must be characterized as heterogeneous. Value is not seen as intrinsic to a particular resource, but as the outcome of its participation in particular combinations of interacting heterogeneous resources, activities and actors. Changes in such interactions will alter the value of the resource as a collective effect that may be harvested by the participating actors. Hence, the value of a given resource is neither homogeneous, nor given nor stable, but critically depends on its interactions with others. The collective character of the value created implies that the distributions of gains and losses are not tied to the resource either, but are objects for additional interactions, such as associated with negotiations, robbery, power-games, organizing of competitive bidding, etc.

The second point is a critique of the full information (knowledge) assumption in economic theory, a critique that goes a lot further than for instance the asymmetric information school, the constrained rationality school or the search cost school. IMP holds a fundamentally relational view of knowledge, arguing that we may not have knowledge of a phenomenon unless we have been or are somehow related to it. The immediate analytical consequence of this perspective on knowledge is that relationships and interactions are necessary requirements for all meaningful economic activities and are also essential to our understanding of economic value and how economic value is created in processes based on expansion and distribution of knowledge. The IMP economic theory departs from this basic acknowledgement of the fundamental role of interaction for knowledge and economic creation to be possible. Without interaction, there can be no economic resource, no economic activity, no economic actors – and no economic value creation. No business can be an island (Håkansson and Snehota 1979). Interaction and the interdependencies that result from such, are clearly more fundamental to the human experience of economic creation and development, than is market competition.

One implication of this is that the IMP is not primarily about economic allocations, but about value creations, -extractions and -distributions through processes of interaction. For the most part, IMP scholars have used the term "economizing" to represent the interacting economic activities that are typically the objectives of the activities being studied. However, here we will argue that we need to take a broader view on economic activities that permits us to investigate a number of other ways that economic values appear throughout the economy. We suggest addressing this by drawing a distinction between what we shall see as two different and not fully coordinated processes that are at work in economic interactions. One is fundamentally about real social-material value creation. This can be seen as representing a process view of economics where the value is constructed through numerous interactional processes involving heterogeneous, context dependent resources, activities and actors. The second kind of process is fundamentally about the financial means, the creation, -extraction and –distribution of monetary resources, which at least in part requires some translation of real social-material values into abstract, monetary representations of economic value. Our suggestion is that the interactions of these two processes have become more complex, more expanded and perhaps, in some ways, less integrated over the recent decades. The interfaces between them therefore constitute important as well as a highly interesting research topics.

Furthermore, we assume that investigating and analyzing the interactions of these two networked processes, may also be core to understanding how economic resources, gains and losses are actually being distributed across actors.

DEALS AND NETWORKED DEAL STRUCTURES

In order to approach the roles of "deals" and "networked deal structures" at the intersections of the two kinds of processes, let us start with the concept of ownership to enterprise. Ownership to a company concerns the relationship between two kinds of legal entities; the holders of particular resources and economic interests on the one hand, and a business enterprise on the other. If there is only one owner to the enterprise, the relationship is constituted by a legal structure in which the enterprise becomes the exclusive, executive organization for the given business activity, while the owner obtains the right to control the operations as well as to receive the company's net profits. The fundamental condition for this deal is that the owner supplies a particular resource to

the enterprise that permits the company to get its operations off the ground. If this resource is credit (capital), we talk of capitalist ownership. If it is milk, we call it a milk-supply ownership as the owner supplies milk to the firm in exchange for control rights and the right to receive the net profit of the firm in the form of a higher price received per unit of milk. Similarly, if this resource is consumption, we would call it a purchasing ownership. This kind of arrangement is a deal between two heterogeneous judicial entities, who establish a particular deal structure that defines their relationship in terms of economic obligations, control rights, supplies of core resources, etc. In its essence, it is a reciprocal, asymmetric "governance structure" that includes certain legal actors, certain resources and certain activities that are formatted in particular ways so as to work as a lasting basis for owner-to-company interactions. It is a constitution that ensures a particular format for the transformation of social-material value creation processes into financial results and distributions thereof. Hence, the deal represents the interface between the social-material and the financial processes associated with the ownership relation.

