Structure-Conduct-Performance, Resource-Based View and Business Strategy

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Abstract
This paper aims to address two different approaches of the design of business strategy: Structure-Conduct-Performance (SCP) and Resource-Based View (RBV). We will examine advantages and disadvantages of both frameworks and then we will depict how these two paradigms may enhance each other. We would like to witness how the combination to two concepts can work together and improve the performance of firms.

Keywords
Structure-Conduct-Performance; Resource-Based View; Business Strategy

Introduction
With the increasing momentum gained by strategic management in modern society, firms start to attach great emphasis on the construction of business strategy. The traditional industrial organization paradigm provides organizations with the framework of Structure-Conduct-Performance (SCP), which encourages firms to carry out their strategies according to the industrial structure. In addition, there is also another framework with the name of Resource-Based view (RBV) which focuses on the resources in organizations. These two paradigms offer firms with different concentration of strategy formulation and firms which adopt different approach emphasize different aspects of their organizations.

Industrial Organization and SCP
According to the foundation of business policy build by Learned, Christensen, Andrews and Guth (LCAG), strategy is defined as how a firm attempts to compete in its environment, encompassing key choices about goals, products, markets, marketing, manufacturing, and so on (Porter, 1981). The LCAG (1969) also claims four key elements of effective strategy formulation:

- Industry economic & technical opportunities, threats
- Personal values of key implementers
- Broader societal expectations

A high-performing firm in this paradigm is the one that successfully combines the four elements together when making strategies of its competition. The essence of this paradigm is that a firm’s performance in the marketplace depends critically on the characteristics of the industry environment in which it competes (Porter, 1981). Thus the Bain and Mason paradigm of industrial organization provides a model which accesses industry environment for organizations.

As can be seen in the framework of SCP, industry structure determined the behaviour or conduct of firms, whose joint conduct then determined the collective performance of the firms in the marketplace (Bain, 1968). The basic tenet of the SCP paradigm is that the economic performance of an industry is a function of the conduct of buyers and sellers which, in return, is a function of the industry’s structure (Mason, 1939; Bain, 1956). As the theory of SCP has adopted and developed by scholars and researchers, Porter (1980) popularized a perspective of strategic planning that emphasizes the analysis of industry structure as the basis for explicit planning of business strategy (McWilliams and Smart, 1993).

Bain has popularized an important concept, entry barriers, which serve an imperative role of SCP. Entry barriers are defined as economies of scale, absolute cost advantages, product differentiation, and capital requirements (Bain, 1956). Entry barriers are essential link between industry structure and performance in this model (McWilliams and Smart, 1993) since the relationship between industry structure and performance in this paradigm is derived from the microeconomic model of perfectly competitive markets (McGee, 1988). In other words, the
environment is static and firms operate under the equilibrium condition.

The model of SCP has been updated by scholars who demonstrate that firms can affect or even deter entry into their industries by carefully choosing their strategies (Porter, 1980). Therefore, here comes up the model of SCP that focuses on not only the influence but also feedback effects of strategy and markets (see figure 1). The paradigm of SCP offers firms some fundamental parameters of industry structure which will help the formulation of strategy. By articulating these factors, industry organization offers rich insights into strategic formulation (Porter, 1981).

![FIG. 1 UPDATED SCP MODEL](image)

**Resource-Based View**

Strategy can also be defined as “continuing search for rent” (Bowman, 1974). The generation of above-normal rates of return (rents) is the focus of analysis for competitive advantage (Porter, 1985). Unlike the model of SCP which focuses on industry structure, RBV pay majority of attention to the resources owned by organizations. Rents may be achieved by owning a valuable resource that is scarce (Ricardo, 1817). In this paradigm, a firm selects its strategy to generate rents based upon their resource capabilities (Mahoney and Pandian, 1992). The model of RBV provides organizations with another inclination of strategic formulation which focuses on the resource within the firm. That is to say, by specifying a resource profile for a firm, it is possible to find the optimal product-market activities (Wernerfelt, 1984).

In the model of SCP, most of the attention is paid to set up and maintain the entry barriers so that a firm can remain competitive advantageous in the market. However, in the model of RBV, firms can also gain competitive advantages through barriers of resources. In some cases, a holder of a resource is able to maintain a relative position vis-a-vis other holders and third persons, as long as these act reasonably (Wernerfelt, 1984). It is always deemed as first mover advantages. Since other organizations regard the entry of a market unnecessary or too expensive if certain resource is required, incumbent firms may keep its position in a market with the advantage of resource. Moreover, to make sure that a resource position barrier is valuable, it should translate into an entry barrier in at least one market (Wernerfelt, 1984). Economies of scale in the use of resources are the prime example of product entry barriers (Spence, 1979).

