

Copyright is owned by the Author of the thesis. Permission is given for a copy to be downloaded by an individual for the purpose of research and private study only. The thesis may not be reproduced elsewhere without the permission of the Author.

The search for sustainable competitive advantage:
A stakeholder management perspective

A thesis presented in partial fulfillment of the requirements for the degree

of

Doctor of Philosophy

in

Management

at Massey University, Albany

New Zealand

Minyu Wu

2010

Abstract

Competitive advantage and stakeholder management are two important research streams that have attracted much attention during the past two decades. Although competitive advantage is the core issue of strategic management in which stakeholder management is rooted, the two topics have developed seemingly independently in the literature.

The main purpose of this thesis is to explore how stakeholder management influences competitive advantage. The research is guided by a theoretical framework that employs a stakeholder perspective, linking three perspectives of competitive advantage—the resource-based view, the relational view, and the activity-position view. The general research approach chosen is a qualitative, multiple-case study. Ten cases were selected, from leading firms of several industries in Taiwan, and in-depth interviews were conducted.

Results showed that a firm's competitive advantage comes from its resource capacity (superior resources, unique capabilities, and solid relationships) and a mix of activities that respond to the competitive context. Competitive advantage, too, can be analysed in terms of two components: resource advantage and positional advantage. Stakeholder management can have significant influences on resource advantages as stakeholders play important roles in the process of value creation. They are the providers who supply valued resources to the firm and, as such, can act as catalysts or hindrances that either facilitate or impede the generation of valued resources. Successful stakeholder management strengthens a firm's resource profile and thus enhances its resource advantages. Stakeholder management also has considerable influences on positional advantages, as stakeholders are relevant to activities and drivers that determine cost and differentiation. Moreover, stakeholders are key players in the competitive context, who help to shape the competitiveness of the firm.

The study reported that stakeholder management helps to sustain competitive advantage through advancing a firm's resource capacity—resource commitment, developing capabilities, and building relationships. Stakeholder management also generates several isolating mechanisms that preserve competitive advantage, including time compression diseconomies, causal ambiguity, social complexity, and transaction costs. However, in the face of ever-changing situations, managers need to adopt different strategies for managing stakeholder relations. To achieve sustained competitive advantage in a dynamic context, firms not only have to strengthen the capacity of resource advantage to fit the competitive strategy, but also need to use innovative and entrepreneurial approaches for managing their stakeholder relations.

Acknowledgements

First, I owe particular gratitude to my supervisor, Dr. Gabriel Eweje, for his invaluable supervision of this thesis. He has mentored and guided me for the past four years and cultivated my capabilities of research and teaching at the same time. He gave me many insightful and constructive comments along my research journey. It is always a pleasure to work with Gabriel and I appreciate his remarkable help very much.

I also want to acknowledge my co-supervisor, Professor Tim Bentley, for his time and efforts in support, encouragement and priceless comments. He is a knowledgeable and considerate person. I am deeply indebted to him for his great help.

In addition, I would like to thank all the interviewees who spared their time from their tight schedules to participate in this research. Without their help, it would have been impossible for me to complete this study.

Finally, I would like to thank my fantastic wife and my two children for being in support of me all the time. I am so glad I have finished this thesis and I would like to dedicate it to them.

Table of Contents

Abstract	i
Acknowledgement	ii
Table of contents	iii
Chapter 1: Introduction	1
1.1 Background	1
1.2 Motivation for this study	5
1.3 Justification for the study	6
1.4 Research focus	13
1.5 Key concepts	15
1.6 Research objective, goals and questions	18
1.7 Organisation of the study	20
Chapter 2: Literature review	23
2.1 Introduction	23
2.2 Competitive advantage	23
2.2.1 The concept of competitive advantage	24
2.2.2 Perspectives of competitive advantage	28
2.2.3 Common issues related to competitive advantage	47
2.3 Stakeholder management	50
2.3.1 The concept of stakeholders	51
2.3.2 Perspectives of stakeholder theory	54
2.3.3 Stakeholder management and strategy	66
2.4 Linkage between stakeholder management and competitive advantage	71
2.5 Conclusion	75
Chapter 3: Theoretical framework and methodology	76
3.1 Introduction	76
3.2 Theoretical framework	76
3.3 Approach of the research	88
3.4 Case selection and recruitment	92
3.5 Data collection	98
3.5.1 Semi-structured interviews	98
3.5.2 Documentary data	99
3.6 Data analysis	100
3.7 Reliability and validity	103

3.8 Ethical considerations	106
3.9 Summary of case companies	107
3.10 Conclusion	124
Chapter 4: Integrating different perspectives of competitive advantage	126
4.1 Introduction	126
4.2 Resource advantages	129
4.2.1 Resources acquired from the markets	129
4.2.2 Resources built or accumulated internally	133
4.2.3 Resources acquired or generated through inter-firm partnerships	135
4.2.4 Resources built or generated through other channels	140
4.2.5 Developing a resource profile through numerous sources	142
4.3 Positional advantages	144
4.3.1 The resource portfolios and positional advantages	146
4.3.2 The role of activities and drivers	150
4.3.3 The influences of the competitive context	162
4.3.4 Configuring activities as responses to the competitive context	166
4.4 Towards an integrative approach	168
4.5 Conclusion	171
Chapter 5: Stakeholder management influences on sources of competitive advantage	173
5.1 Introduction	173
5.2 Stakeholder management influences on resource advantages	175
5.3 Stakeholder management influences on positional advantages	189
5.4 Discussion	199
5.5 Conclusion	204
Chapter 6: Sustaining competitive advantage through stakeholder management	206
6.1 Introduction	206
6.2 The dynamic perspective of the firm and activities related to sustained competitive advantage	210
6.2.1 Resource commitments	210
6.2.2 Developing capabilities	221
6.2.3 Building relationships	230
6.2.4 A comprehensive version of the dynamic perspective of the firm	238

6.3 Isolating mechanisms created by stakeholder management	241
6.3.1 Time compression diseconomies	241
6.3.2 Causal ambiguity	245
6.3.3 Social complexity	248
6.3.4 Transaction costs	252
6.3.5 A stakeholder perspective of isolating mechanisms	257
6.4 Conclusion	259
Chapter 7: The manager's role in developing competitive advantage in a multiple stakeholder context	261
7.1 Introduction	261
7.2 The concept of balancing different stakeholder demands	264
7.2.1 Dimensions of balancing different stakeholder demands	265
7.2.2 How to balance stakeholder demands	270
7.3 Balancing stakeholder demands and competitive advantage	275
7.3.1 Supporting an effective mix of resources	276
7.3.2 Sustaining competitive advantage	279
7.4 Dynamic stakeholder relations and strategies for managing stakeholders	282
7.4.1 Developing and maintaining relations with existing stakeholders	284
7.4.2 Creating relations with new stakeholders	289
7.4.3 Sustained competitive advantage and managing new stakeholder relations	294
7.5 Conclusion	297
Chapter 8: Conclusion, limitation and further research	299
8.1 Introduction	299
8.2 Thesis overview	299
8.3 Research findings	302
8.4 Contribution and implications of this study	307
8.5 Limitations of the study and further research	313
Notes	316
References	319

