Now I am totally confused...

- Three competing perspectives for today:
  - Government (EPA/State) ill equipped to regulate “significant environmental performance”
    - Too costly and bureaucratic
    - Too slow
    - Measures failure not success
    - Dearth of scientific knowledge and data
    - Lack of effort/support toward flexible mechanisms
    - Growth of low-involvement voluntary programs
  - Corporate “plunderers” can and should embrace the business case for sustainability
    - Improve margins, reduce time to market, increase market access, differentiate products (figure 3-2)...
    - EM that compliments MS, communicate EM in business lingo, “real” metrics, embed EMS into Operations, fix HR inequities...
  - “There is money to be made in doing good,” but responsibility (above compliance) of firms shouldn’t extend beyond profits, products, salaries, etc.
    - Why would we want to leave “poverty eradication” or “solving the climate crisis” to the whims of corporate CEOs? Why would I want my retirement to hinge on charitable decisions of the firms I invest in?
Business-Level Strategy

• The primary objective of business-level strategy is to create “sources of sustainable competitive advantage”.

• What is sustainable competitive advantage?
  – There are many definitions, used by different people in different ways.
  – What follows is a practical description.

Sustainable Competitive Advantage

• An asset is anything the firm owns or controls.
  – Loosely, “Asset” is to Accounting as “Resource” is to Management.

• Types of assets:
  – Physical: plant equipment, location, access to raw materials
  – Human: training, experience, judgment, decision-making skills, intelligence, relationships, knowledge
  – Organizational: Culture, formal reporting structures, control systems, coordinating systems, informal relationships
How do firms compete?

<table>
<thead>
<tr>
<th>Dimensions</th>
<th>Industry Structure View</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unit of analysis</td>
<td>Industry</td>
</tr>
<tr>
<td>Primary sources of</td>
<td>Relative bargaining power</td>
</tr>
<tr>
<td>supernormal profit returns</td>
<td>Collusion</td>
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</tbody>
</table>

Mechanisms that preserve profits

- Government regulations
- Production economies
- Sunk costs

Ownership/Control of re-generating processes/resources

Collective (with competitors)

(Dyer & Singh 1998)

Poter's Outside-In Approach to Profitability

Competitive Positioning

- Achieving sustainable competitive advantage

Industry Structure

- Factors affecting industry profitability

Strategy Formulation and Implementation

- Defining and executing the managerial tasks
Elements of Industry Structure: Porter’s Five-Forces

New Entrants

Barriers to Entry
- Economics of scale
- Product differentiation
- Brand identification
- Switching cost
- Access to distribution channels
- Capital requirements
- Access to latest technology
- Experience and learning effects
- Government action
- Industry protection
- Industry regulation
- Consistency of policies
- Capital movements among countries
- Foreign exchange
- Foreign ownership
- Assistance provided to competitors

Rivalry among Competitors
- Concentration and balance among competitors
- Industry growth
- Fixed (or storage) cost
- Product differentiation
- Intermittent capacity increasing
- Switching costs
- Corporate strategic stakes
- Barriers to Exit
- Asset specialization
- One-time cost of exit
- Strategic interrelationships with other businesses
- Emotional barriers
- Government and social restrictions

Bargaining Power of Suppliers
- Number of important suppliers
- Availability of substitutes for the suppliers products
- Differentiation or switching cost of suppliers products
- Suppliers threat of forward integration
- Industry threat of backward integration
- Suppliers contribution to quality or service of the industry products
- Total industry cost contributed by suppliers
- Importance of the industry to suppliers profit

Bargaining Power of Buyers
- Number of important buyers
- Availability of substitutes for the industry products
- Buyers threat of backward integration
- Industry threat of forward integration
- Contribution to quality or service of buyers products
- Total buyers cost contributed by the industry
- Buyers profitability

Intensity of Rivalry

Intensity of Rivalry

Power of Suppliers

Power of Buyers

Porter’s Value Chain

Primary activities
- Inbound logistics: Materials receiving, storing, and distribution to manufacturing premises
- Operations: Transforming inputs into finished products
- Outbound logistics: Storing and distributing products
- Marketing and Sales: Promotions and sales force
- Service: Service to maintain or enhance product value

Support activities
- Corporate infrastructure: Support of entire value chain, e.g. general management planning, financing, accounting, legal services, government affairs, and QM
- Human resources management: Recruiting, hiring, training, and development
- Technology Development: Improving product and manufacturing process
- Procurement: Purchasing input
Porter’s Generic Strategies of a Firm

Conventional view:
Firms must choose between a low cost or differentiation strategy

Low
Low Cost
Producer

High
Low Cost
efficiencies

"stuck in the middle"

Differentiation
Higher customer value (pricing)

(Adapted from: Porter 1980)

How do firms compete?