With more than one owner, this constitutional arrangement can be described as a network with two kinds of relationship. In addition to what is discussed above, there is also a co-operative relationship between the owners. So, with more than one owner, the ownership to enterprise is always some kind of co-operative which is there because a single owner does not control sufficient resources to support the fundamental needs of the enterprise. For instance, a joint stock company is a co-operative of lenders where each lender provides a loan at zero interest to the company, in exchange for control rights (voting rights) and rights to a share of the net profit that corresponds to his share of the ownership. Sometimes ownership is shared across holders of different kinds of resources, such as in technology start-ups were inventors contribute and own on the basis of some valuation of their innovative creations while others obtain ownership as capital lenders. Another typical case in the Nordic countries is when employees through legislation or agreement obtain representations at the companies' board of directors and thereby execute a share of the total ownership control rights. In this case, competent, responsible and adaptive labor has come to be seen as so critical to the dynamic capabilities of enterprises, that other kinds of ownership are forced to share control rights with it. These constitutional networked deal structures become more complex and more difficult to manage, as both control rights over the social-material value creating processes and over the financial returns must be negotiated and divided between holders of two or more kinds of resources where interests are typically less aligned. On the other hand, they may substantially enhance the capabilities of the organization as important interactions become more aligned and adaptive to a dynamic context than they may otherwise become.

With two owners to one enterprise we have two kinds of deals and three relationships jointly representing a "networked deal structure" that serves as a constitutional infrastructure for the interacted activities associated with the ownership interactions. On the basis of such, fairly complex combinations of value creation and value distributive processes are conducted on the basis of translations of real economic to financial economic outputs.

The establishing of ownership to enterprise is what defines the activity as "economic" in the sense that profit is established as a major objective for the collaborative network. That is; positive cash flows from the operations is a constitutive objective. At the same time, the constitution of ownership establishes the financial equity of the firm in the form of loans or other supplies from the owners, that permits the company to obtain credit from lending institutions or other capital

owners that can be borrowed or bought at a price (interest). Hence, to the firm, credit is a resource that is obtained on the bases of its constitutional networked deal structure. The processes of value creation are the processes that follows as these collaborative networks seek to materialize their economic objective through interactions with others.

The establishing of ownership illustrates the basic interactional nature of the relationship between value creation and financial flows and the fundamental roles of "deals" and "networked deal structures" in formatting as well as maintaining the dynamic infrastructure of the networked business operations. Inside a judicial entity – like an organization – hierarchical control rights and distributions of value may be executed according to legally defined power structures that work within the boundaries of the organization. In between such entities – such as in between the organization and its owners, the distribution of control rights and of economic values must rather be based on some kind of mutual agreement or "deal" where the "deal structure" serves as an infrastructure for the continuous interactions involved.

If we move away from the constitution of ownership to other business relationships, we typically find some kind of deal structure at the interface of lasting business interactions. While these are different in kind from those that define ownership, they are similarly representing the constitutional infrastructures through which the social-material processes and the financial processes are interacting across the business relationships – for instance in the form of a legal contract of collaboration that outlines the set of objectives and rules for sometimes very complex, lasting and extended interactions. These deal structures are often supported by various temporary agreements and contracts that are being re-negotiated from time to time, and during these rounds the characteristics of the deal structure may considerably evolve, or may disrupt all together. However, as long as they are there, they serve to facilitate, to structure and to discipline the interacting activities and flows across organizational boundaries. They orchestrate and endure the financial flows which in turn are affecting (but not determining) the flows of goods, technologies and services. They typically define the structure of the distribution of control rights as well as of profits and losses associated with the activities included in the deal. The distribution of gains and losses from value creating processes are accordingly directly dependent on these networked deal structures and how these evolve over time. A striking implication is that the ability to shape or influence the deal structure and their control features will have substantial impact on the distribution of profits and losses across the actors.