Appendices

Appendix 1: Interview schedule	360
Appendix 2: Case study protocol	361
Appendix 3: Coding list	363

List of Tables

Table 1.1: The research goals of the study	20
Table 2.1: A summary of definitions in the competitive advantage literature	26
Table 3.1: Comparing different perspectives of competitive advantage	84
Table 3.2: Profiles of case companies	97
Table 4.1: Empirical findings: Source of resource advantages	143
Table 4.2: Positional strategies of case companies	147
Table 4.3: Empirical findings: Source of positional advantages	151
Table 5.1: Empirical findings: Stakeholder management and resource advantages	177
Table 5.2: Empirical findings: Stakeholder management and positional advantages	191
Table 6.1: Empirical findings: Stakeholder management and advancing resource capacity	212
Table 6.2: Empirical findings: Stakeholder management and isolating mechanisms	242

List of Figures

Figure 3.1: An analytical theoretical framework	77
Figure 7.1: The concept of balancing stakeholder demands	272
Figure 7.2: A framework of managing dynamic stakeholder relations	284

Chapter 1: Introduction

1.1 Background

This thesis examines the linkage between competitive advantage and stakeholder management. Competitive advantage is a very popular topic in the literature. For example, from a search of Google Scholar using the keywords ‘competitive advantage’, approximately 595,000 results are produced. If the search is limited in scope to keywords in the title of the article, then 7,240 results still result.¹ Among the large number of studies on this theme, there are distinctive research streams based on different units of analysis which thus display various emphases. Three main approaches can be used to illustrate their major differences.

Firstly, the activity-position view² argues that the firm’s superior performance mostly results from its strategic choice that provides the firm a better positioning in the industry structure (Porter, 1980; 1985; 1991; 1996; Ghemawat & Rivkin, 2001). Porter (1980) argues that the strategic choice is determined by a range of competitive forces: (1) the bargaining power of customers, (2) the bargaining power of suppliers, (3) the intensity of rivalry amongst firms in the industry, (4) the threat of substitute products, and (5) the threat of new entrants into the industry. Thus, in this view, competitive advantage is achieved by fitting the role that can meet the industry-specific position. In particular, Porter (1996) emphasises that competitive advantage resides in business activities and activity systems, rather than firm resources.

Secondly, the resource-based view holds that dissimilar resource endowments result in distinctive competitive advantage and different performances between firms (e.g., Barney, 1991; Wernerfelt, 1984; Peteraf & Barney, 2003). According to this view, the primary resources regarding a firm's competitive advantage include its physical assets, financial capital, human resources, organisational systems, technology and knowledge, and intangible assets (e.g., trademark, patent, copyright, and goodwill). In particular, Barney (1991) indicates that a firm's sustained competitive advantage results from its strategic resources that are valuable, rare, imperfectly imitable, and non- substitutable. This view focuses on a firm's internal attributes, especially its strategic resources (Peteraf & Barney, 2003).

Thirdly, the relational view, which goes beyond the firm's boundaries, suggests that competitive advantage stems from collaboration or social relations between firms, rather than a firm's distinctive resources or individual activities (Dyer & Singh, 1998; Lavie, 2006). Dyer and Singh suggest four potential sources of inter-organisational competitive advantage: (1) relation-specific assets, (2) knowledge-sharing routines, (3) complementary resources/capabilities, and (4) effective governance. In this view, a firm's critical capabilities are not individual skills or tacit knowledge, for example, within the firm but relational resources or capabilities generated through social relationships between organisations. Accordingly, an individual firm acting alone is not able to generate competitive advantage, which is determined by the dynamic interactions between organisations to create mutual benefit.

There are two important issues regarding competitive advantage in the extant literature. First, the different approaches are based on distinctive assumptions and units of analysis, and each of them focuses on and explains only part of the story. In

other words, there is a lack of a holistic approach to competitive advantage which reflects both the internal and external attributes of the firm. In addition, according to Coff (2003), a full picture of competitive advantage should comprise three aspects: (1) source—the sources of competitive advantage; (2) durability—the factors that sustain a competitive advantage; and (3) appropriation—the appropriation of the benefits that are generated by a competitive advantage. The three aspects are interrelated and each is important on its own. For instance, studies on sources of competitive advantage are frequently concerned with its durability (e.g., Barney, 1991; Oliver, 1997); while durability of competitive advantage may be influenced by its appropriation by different stakeholders (Coff, 1999; 2003). Nevertheless, as Coff (2003) argues, most studies on competitive advantage focus on the sources. Comparatively, studies on its durability are relatively fewer in number than those on its sources. Among these, appropriation of competitive advantage is a relatively under-researched topic. While most studies focus on a single aspect of competitive advantage, little attention has been paid to examining the three aspects together within the academic and business literature.

On the other hand, stakeholder management has become a very common research subject in academia and is valued by enterprises, together with the growing interest in business ethics (Egels-Zandén & Sandberg, 2010). Since Freeman (1984) presented his seminal work, thousand of articles and books about stakeholder management or stakeholder theory have been published (Egels-Zandén & Sandberg, 2010; Laplume, Sonpar & Litz, 2008). This reflects that stakeholder interaction is more critical for managers today than ever before, as they face an increasingly complex, ambiguous, and changing environment.

In the past few decades, following dramatic technological advancement and international political reform, the world economy has experienced an historical change. As a result of information technology and economic globalisation, we are moving into a 'post-capitalist society' where knowledge also becomes 'the means of production' and the free market plays a role as the dominant mechanism of economic integration (Drucker, 1993). Today, managers encounter many challenges that are more complicated and more difficult than ever before. In this networked 'new economy', firms are confronted with not only 'hypercompetition' from strong competitors (D'Aveni, 1994) but also emerging economic orders and social impacts related to various powerful stakeholders.