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<th>Resource-Based View</th>
</tr>
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<tbody>
<tr>
<td>Unit of analysis</td>
<td>Industry</td>
<td>Firm</td>
</tr>
<tr>
<td>Primary sources of super-normal profit returns</td>
<td>Relative bargaining power</td>
<td>Source physical resources (e.g., land, raw materials, capital)</td>
</tr>
<tr>
<td></td>
<td>Collusion</td>
<td>Human resources/know-how (e.g., managerial talent)</td>
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<tr>
<td></td>
<td></td>
<td>Technological resources (e.g., process technology)</td>
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<td></td>
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<td>Financial resources</td>
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<td></td>
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<td>Intangible resources (e.g., reputation)</td>
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</tbody>
</table>

Mechanisms that preserve profits
- Government regulations
- Predominant economies
- sunk costs

Industry barriers to entry
- Firm-level barriers to imitation
- Resource scarcity/property rights
- Coordination
- Time compression
- Diseconomies
- Asset stock
- Interconnectedness

Ownership/control of value-creating processes/resources
- Collective (with competitors)
- Individual firm

(Dyer & Singh 1998)
Sustainable Competitive Advantage

- A capability is usually considered a “bundle” of assets or resources to perform a business process (which is composed of individual activities)
  - E.g. The product development process involves conceptualization, product design, pilot testing, new product launch in production, process debugging, etc.
- All firms have capabilities. However, a firm will usually focus on certain capabilities consistent with its strategy.
  - For example, a firm pursuing a differentiation strategy would focus on new product development. A firm focusing on a low cost strategy would focus on improving manufacturing process efficiency.
- The firm’s most important capabilities are called competencies.

Competencies vs. Core Competencies vs. Distinctive Competencies

- A **competency** is an internal capability that a company performs better than other internal capabilities.
- A **core competency** is a well-performed internal capability that is central, not peripheral, to a company’s strategy, competitiveness, and profitability.
- A **distinctive competence** is a competitively valuable capability that a company performs better than its rivals.
Resource Based View of the Firm

• RBV logic:
  – Assets \(\rightarrow\) Capabilities \(\rightarrow\) Competencies \(\rightarrow\) Competitive Advantage

• Next is competitive advantage.
  – A competitive advantage is simply an advantage you have over your competitors. How do you know when you see it? When is it considered "sustainable"
  – To produce SCA, the capability must be:
    1. Valuable: allow the firm to exploit opportunities or neutralize threats in its external environment
    2. Rare: possessed by few, if any, current and potential competitors
    3. Imperfectly imitable: when other firms either cannot obtain them or must obtain them at a much higher cost
    4. Non-substitutable: the firm must be organized appropriately to obtain the full benefits of the resources in order to realize a competitive advantage

How do firms compete (continued)?

<table>
<thead>
<tr>
<th>Dimensions</th>
<th>Industry Structure View</th>
<th>Resource-Based View</th>
<th>Relational View</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unit of analysis</td>
<td>Industry</td>
<td>Firm</td>
<td>Peer or network of firms</td>
</tr>
<tr>
<td>Primary sources of supernormal profits</td>
<td>Relative bargaining power</td>
<td>Source physical resources</td>
<td>Relation-specific investments</td>
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<td></td>
<td>Human resources/know-how</td>
<td>Interfirm knowledge-sharing</td>
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<td>Technological resources</td>
<td>Complementary resource</td>
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<td>Financial resources</td>
<td>Endowments</td>
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<td>Intangible resources</td>
<td>Effective governance</td>
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<td>Collective (with competitors)</td>
<td>Individual firm</td>
<td>Collective (with trading partners)</td>
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</tbody>
</table>

(Dyer & Singh 1998)
Questions for Wednesday

• Can the Resource-based view of the firm be effectively extended to include "natural resources"? Can a firm's relationship with the natural environment (a public good) lead to sustained competitive advantage? If so, how?

• Should companies pay attention solely to profits and shareholders? Isn't this the reason companies exist?

• Both articles seem to have different points of view. Which one do you consider the most appropriate? Why? Limitations or Strengths?

• Any ideas how to harmonize both of these points of view presented?

• Does strategic environmental management go far enough? Can it ever? Should it ever?