

Chapter 12

Building Blocks of the Industry and Strategizing

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ABSTRACT

Industry features are considered by Porter, Schmalensee, and many other scholars as the determinants of effective strategy formulation and implementation. While industries are widely different from each other, some common features shape all existing and future industries. This chapter aims to identify these common building blocks of industries and their possible effects on strategizing for the future in a fast transitioning business world. The chapter employs a systematic literature review from the top related journals with at least one of the nine keywords about the industry. The chapter reviews 47 factors or characteristics that form every industry. These industry features are grouped into ten sets of elements, which shapes the ten forces framework, reflecting the interaction among building-blocks of the industry with each other and with strategy implementation practice inside an organization. The chapter concludes by proposing the ‘macro-environment, industry, and organization’ (MIO) model, which could be utilized by integrating three levels of analyses.

INTRODUCTION

Although among some scholars there is consensus regarding the importance and effects of characteristics of different industries on activities and performance of organizations (Hrebiniak and Snow, 1980; Pfeffer and Leblebici, 1973; Porter, 1980), noticeable disagreement exists about degree of impacts of various industries. For instance, in a study by Schmalensee (1985), it was shown that industry context has very strong effects on investment’s rate of return (industry effects accounted for 75% in industry return). However, the “small stable” effect of industry factors was reported by Rumelt (1991), who repeated almost the same study six years later. This argument was continued by McGahan and Porter (1997), who duplicated the original study by Schmalensee (1985) and Rumelt (1991). McGahan and Porter (1997), after a meticulous calculation, concluded that industry factors do have considerable impacts (19%) on the organization’s activities and investment. While the findings of Schmalensee (1985)

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and Rumelt (1991) regarding influence of industry factors appeared to be contradictory, both studies are evidence of the effects of different contexts of different industries on organizations. The results of these two studies differed because they were conducted in two industries that are widely dissimilar. As McGahan and Porter (1997) found, the effects of service sector industries, the focus of Schmalensee's research, on organizations in these industries were much stronger than influence of manufacturing sector industries, which were the main focus of Rumelt's (1991) study.

Although the impact of industry characteristics on organizations and their strategy execution cannot be denied, organizations are not just passive receivers of instructions from industry. In fact, Chandler (1990), Griffiths and Zammuto (2005), and Teece (1993) agreed that industries and organizations "evolve together-that managerial choice can shape the environment/industry as much as the industry/environment shapes firms".

While in this research, focus is on the impact of industry characteristics on strategy implementation, we are well aware that execution of strategy is affected more strongly by some other factors such as intra-organizational elements (Aboutalebi and Tan, 2014), as well as the importance of time of execution, corporate-subsidiaries relationship, and business-specific factors and their complex combinations (McGahan and Porter, 1997).

Peng (2013) viewed industry as a group of firms producing products (goods and/or services) that are similar to each other. Industry is defined in the Multilingual Dictionary (2013) as "any part of the business of producing or making goods" or "hard work and effort". According to the Collins English Dictionary (2012), industry can be perceived as "organized economic activity concerned with manufacture, extraction and processing of raw materials, or construction". And the College Dictionary (2010), with some differences, defines industry as "the aggregate of manufacturing enterprises in a particular field", "any general business activity".

Unfortunately, none of the mentioned definitions portrait industry and sector in their fullest, so the researcher prepared a definition for each by considering all existing definitions. *The industry is a group of organizations or organized activities that are similar to each other in terms of their inputs, processes, outputs, context and customers with no geographical limitations.* Cluster and sector are two other concepts that sometimes are mistaken by industry. *A cluster is a limited number of similar or different organizations each of which acts as elements of relevant supply chain in a limited or specific geographical area.* *The sector is a set of interrelated industries that have some degrees of similarities to each other and noticeable differences with industries of other sectors.*

INDUSTRIES' INFLUENTIAL FEATURES IN STRATEGY EXECUTION

As a result of a systematic literature review approach to reviewing existing studies, 47 factors are identified that shape the features and building blocks of any industry. Although all industries have these 47 characteristics, the extent of each of the features may differ in varied industries. In other words, what makes distinction among different industries is the extent of each of these factors; for example, regarding the feature of 'technology', while all industries use technology, the technological level of different industries can be dissimilar considerably.

The 47 characteristics that are discussed and classified in this section are as follows: political power, government-industry relationship, federal government purchases, industry size, typical size of organizations, industry concentration, market uncertainty/risk, supply chain, distribution of resources, industry

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