Stakeholder interactions offer both challenges and opportunities to an organisation, as diverse stakeholders demand more meaningful participation, while having the potential to contribute to creative solutions to complex issues (Svendsen & Laberge, 2005). In line with Freeman's (1984) argument, researchers increasingly view stakeholder management as a crucial part of strategic management, rather than just an alternative approach. For example, Kay (1993) treats a firm's strategy as its response to multiple stakeholders. He goes on to maintain that stakeholder relationships will affect a firm's strategic decisions and contribute to its success or failure. Wolfe and Putler (2002) argue that stakeholder management is a useful approach for firms to successfully align their strategic goals and decisions to stakeholder requirements. Halal (2001) regards stakeholders as partners who co-operate with the firm and support knowledge sharing to generate both economic and social values. In this view, stakeholder management plays an important role in enhancing firm competence with regard to knowledge generation. In addition, Hall

and Martin (2005) highlight the significance of innovative uncertainty influenced by stakeholders and suggest that enterprises need to adopt different approaches according to various situations of stakeholder ambiguity and complexity. In particular, these authors suggest, the traditional view of strategic management is insufficient for managers to achieve their strategic goals in a complex and dynamic environment. An enterprise should acknowledge the needs of its multiple stakeholders and collaborate with them to generate value that can benefit the organisation as well as its stakeholders.

Despite the fact that the concept of stakeholder management was rooted in the field of strategic management, few studies have examined the linkage between stakeholder management and competitive advantage, which is the core issue in strategic management literature. Notable exceptions are Post, Preston and Sachs (2002) and Rodriguez, Ricart and Sanchez (2002). Post et al. (2002) suggest that a firm's relationships with its critical stakeholders are crucial to generating organisational wealth. Rodriguez et al. (2002) also argue that engaging in good stakeholder relationships enhances innovation and reputation that lead to a firm's sustained competitive advantage. Nevertheless, a stakeholder perspective of competitive advantage is still in its early stage of development, and there remains a lack of studies that focus on this particular issue.

1.2 Motivation for this study

The motivation for this study came from an attempt to understand how a firm can create and maintain its competitiveness in a complex and dynamic environment. The significance of multiple stakeholders to competitive advantage was the stimulus to

this research and, in particular, the issue of how an organisation manages its stakeholders with regard to its competitive strategy. As the relationship between stakeholder management and competitive advantage has not been well-explored, the purpose of this study is to examine the issue through a systematic approach.

1.3 Justification for the study

From the above discussion, it is pertinent to argue that there is a need for research into the linkage between competitive advantage and stakeholder management. For several reasons, this view originates from calls from academics for further study. First, it is necessary to integrate different perspectives into a holistic approach to adequately explain competitive advantage. Some arguments for integrating different perspectives of competitive advantage have appeared in the literature. For instance, Ray, Barney and Muhanna (2004) suggest it is useful to combine the resource-based view and the activity-position view by incorporating the concepts of activities and drivers into the resource-based logic. They state:

Indeed, the research reported here not only recognises this common ground, but suggests that understanding the relationship between a firm's resources and the effectiveness of its activities, routines, or business processes is particularly fruitful ground for analysing the empirical implications of resource-based theory. Thus, adopting a disaggregated dependent variable not only facilitates the theoretical and empirical integration of two previously competing perspectives in the strategic management literature, but it also facilitates the testing of resource-based logic (p. 35).

In a similar vein, Sheehan and Foss (2007) argue that explicitly integrating the two views can successfully deal with implementation issues being confronted, while employing the resource-based view (RBV). They say that:

While Barney and colleagues recognise the potential benefit of including activities when conducting empirical research, this paper goes one step further by arguing that by formally including the concepts of activities and activity drivers the RBV can significantly overcome its current lack of managerial guidance (p. 459).

Second, to get a better understanding of the concept of competitive advantage, as Coff (2003) points out, it should examine its source, durability and appropriation together. With a similar concept, Foss and Foss (2005) examine how transaction costs affect the ability of a resource owner to create, preserve, and capture economic value from resources. In particular, linking competitive advantage to value creation and value capture, Lepak, Smith and Taylor (2007) suggest some future research directions which are relevant to the source, durability and appropriation of competitive advantage. They point out:

... individuals, organisations, and society may have competing interests and viewpoints about what is valuable. An important area of focus for value creation research is to examine how sources balance the potential tensions of different targets of value creation ... recognising that value creation and value capture are two distinct processes, research is needed that examines the relationship between these two concepts (p. 191).

Third, to achieve sustained competitive advantage (SCA) in a dynamic environment, it is necessary to address dynamic issues by incorporating the stakeholder view. Some researchers argue that the current views on competitive advantage lack dynamic ingredients, being mainly limited to application in a static environment. For example, Kraaijenbrink, Spender & Groen (2010) state:

A final issue to which the critiques draw attention is the limited way in which the RBV deals with dynamic issues such as boundaries, timing, innovation, and entrepreneurship. With its focus on the possession of resources and capabilities, the RBV is inherently static, not well equipped to explain the timing of when value is created, when rents are appropriated, and how firms innovate and generate new sources of SCA (p. 366).

In addition, Post et al. (2002) argue that the stakeholder view is a more dynamic perspective than current views on competitive advantage. They state:

It is not simply the firm's stock of resources nor its static position in the industry structure that determines its long-term success. Rather it is the dynamic interaction with customers, employees, suppliers, investors, and other shareholders that generates the organisational capacity to generate wealth over time. That is the central implication of the stakeholder view for strategic management (p. 53).

On the other hand, Venkataraman (2002) suggests value creation and capture are related to different stakeholders. Thus a combination of stakeholder perspective and entrepreneurship can further our understanding of competitive advantage. He asserts:

The field of business ethics, on the other hand, I think, is concerned with the “methods” used to create this “value,” and the ensuing distribution of the value among various stakeholders to the enterprise. Thus, if we understand entrepreneurship and ethics as the fields that together seek to describe, explain, predict, and prescribe how value is discovered, created, distributed, and perhaps destroyed, then there is not only much that we can learn from each other, but together we represent two sides of the same coin: the coin of value creation and sharing (pp. 45–46).

Fourth, the strategic side of stakeholder management has been relatively overlooked in recent research. In other words, most studies on stakeholder relationships have tended to examine normative issues, rather than strategic matters. For example, Laplume et al. (2008) argue that strategic significance of stakeholder management has been ignored by stating:

... we find an emerging consensus on the need to be cognizant of stakeholders, for both strategic and moral reasons. Yet several areas remain underinvestigated ... We see a place for both normative and strategic dimensions in the theory but notice that the strategic emphasis of the theory has been underemphasized in recent years (pp. 1180–1181).

Similarly, Harting, Harmeling and Venkataraman (2006) argue that the literature lacked discussion of the linkage between stakeholder management and a firm’s competitive strategy by saying:

Business ethicists are eager to connect the ethical treatment of stakeholders with financial rewards. However, little attention has been paid to the cultural

and industry context that influences how stakeholders are regarded by the firm, and how innovative strategies for engaging stakeholders can help a firm outperform its competitors (p. 43).