In addition, RBV also provides firms with the way in which they can expand their business efficiently. Since a firm which gains resource advantages may have at least one kind of resource which is dominating in one market, they can take advantage of such resource when operating new business. In other words, in order to generate successful operation in a new market, it is better to develop the resource in one market and then to enter other markets from a position of strength (Wernerfelt, 1984). In this framework, the optimal growth of the firm involves a balance between exploitation of existing resources and development of new ones (Penrose, 1959). Firms with specific resources are able to make benefits from the use of such resources in their new business. For instance, Stewart, Harris and Carleton (1984) find a very strong positive relationship between the advertising intensity of the acquiring firm’s primary industry and the advertising intensity of the acquired firm’s primary industry (Mahoney and Pandian, 1992). Therefore, resources, both tangible and intangible assets, can help firms to develop competitive advantages and it is reasonable for firms to constitute strategies considering the framework of RBV.

**Unstable Environment and Technology**

As the SCP framework has been transferred to the general strategy formulation and strategic management, the transfer has been pervasive and with little consideration of competing paradigms in the economics discipline (McWilliams and Smart, 1993).

There are some major weakness lies in this model. One of the chief criticisms levelled at the SCP paradigm that underlies it, is that it fails to take account of the dynamic nature of competition and industry structure (Grant, 1995). In the model of SCP, firms in a industry are deemed identical. In other words, the performances of different firms are treated as the same and further assumptions and predictions are based on the relative static circumstance. The SCP paradigm was developed to explain and predict industry level phenomenon and makes the assumption that all the firms within an industry are homogeneous (Rumelt, 1991). However, simple observation clearly revealed that firms differed a great deal in performance even
though they competed in the same industry (Porter, 1981) and most business environments are not in a state of equilibrium (McWilliams and Smart, 1993). While market failure explains the existence of the firm (Coase, 1937), the resource-based view posits heterogeneous firms as the outcome of certain types of market failure (Mahoney and Pandian, 1992).

SCP model examines the industry structure in an effort to find out efficient way in improving productivity, to gain advantages in the competition and finally obtain sustain profits. As is stated by some scholars, competition, industry structure, and profitability are all driven by technology (Grant, 1995). In addition, economic growth is viewed as the moving equilibrium of a market economy, in which technical advance is continuously increasing the productivity of inputs (Nelson, 1995). Since the development of technology may lead to the increase in productivity, it is safe to conclude that majority of firms in an industry may adopt such technics and finally the structure of industry will change. In this situation, firms are not encouraged to adopt SCP model as this model is built upon the equilibrium. We may take framework of RBV to reallocate resource to keep growing the technological capabilities, which should be feasible if you use your high current returns to feed R&D (Wernerfelt, 1984) in order to maintain market position.

In addition, SCP pays much of the attention on the building of entry barriers. However, these investments can not be expected to result in a competitive advantage because barriers are subject to a free rider problem (Oster, 1990, quoted from McWilliams and Smart, 1993). In other words, the investment which aims to bring barriers provides a free ride to its competitors and it is likely that such investments bring no benefits.

When we turn to the model of RBV, it also expresses some weaknesses. Since the firm which adopts RBV base their strategy on resources in the firm, it is the resources of the firm which limit the choices of markets it may enter, and the levels of profits it may expect (Wernerfelt, 1989). McDonald (1985) finds that firms are more likely to enter industries that are related to their primary activities (Mahoney and Pandian, 1992).

**Future Development**

There are efficiency model for SCP which shows alternatives for the paradigm. Since technology and demand change continually, static equilibrium is never reached (McWilliams and Smart, 1993). The efficiency model provides SCP with the concentration on the dynamic process of competition and attentions are pay to firm resources rather than industry structure. Therefore, what appear to be barriers to entry may instead be assets developed over time in the context of a competitive process (McGee, 1988).

When we look at the frozen food industry in the U.S., we may find that a small number of companies that had entered in its early days retained their strong share position, building their first-mover advantage via heavy brand-promotion activity (Sutton, 1991). A British company, Big Three, devotes great funds into advertising in order to prevent new entrants, while constantly introducing new products. The company offers a good strategy that combine endogenous and exogenous parameters together.

Merger and acquisition strategies should be based on specific firm resources (Harrison et al., 1991) rather than on industry structure (Porter, 1987, quoted from McWilliams and Smart, 1993). On the other hand, firms cannot always change industry structure, and thus understanding industry structure in the traditional IO sense is crucial (Porter, 1981). Therefore, it is also important for firms to have an explicit view of the industry structure.

The SCP view and RBV view have enhanced each other in the practice of strategy formulation. We can easily conclude that if managers expend resources in an attempt to find or build firms within industries with the most attractive structure, they may forego opportunities for developing competitive advantage based on the unique resources of the firm (McWilliams and Smart, 1993) and the market will, inevitably, become more dynamic and advanced.

**Conclusion**

This paper addresses the advantages and disadvantages of SCP and RBV model. SCP framework lacks the concept of dynamic market and changing environment while RBV focuses much on internal resources. Both of the models can be improved. The efficiency model adds dynamic views to SCP and RBV can also be improved by the consideration of external environment. When formulate strategy, we should take into account SCP as well as RBV so that we may carry out strategies which is not only based on specific resources within the firm but also suit current industry structure.
REFERENCES


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