MONEY AND CREDIT – THE FINANCIAL NETWORK

In a world where the objective is "value creation", the concept of "economic value" is of course fundamental. In economic theory, money is the representation of economic value in the completely abstract and generalized sense. It is supposed to measure and compare values across the real-economy, as well as in a number of other ways by every participant in any given economy. Every entity in an interacted economy should, according to the contemporary view, have a monetary dimension that represents their perceived economic value. However, this is not at all true in the network world, and it becomes obvious when money is also seen as a commodity in itself that can be created, produced, distributed and traded, such as in the various kinds of financial markets. This has the effect that money – or monetary value – gets a life of its own, sometimes far away from the value creation processes they also interact with. Value stocks (fortunes) are thus not only related to the accumulation of profits from social-material value

creation processes. They also result from money and credit creation- and from speculative processes closely associated with social communication and financial investments in value stocks of multiple kinds. This can easily be observed for instance at the level of monetary policy during financial and economic crisis, when aggregated value destruction processes in production activities, in market based value stocks and on financial institutions' balance sheets are being counter-balanced by money printing and credit creating activities executed and distributed by the federal and national banks. This dual character of money as both output of real social-material value creation processes and as directly created, is of course the reason why money printing is a state monopoly subjected to tight political controls. However, there are multiple ways that credit can also be created by private actors. For instance, firms can issue stocks and banks can mutually combine credit insurance contracts with lending contracts, and thereby expand their ability to issue more credit. Such credit expansion also goes into buying of value stocks, hence feeding economic "value creation" processes that are not directly associated with social-material value creation processes but rather depend on the supply of money and credit itself – that is the supply of "abstract, generalized economic value". As a result, the networked financial interactions are only partly dependent on the real economy, and value stocks are only partially based on capital accumulation from productive activities.

In relation to the value creation processes, this dual character of money and credit has important consequences. First and foremost, the outcomes of a particular interrelated economic activity are not only dependent on the particular processes of interaction associated with the directly involved deal structures. They also depend on the characteristics and the practices of the aggregated financial system as a whole and the particulars of the different financial systems that are there. It depends on all the other activities in the economy – in particular the significant actions and interferences at the meta-level of activity; in the meta-finance networks. Because of this, the deal-structures associated with the meta-finance companies and governments and their interactions with other financial companies and institutions, provide for a highly interdependent inter-organizational infrastructure for credit and other financial interactions on which all value creation processes, all fortunes and all credit ultimately as well as directly and critically depend. We truly live in an interdependent economy where value creation processes must ultimately be seen as highly networked and systemic through the systemic impacts of the financial system. Money and credit represent the extended and variable resource that every entity in the economy is both part of and depend on.

MONEY AND CREDIT IN PROCESSES OF VALUE CREATION

If we bring this view of money and credit back into thinking about interacting value creation processes, we may now analytically separate real economic creation processes into two different kinds: 1) social-material interaction processes, and 2) financial interaction processes.

In IMP literature the interactions of these two have been denoted "activated networks" (ref). An important part of the social-material networks are the cognitive processes that represent the creative processes of the mind, and are in IMP wording in part denoted "non-activated networks" that are seen as more extended than the activated. Contrary to the activated networks, the non-activated interactions are not constrained by space and time, only by imagination. This implies that in activated networked interaction, economic value is essentially constrained in space and time by everything which is actually there, where as in purely mental processes, economic value

is rather a matter of unconstrained conceptions and generation of creative value propositions with respect to potential improvements, innovations, etc. Through communication, mental interactions with other actors may generate various kinds of shared and distributed ideas about actual or potential value creations that are communicative social phenomena, but which still may have substantial effects on activated economic interactions. Hence, value creation oriented interactions always contain a mix of actual social communicative and social-material substance.