Moreover, Egels-Zandén and Sandberg (2010) put forward a similar argument. They state:

The extensive discussion of stakeholder theory has to date mainly applied the normative perspective ... , and consequently, the descriptive and instrumental aspects of stakeholder theory have been largely neglected ... (p. 36)

They go further and point out that:

Finally, to balance the prevailing research focus, it indicates the need for more research into (i) what rationales and/or behaviours firms should adopt when interacting with stakeholders so as to maximise profits (all versions of *broad* instrumental stakeholder theory), (ii) the link between adopting ‘stakeholder management’ (defined as *rationale*) and financial performance (the *rationale* version of narrow instrumental stakeholder theory) (p. 47).

Fifth, the relationship between competitive advantage and stakeholder management still lacks empirical study, especially in developing countries. For example, Ayuso, Rodríguez and Ricart (2006) indicate that empirical research on the association between competitive advantage and stakeholder interaction is still at an early stage. Similarly, Dentchev (2009) also argues that there are not enough empirical studies in this area, such as instrumental stakeholder theory. He says that:

The breadth of stakeholder theory (Phillips, Freeman, & Wicks, 2003) and its complexity are a potential explanation for the lack of empirical support to the instrumental power of stakeholders (p. 24).

Using a stakeholder perspective to examine competitive advantage has several significant advantages. First of all, it provides a holistic approach that reflects both the internal and external attributes of the firm and integrates various perspectives of competitive advantage, including the resources-based, the activity-position, and the relational views (Post et al., 2002). According to Lengnick-Hall and Wolff (1999), integration of distinctive perspectives has to carefully tackle different assumptions and contrasting logics. Post et al. (2002) suggest that a stakeholder perspective is the best solution for integrating different perspectives of competitive advantage. They argue:

Empirical observation and logical analysis reveal limitations of the contemporary resource-based view (RBV) and industry-structure view (ISV)³ of the corporation, both of which are derived from economic analysis. The stakeholder view (SHV) presented here integrates and supplements the RBV and ISV into a broader framework of considerations (p. 52).

A typical stakeholder map includes a firm's shareholders, banks, customers, competitors, media, employees, suppliers, governments, and so on (e.g., Fassin, 2009; Freeman, 1984). Obviously, organisational stakeholders are the most important source of resources that a firm needs. For instance, financial resources come from shareholders or banks. In addition, managers and employees constitute a firm's human capital. From the perspective of the activity-position view, relationships with suppliers

and consumers can influence a firm's competitiveness. Moreover, the concept of stakeholder management extends inter-organisational relationships to multiple stakeholder relationships. Hence, the stakeholder perspective is a systematic framework that covers different views of competitive advantage.

In addition, a stakeholder perspective offers a basis for integrating the three aspects—source, durability, and appropriation—of competitive advantage. As mentioned above, the stakeholder view incorporates the resources-based, the activity-position, and the relational views, which account for the major sources of competitive advantage. Besides, it emphasises that the managers' task is to develop and implement a strategy that integrates various relationships and balances different interests in a multi-stakeholder context (Freeman & McVea, 2001). Engaging stakeholder relationships may enhance social complexity or the causal ambiguity of knowledge that makes competitors difficult to imitate and, thus, competitive advantage is sustained (Coff, 1999; Rodriguez et al., 2002). Furthermore, appropriation concerns the bargaining power of different stakeholders (Coff, 1999). Therefore, the stakeholder perspective is comprehensive and comprises the various aspects of competitive advantage.

Furthermore, a stakeholder perspective enriches our understanding of a developmental approach to competitive advantage. Stakeholder management emphasises that the task of managers is to create value for multiple stakeholders (Wheeler, Colbert & Freeman, 2003). Thus, a stakeholder perspective acknowledges stakeholders' interpretations and expectations, along with the firm's strategic behaviours such as organisational adaptation, change, and innovation. Based on the three aspects of competitive advantage (source, durability, and appropriation), value

creation and sharing among different stakeholders exemplifies the dynamic features of an organisation's competitiveness—how a firm's competitive advantage emerges, develops or deteriorates over time.

A conclusion can be derived from the above arguments that the need for research into the linkage between competitive advantage and stakeholder management is well-justified.

1.4 Research focus

From a theoretical perspective, there are two main areas related to this study. One is competitive advantage; the other is stakeholder management. As for competitive advantage, the focus will be on the resource-based view (Barney, 1991; Wernerfelt, 1984; Peteraf & Barney, 2003), the relational view (Dyer & Singh, 1998; Lavie, 2006), and the activity-position view (Porter, 1980; 1985; 1991; 1996; Ghemawat & Rivkin, 2001). The three approaches exemplify distinctive units of analysis: firms, industry, and networks of firms, which examine internal resources and activities, external environment, and inter-firm interactions respectively. Although the stakeholder perspective is a useful way to integrate these approaches into a framework, it needs to overcome the difficulties caused by the different assumptions on which they are based.

Specifically, this study looks into how stakeholder management impacts on the firm's competitive advantage. According to Freeman and his colleague, stakeholder management is 'a stakeholder approach to strategic management' (Freeman, 1984; Freeman, & McVea, 2001). However, as mentioned above, the strategic weight of

stakeholder theory has not been emphasised until recently. To fill the gap, this study focuses more on strategic management than on business ethics or corporate social responsibility. Thus, among stakeholder theories, this study concentrates more on instrumental stakeholder theory (Berman, Wicks, Kotha, & Jones, 1999; Jones, 1995; Moore, 1999) than on the descriptive approach (Jawahar & McLaughlin, 2001; Mitchell, Agle, & Wood, 1997) and normative perspective (Evan & Freeman, 1993; Phillips, 1997; Wicks, Gilbert, & Freeman, 1994). Nevertheless, this does not mean descriptive and normative perspectives are excluded from this study because the three are interconnected and “neither approach is complete without the other” (Jones & Wicks, 1999, p. 206).

Another focus of this study is the development of competitive advantage, i.e., how a firm’s competitive advantage emerges, develops or deteriorates over time. However, the major concern of the study is to examine the three aspects of competitive advantage—source, durability and appropriation—together. The three aspects are similar to the common issues discussed in the competitive advantage literature, i.e., value creation, value preservation, and value capture. The source of competitive advantage refers to value creation. The durability of competitive advantage refers to value preservation. The appropriation of competitive advantage refers to value capture. In particular, value capture is influenced by the bargaining power between the focal firm and its stakeholders. It affects the incentives for value creation and the status of value preservation. The three issues are mutually interconnected.

To capture the dynamic feature of the development of competitive advantage, this study uses a framework inspired by Wiltbank, Dew, Read & Sarasvathy (2006)

which suggest a classification of strategies for managing stakeholder relations: planning, adaptive, visionary, and transformative. Accordingly, managers could analyse the changing situation regarding shifting expectations of existing stakeholders and create novel relations with new stakeholders. This approach highlights how to deal with stakeholder relations in response to the changing environment, which is very useful for demonstrating the development of competitive advantage.

The empirical domain for this research is Taiwan. Taiwan is a relatively small, open economy and most Taiwanese firms are confronted with both local and international competition. Due to the social and economic changes in the past two decades, managers have increasingly encountered pressures from different stakeholders. To develop and maintain their competitiveness in a complex and dynamic environment, stakeholder management has become increasingly important. Hence, Taiwanese firms are expected to provide useful data and information for this study.

1.5 Key concepts

This section defines the key concepts of the study to ensure consistency of terms used and to facilitate contrast with other research.

Competitive advantage

Competitive advantage has been a buzz term for the past two decades, and there is a plethora of its definitions (e.g., Barney, 1991; Kay, 1993; Peteraf, 1993; Peteraf & Barney, 2003; Porter, 1985). Among them, this study will use the concept of competitive advantage proposed by Peteraf and Barney (2003, p. 314):

“An enterprise has a Competitive Advantage if it is able to create more economic value than the marginal (breakeven) competitor in its product market.”

“The Economic Value created by an enterprise in the course of providing a good or service is the difference between the perceived benefits gained by the purchasers of the good and the economic cost to the enterprise.”

According to Peteraf and Barney (2003) the two definitions taken together have several advantages. First, competitive advantage is regarded as an intermediate variable that creates superior performance, rather than the (superior) outcome itself. This allows researchers to focus on value creation from the focal firm rather than from market power. Second, it considers both the cost and benefit sides of competitive advantage. Third, this perspective of value creation is compatible with that of basic economic principles, Porter's (1985) approach, and marketing literature.

Stakeholders

Many scholars have offered definitions of stakeholders (Fassin, 2009; Freeman & Reed, 1983; Frooman, 1999; Phillips, 2003b; Wheeler & Sillanpää, 1997). Freeman's definition is the most often quoted, and defines a stakeholder as “any group or individual who can affect or is affected by the achievement of the firm's objectives” (1984, p. 25). Clarkson (1995, p. 106) views stakeholders as “persons or groups that have, or claim, ownership, rights, or interests in a corporation and its activities, past, present, or future.” Clarkson further divides stakeholders into primary and secondary. Primary stakeholders are indispensable for the firm's survival, and generally they

have transaction relationships with the firm, including investors, employees, customers, and suppliers, governments, and communities. By contrast, secondary stakeholders are those who affect or are affected by the firm; they are not involved in transactions with the firm and are not essential for its continued existence. In this study, stakeholders are regarded as resource providers, catalysts/hindrances as well as influential actors that have an influence on activities and drivers of the firm. Following this logic, this study focuses on ‘critical stakeholders.’ Hence, critical stakeholders are defined in this study as:

Those who have resources, vested interest, power or other influential factors that are critical to a firm’s competitive strategy or strategic decisions.

In this regard, the main stakeholder groups in this study are: shareholders, employees, customers, suppliers, strategic partners, governments, local communities and civil society.

Stakeholder management

According to Freeman and McVea (2001), stakeholder management is the main function of managers, which refers to co-ordinating and engaging the various relationships and interests of multiple stakeholders. Harrison and St John (1997, p. 14) define stakeholder management as “communicating, negotiating, contracting, and managing relationships with stakeholders and motivating them to behave in ways that are beneficial to the organisation and its stakeholders.” Harrison and St John further classified stakeholder management into two categories: the traditional approach and

the proactive approach. The former focuses on activities to create buffers between the firm and its external stakeholders for minimising the impacts of stakeholders on the firm. The latter concentrates on forming stakeholder relationships, which involves more communication between the firm and its stakeholders in order to pursue common goals. Due to limitation of resources faced by every manager, “the strategy an organisation uses to deal with each stakeholder will depend on the importance of that stakeholder to the organisation relative to other stakeholders” (Jawahar & McLaughlin, 2001, p. 397). This study focuses on the proactive approach to stakeholder management. Hence, stakeholder management is defined in this study as:

All activities of a firm to manage the relationships with its critical stakeholders, aiming to achieve the strategic goals of the firm through co-operation and creating shared value.

Although this study mainly focuses on stakeholder management, there are other similar concepts, such as stakeholder engagement and stakeholder interactions, which will still be used interchangeably.

1.6 Research objective, goals and questions

The objective of this study is to explore how stakeholder management has an influence on competitive advantage. In order to achieve this objective, a number of research goals for this study were set up. The first issue is to explore the literature that links stakeholder management with competitive advantage. Thus, the first research goal is: to identify the common themes that link competitive advantage and stakeholder management. The second issue refers to different research streams of

competitive advantage with different units of analysis and distinctive focuses in the extant literature. The next research goal is to identify their common characteristics to seek to integrate them, which can serve as a foundation for the subsequent chapters. The following issues are related to source, durability, and appropriation of competitive advantage, respectively. To get a better understanding of the whole concept of competitive advantage, it is imperative to examine how stakeholders affect the three issues. Accordingly, the following research goals were formulated: to examine how stakeholder management influences the source of competitive advantage; to examine how stakeholder management helps sustain competitive advantage; to examine how managers perform their role in developing competitive advantage by balancing different stakeholder demands. The list of research goals of this study and in which chapter they are addressed are shown in Table 1.1.

Based on the literature review in Chapter 2, as well as considerations of the research goals, the research questions of this study are framed as follows:

- How does stakeholder management influence the source of competitive advantage?
- How may stakeholder management help a firm sustain its competitive advantage?
- How do managers perform their roles in developing and maintaining competitive advantage by balancing different stakeholder demands?

The first research question addresses the source of competitive advantage. The second research question seeks to explore the factors that influence durability of competitive advantage. The third research question is concerned with the issue of appropriation of

Table 1.1: The research goals of the study

Goals	Chapter
To identify the common themes that link competitive advantage and stakeholder management	Chapter 2: Literature review
To examine competitive advantage from an integrative approach and to serve as a foundation for the following core chapters.	Chapter 4: Integrate different perspectives of competitive advantage
To examine how stakeholder management influences the source of competitive advantage	Chapter 5: Stakeholder management influences on the source of competitive advantage
To examine how stakeholder management makes competitive advantage sustained	Chapter 6: Sustaining competitive advantage through stakeholder management
To examine how managers perform their role in developing and sustaining competitive advantage by balancing different stakeholder demands	Chapter 7: The manager's role in developing competitive advantage in a multiple stakeholder context

competitive advantage. These three research questions systematically explore the impacts of stakeholder management on three aspects of competitive advantage. In Chapter 2, it will be discussed further how these research questions were identified from the literature review.