The value creation processes are processes in which the social-material and the mental processes interact. IMP research, over the years, has demonstrated that these processes are substantially constrained in space and time by whatever is already crowding the economy with interacted resources, activities and actors. All these existing resources, activities and actors are interacting and creating value for the involved actors. However, to what degree this also will result in monetary output is dependent on the particular deal structures that may or may not materialize. This deal structure relates the social-material processes to the financial flows. This is exemplified with the following case from the world of data communication and mobile telephones:

> ***Opera Software***
> *Opera Software is a Norwegian company producing web browsers. The company has in particular been successful with the browser "Opera Mini" which is useful for those using mobile phones to connect to the internet. Due to an early cooperation with Nokia the latter installed Opera Mini as a standard on several of its models. Suddenly, in 2008, Opera learned that they had got a large number of users in Africa and especially in Nigeria. One reason is that this browser functions exceptionally well on micro computers such as mobile phones. The browser is technically designed to optimize the use of the internet in a mobile phone. In 2012 the company had more than 10 million users in Nigeria and a market share above 70 %, for instance because people in a country with few banks learned how to transfer money and use the phone to pay their bills and other purchases. However, none of these users were paying anything to Opera. They could all download the browser for free.*
>
> *However, all the users needed a mobile operator to use their phones and these operators were interested in software that increased the use of the mobile phones. This meant that they were interested in a co-development with Opera and entered deals to structure obligations as well as distributions of rewards. In this way the operators became both the distributors and the customers of the Opera browser through deals that also orchestrated the translations into financial flows and distributions of gains. This is an interesting outcome of complicated value creation processes in which the particular networked deal structure between multiple organized organizations in the unique context of Nigerian rural and urban society is strikingly critical to the operation.*

The Opera example illustrates that the heterogeneity of the interactions of particular value creation processes makes them difficult to simply translate into financial flows. This translation is not a given, but the outcome of complex interactions that in the end produce a working deal structure, that permits all participants to supply their contributions and to receive some share of the financial gains (and losses). Everything new must find some space where it may establish deals with others to fit into the existing structures of activity, and also function in relation to the

dynamics of existing value creation processes as well as established deal structures that facilitates existing financial flows.

At the same time, mental creative processes and creative social communication processes are continuously offering propositions for new or enhanced value creation initiatives and activities that in order to materialize, need to get access to necessary resources, activities and actors. This can only be done by challenging resources, activities and actors that are already engaged in other durable deal structures, be it within organizations where hierarchy matters a lot, or by inviting other organizations to participate in new deals to organize a new value creating venture. In both cases, financial resources and financial interaction processes are critical to the ability to actually pull off value creation processes in which these new mental and social-material value propositions may be tested in the real economy. Hence, moveable financial resources and propositional deal structures tend to be critical components of new value creation processes – of any kind.

A tentative agenda for studying deals and networked deal structures

A preliminary conclusion from the discussions above, is that we may suggest that an economic theory that departs from the idea that the economy is fundamentally interactional, will have to develop analytical conceptions that permits us to analyze how social-material value creative processes interacts with the financial networks/systems. The discussions may indicate that what we have denoted "deals" and "networked deal structures" may be useful to analytically structure such analysis of real cases.

We may summarize some of the important roles of deals and networked deal structures as follows:

> They provide the core infrastructure for inter-organizational business interactions
>
> They provide means for measuring, calculating, accumulating and distributing monetary gains/returns and provide the architecture of inter-organizational control rights, power and economic distributive patterns
>
> They provide the overall orchestration of inter-organizational transactions

Topics that such a theory should be able to deal with in productive ways, include such issues as:

> How do deals and networked deal structures typically evolve over time? How can we assess and measure such developments?
>
> How can we measure network effects in terms of economic effects?
>
> What are the roles of non-activated networks in deal structures aimed at economizing and innovation processes?
>
> What are the roles of power in deal structures aimed at economizing, innovation and value distribution?

> Why is it that the networked economy seems to be associated with increased economic inequalities?
>
> How may financial speculation in market based value stocks impact networked business operations?

A possibly interesting approach to studies of these phenomena would be to study value creation projects and processes in the context of different kinds of financial systems and resources that tend to engage in different kinds of highly developed deal structures, such as represented by the Venture Capital industry, by local, national or international investment banks, by state funded start-up funds and regional development funds, and by different forms of syndicated investment operations such as between "business angels". Another approach would be to study how capital allocation develops in highly interacted and interdependent networked economies such as in integrated supply chains and large retailing operations with centralized purchasing functions. We believe that these areas of investigation represent substantial potential for bringing IMP thinking further into developing and contributing to economic theory.