1.7 Organisation of the study

In this section, an outline of this thesis is presented. Chapter 2, 'Literature review', gives an overall view of the existing knowledge of competitive advantage and stakeholder management. Regarding studies on competitive advantage, three perspectives are described and the significant issues in this field are addressed. In relation to stakeholder management, different approaches in the extant studies are

discussed and their relevance to this research is identified. Finally, based on the knowledge gaps identified, the research questions of this study are framed.

Chapter 3, 'Theoretical framework and methodology', presents the theoretical perspective for this study based on the literature review and research questions in Chapter 2. A theoretical framework is used to reveal the theoretical orientation of this study and serves as a guide to subsequent data collection and interpretation. The planning and implementation of the empirical part of the study are discussed. The methodology for this study is a qualitative case study approach. Data collection is mainly based on in-depth interviews as well as documentary data from public sources. Data analysis involves the use of qualitative thematic analysis. Issues such as reliability and validity are also discussed in this chapter.

Chapter 4, 'Integrating different perspectives of competitive advantage', reports the empirical findings which confirm that the source of a firm's competitive advantage is multiple. Hence, any of the main research streams of studies—the resource-based, the relational views, and the activity-position—is not able to explain fully the source of competitive advantage. This supports the need for an integrative approach.

Chapters 5 to 7 report the empirical findings that relate to the research questions of this study. Chapter 5, 'Stakeholder management influences on sources of competitive advantage', investigates how the case companies' competitive advantages are influenced by stakeholder management. A stakeholder management perspective is used to integrate the resource-based view, the activity-position view, and the relational view to describe factors related to the source of competitive advantage. Chapter 6,

‘Sustaining competitive advantage through stakeholder management’, examines how the case companies sustain their competitive advantages by dealing with multiple stakeholders. The concepts of stocks and flows are discussed and the isolating mechanisms related to stakeholder management are analysed. Chapter 7, ‘The manager’s role in developing competitive advantage in a multiple stakeholder context’, inspects how the case companies balance different stakeholder demands in order to achieve the goal of gaining competitive advantage over their competitors. The way how managers deal with challenging decisions when they face shifting and non-predictive stakeholder expectations is also examined. In Chapters 5 to 7, the theoretical framework and empirical findings across cases are linked to the wider body of literature in order to make interpretation of data relevant and address each research question.

In Chapter 8, ‘Conclusion, limitation and further research’, the key findings of the study are discussed and the conclusion of the research is provided. A summary of the theoretical contributions and managerial implications of this study are presented. Finally, the limitations of the study are discussed and possible directions for future research are suggested.

Chapter 2: Literature review

2.1 Introduction

This chapter presents the theoretical areas specified by Chapter 1. It includes two subjects: competitive advantage and stakeholder management. The two important streams of studies have displayed significant growth during the past two decades. Competitive advantage is the core issue of strategic management in which stakeholder management is rooted. However, these two topics have developed seemingly independently in the literature. The main purpose of this chapter is to identify knowledge gaps and to frame research questions through reviewing the extant literature. It begins with an overview of the competitive advantage literature. This is followed by a review of the stakeholder theory literature. Finally, the linkage between competitive advantage and stakeholder management and their significance to the research questions of this study are discussed.

2.2 Competitive advantage

Competitive advantage is a common theme in the management literature. However, despite its prominence in both academic and practitioner fields for the past few years, the concept of competitive advantage continues to be vague (Flint, 2000; Klein, 2002). The issue of ambiguity in the notion of competitive advantage can be attributed to three major factors. Firstly, competitive advantage has its origin in unclear definitions or different meanings (Rumelt, 2003). Secondly, different research streams on competitive advantage (e.g., the activity-position view, the resource-based view, the relational view.) exhibit differences in their assumptions, units of analysis, and

strategic implications (Dyer & Singh, 1998). Thirdly, even scholars of the same research stream—i.e., the resource-based view—have changed their explanatory logics over time (Stoelhorst & Bridoux, 2007). This section first discusses the concept of competitive advantage. Then, an overview of the three major research streams of competitive advantage is presented. Lastly, the common issues related to competitive advantage are discussed.

2.2.1 The concept of competitive advantage

Although the concept of competitive advantage has attracted much attention by researchers in the strategy field, its definition is rather unclear. When Porter (1985) first formally introduced the term of competitive advantage, he described competitive advantage as follows:

Competitive advantage is at the heart of a firm's performance in competitive markets. After several decades of vigorous expansion and prosperity, however, many firms lost sight of competitive advantage in their scramble for growth and pursuit of diversification. Today the importance of competitive advantage could hardly be greater. Firms throughout the world face slower growth as well as domestic and global competitors that are no longer acting as if the expanding pie were big enough for all (p. xv).

Porter (1985) further went on to say, "Competitive advantage grows fundamentally out of the value a firm is able to create for its buyers that exceeds the firm's cost of creating it" (p. 3). However, Porter only suggested three types of generic strategy, differentiation, cost leadership and focus, which may lead to superior financial

performance. He did not explicitly define competitive advantage. In the literature, it is not uncommon for scholars to treat competitive advantage as different things in their analyses. For instance, some scholars view it as superior financial performance (Peteraf, 1993; Ghemawat & Rivkin, 2001). Some researchers treat it as an attribute of the firm (Barney, 1991; Peteraf & Barney, 2003). Some researchers regard it as some types of strategies or activities that enhance financial performance (Ghemawat, 1986; 1991; Porter, 1996). Some even use the term without explicitly defining it (e.g., Porter, 1985). There exist several kinds of inconsistency among viewpoints on the definition of competitive advantage contributed by various scholars (summarised in Table 2.1).

From the definitions stated above, what makes the interpretation of competitive advantage so challenging is that researchers use different lenses to examine it. As Rumelt (2003, pp. 2–3) puts it, “(1) There is confusion or disagreement about how value is to be conceptualised or measured (gains to trade, value to owners, increases in value to owners); (2) There is confusion about the meaning of rents; (3) There is disagreement or confusion about the appropriate use of the opportunity cost concept; (4) There is disagreement or confusion about whether competitive advantage means winning the game or having enough distinctive resources to maintain a position in the game.”

The real problem of research on competitive advantage, according to Stoelhorst and Bridoux (2007), is not the inconsistency existing in definitions by different scholars per se, but its unclear role in the theoretical structure. Competitive advantage may be a dependent variable—superior financial performance—in some studies

Table 2.1: A summary of definitions in the competitive advantage literature

Source	Definition of competitive advantage
Barney (1991, p. 102)	“...a firm is said to have a competitive advantage when it is implementing a value-creating strategy not simultaneously being implemented by any current or potential competitor.”
Besanko, Dranove and Shanley (2000, p. 389)	“When a firm earns a higher rate of economic profit than the average rate of economic profit of other firms competing within the same market, the firm has a competitive advantage in that market.”
Brandenburger and Stuart (1996, p. 15)	“...for a firm to have a positive added value it must be “different” from its competitors... it must enjoy a favourable asymmetry between itself and other firms...”
Dierickx and Cool (1989, p. 1059)	<p>“...if a privileged product market position is achieved or protected by the deployment of scarce assets, it is necessary to account for the opportunity cost of those assets.”</p> <p>“Many inputs required to implement a strategy may be acquired in corresponding input markets... However, the deployment of such assets does not entail a sustainable competitive advantage, precisely because they are freely tradable.”</p>
Ghemawat and Rivkin (2001, p. 49)	“A firm such as... that earns superior financial returns within its industry (or its strategic group) over the long run is said to enjoy a <i>competitive advantage</i> over its rivals.”
Kay (1993, p. 14)	“A distinctive capability becomes a competitive advantage when it is applied in an industry or brought to a market.”
Peteraf (1993, pp. 180; 185)	<p>“Firms with superior resources will earn rents... Earnings in excess of breakeven are called rents, rather than profits, if their existence does not induce new competition”</p> <p>“sustained above normal returns”</p>
Peteraf and Barney (2003, p. 314)	<p>“An enterprise has a Competitive Advantage if it is able to create more economic value than the marginal (breakeven) competitor in its product market.”</p> <p>“The Economic Value created by an enterprise in the course of providing a good or service is the difference between the perceived benefits gained by the purchasers of the good and the economic cost to the enterprise.”</p>
Porter (1985, pp. xv; xvi)	<p>“Competitive advantage is at the heart of a firm’s performance in competitive markets.”</p> <p>“Competitive advantage is about how a firm actually puts the generic strategies into practice.”</p> <p>“Competitive advantage grows fundamentally out of value a firm is able to create for its buyers.”</p>

Source: adapted from Rumelt (2003)

(e.g., Peteraf, 1993); however, in other studies it may refer to an intervening construct that further influences other dependent variables (e.g., Peteraf & Barney, 2003). Other dependent variables may be superior financial performance or different types of rents, such as monopoly rents, Ricardian rents, or Schumpeterian rents (Powell, 2001). For the most part, different rents come from different sources. For instance, holding rare and valuable resources may result in Ricardian rents. Barriers to market entry may bring about monopoly rents. Innovation activities of a firm may create Schumpeterian rents.

Furthermore, the concept of competitive advantage is not just a simple one. It includes at least three important aspects that are evident from the literature: (1) the sources of competitive advantage; (2) the factors that sustain a competitive advantage; and (3) the issue of appropriating benefits that are generated by a competitive advantage (Coff, 2003). Studies on the sources of competitive advantage are frequently concerned with its durability. For example, Chaharbaghi and Lynch (1999, p. 49) suggest “sustainable competitive advantage represents a process that meets the competitive needs of the present without compromising the ability of the organisation to meet future competitive needs.” Barney (1991) posits the association between source and durability of competitive advantage as follows:

A firm is said to have a sustained competitive advantage when it is implementing a value-creating strategy not simultaneously being implemented by any or potential competitors and when these other firms are unable to duplicate the benefits of this strategy... a competitive advantage is sustained only if it continues to exist after efforts to duplicate that advantage have ceased. (p. 102)

Besides, the source and durability of competitive advantage is relevant to its appropriation by different stakeholders (Bowman & Ambrosini, 2000; Coff, 1999). In summary, the three aspects are interrelated and each is important on its own. Combining the three aspects helps our understanding of the full concept of competitive advantage.

2.2.2 Perspectives of competitive advantage

Similar to a variety of notions of competitive advantage, researchers examine competitive advantage from different perspectives. In this subsection, three major research streams of competitive advantage, which cover both internal and external attributes of a firm, will be discussed. They are the activity-position view, the resource-based view, and the relational view.

The activity-position view

The activity-position view is proposed by Michael Porter, including his five-force model (Porter, 1980) and value-chain analysis (Porter, 1985). Porter (1980) argues that a firm's outstanding performance mostly results from its strategic choice which provides the firm with superior positioning in an industry structure. According to his analytic framework, the strategic choice is determined by five major competitive forces: (1) the bargaining power of customers, (2) the bargaining power of suppliers, (3) the intensity of rivalry amongst firms in the industry, (4) the threat of substitute products, and (5) the threat of new entrants into the industry. Porter (1985) also describes competitive strategy as taking defensive and offensive actions in response to the collective impact of the five competitive forces for the purpose of attaining

superior performance. Although there were suggestions for including a sixth or seventh force, such as government and complementors, in Porter's five-force model, Porter argues that these additions are not unique but merely act through the initial five forces (Jørgensen, 2008; Porter, 2008). In this view, a firm gains its competitive advantage by positioning itself into a favourable industry-specific situation in order to lower costs, to differentiate products, or to stay focused in a niche market (Porter, 1985; 1991). In contrast to the resourced-based view of competitive advantage (Barney, 1986; 1991; Peteraf & Barney, 2003), the activity-position view is characterised by its focus on the external environment (Jørgensen, 2008).

However, Porter (1985) also has an internal orientation, focusing on the firm's value chain, which includes both primary and supporting activities. Porter introduces the concept of drivers, such as scale, sharing across activities, and optimal degree of integration, which configures a firm's resources. Sheehan and Foss (2007) argue that managers could use activities and drivers to improve a firm's value creation and Porter's activity-position view is crucial to providing managerial guidance. As Porter (1996, p. 62) says, "strategic positioning means performing *different* activities from rivals' or performing similar activities in *different ways*". Thus, competitive advantage resides in business activities and activity systems, rather than a firm's resources (Porter, 1991; 1996). Moreover, Porter (1991) argues that resources contribute to competitive advantage only if they support favourable positions for the firm, which are often guided by managerial choices. In other words, Porter emphasises the importance of a set of well-organised strategic activities, rather than an individual activity or the resources per se. As he puts it:

Competitive advantage grows out of the entire system of activities. The fit among activities substantially reduces cost or increases differentiation. Beyond that, the competitive value of individual activities—or the associated skills, competencies, or resources—cannot be decoupled from the system or the strategy. Thus, in competitive companies it can be misleading to explain success by specifying individual strengths, core competencies, or critical resources. The list of strengths cuts across many functions, and one strength blends into others. It is more useful to think in terms of themes that pervade many activities, such as low cost, a particular notion of customer service, or a particular conception of the value delivered. These themes are embodied in nests of tightly linked activities (1996, p. 73).

In addition to internal perspectives such as the value-chain and activity system, Porter (1990) proposes a framework as a dynamic system of four mutually-reinforcing components: input factor conditions, demand conditions, related and supporting industries, and firm rivalry based on strategy and structure. He calls this system ‘the national diamond’ and uses similar concepts, with different terms, in his subsequent research or studies with his colleague, such as local environment (Porter, 1991), cluster (Porter, 1998), local cluster (Porter, 2000), and competitive context (Porter & Kramer, 2002; 2006). Porter (1991) asserts that competitive advantage may reside in an individual firm and in the external environment. He goes on to argue that the environment, via the diamond, guides a firm’s managerial choices such as its configuration of activities, its unique combination of resources, and the successful commitments by the management. Thus, firms need to sense the opportunities provided by the environment and respond to them appropriately. On the other hand, in

succeeding studies, Porter and his colleague argue that firms can strengthen their competitive advantages by improving their competitive context, through performing corporate social responsibility or philanthropy (Porter & Kramer, 2002; 2006). In other words, firms may respond to the environments as given constraints; they could also seek to influence or improve their environments.

Regarding durability of competitive advantage, competitive dynamics among the players in the industry is the key issue. The activity-position view has addressed imitation and substitution as two sorts of activities performed by (potential) competitors that would threaten the durability of competitive advantage. According to Ghemawat and Rivkin (2001), imitation is the activity of firms, using a successful business model diffused in the same industry; on the other hand, substitution is a new business model used by other firms trying to replace the existing model of an incumbent firm. For the purpose of investigating competitors, Porter (1980) suggests a four-constituent framework, including: future goals, assumptions, current strategy, and capabilities. Porter also emphasises the importance of monitoring and interpreting behaviours of competitors based on ongoing efforts.

Porter (1985) discusses barriers to imitation, which are used to make competitive advantage more sustainable, according to his three generic strategies—cost leadership, differentiation, and focus. These barriers could prevent imitators, which may be a competitor currently using a different strategy or a potential competitor new to the industry, from replicating an incumbent firm's successful competitive strategy. Regarding durability of cost advantage, he illustrates a series of cost drivers. The cost drivers include: (1) economies of scale, (2) interrelationships with sister business units, (3) linkages with independent suppliers and channels, (4) proprietary learning, (5)

tacit knowledge regarding product or process technology, (6) timing and (7) integration of strategic action. As for differentiation, Porter suggests (1) uniqueness of resources, (2) cost advantage in differentiating, (3) multiple sources of differentiation, and (4) switching costs of customers. With regard to a focus strategy, Porter recommends barriers which are similar to cost advantage and differentiation. In particular, the feature of the specific segment determines the strength of above-mentioned barriers to imitation.

In general, the activity-position view has received criticisms from other researchers. Bridoux (2004) summarises these criticisms as follows:

- First, in Porter's five forces model, the unit of analysis is the industry. However, empirical studies reveal that firm-specific effects on performance are more significant than industry factors (e.g., McGahan & Porter, 1997; Hawawini, Subramanian & Verdin, 2003).
- Second, whereas the industry-effects influence firm performance, one cannot assess a firm's performance without accounting for its resources and capabilities. Porter's model only addresses the cross-sectional issue (what advantages exist in some positions within industries) rather than the longitudinal issue—why some firms can achieve these favourable positions.
- Third, Porter's model overstates the importance of competition and the relationships between the firm and its competitors, customers, and suppliers are based only on competing interests.

- Fourth, Porter's model refers to business strategy for a firm being in a favourable position within an industry structure. However, due to recent trends in changeable industry structures and blurred industry boundaries, the industry may not be an appropriate dimension for strategy development.
- Fifth, Porter's model focuses on the strategic business unit. If the firm is perceived as a bundle of resources, it is an inadequate analytic framework.

It is evident that these criticisms concentrate only on industry structure or strategic position, as proposed by Porter (1980; 1985). They have not explicitly commented on activities or activity systems which are the key points emphasised by Porter (1991; 1996). Moreover, Porter's (1987) suggestion of a corporate strategy that strengthens competitive advantage in order to defend against the corporate raiders has also been ignored.

The resource-based view

Another research stream is the resource-based view. Scholars of this stream focus their attention on resources or internal attributes of the firm. According to Stoelhorst and Bridoux (2007), there exist four distinctive approaches to this view, displaying shifts in its focus thus far. The first is the market imperfections approach, which assumes firms are endowed with heterogeneous strategic resources and are in imperfect factor markets (e.g., Barney 1991; 2001b; Wernerfelt, 1984). In contrast to the activity-position view, this approach treats firm-specific resources as the source of competitive advantage (and sustainable competitive advantage). In other words, the issue of accumulating and deploying resources becomes a focal point for

decision-makers. Moreover, Barney (1991) argues that a firm has sustainable competitive advantage if its strategic resources are valuable, rare, imperfectly imitable, and non-substitutable (the so called 'VRIN' criteria). Barney (2001b) reformulates VRIN as 'VRIO,' i.e., value, rarity, inimitability/non-substitutability, and organisation, by emphasising the crucial role of organising in the generation of competitive advantage (Daellenbach & Rouse, 2007). Similarly, Peteraf (1993) uses four criteria that resources have to meet in order to generate sustained competitive advantage: heterogeneity of resource bundles and capabilities across firms, *ex ante* limits to competition in strategic factor markets, *ex post* limits to competition that prevent imitation by competitors, and imperfect mobility of resources that meet firm-specific needs (Williamson, 1985).

The next approach is a shift from the focus on resources to capabilities. For instance, Dierickx and Cool (1989) argue that strategic resources with competitive advantage potential are developed and accumulated within the organisation rather than acquired in factor markets. Amit and Schoemaker (1993) emphasise 'organisational rents' generated by sustainable competitive advantage as a result of strategic resources. They define organisational rents as "economic rents that stem from the organisation's Resources and Capabilities, and that can be appropriated by the organisation (rather than any single factor)" (Amit & Schoemaker 1993, p. 36). Mahoney (1995) advocates the combination of resources and mental models within the firm can be the source of competitive advantage. It is quite evident that these scholars emphasise resources and capabilities developed internally. In particular, firm-specific capabilities are more important than resources as they influence how resources within an organisation are utilised efficiently and effectively. Hence,

organising is an important capability for a firm to combine and leverage its multiple resources or other capabilities (Barney, 2001b; Barney & Mackey, 2005).

The third approach is the dynamic capabilities approach. As a firm rarely exists in a static or stable environment, in order to achieve and maintain its competitive advantage, managers need to consider developing both resources for current use and new strategic resources for the future (Chaharbaghi & Lynch, 1999). The dynamic capabilities approach argues that performance differences across firms are due to differential capacities of firms to integrate, utilise, renew, and reconfigure resources in response to the changing environment (Eisenhardt & Martin, 2000; Teece, Pisano & Shuen, 1997). In addition to stressing internally built and accumulated strategic resources and capabilities, this approach focuses on the process of developing capacities, the dynamic view of competition, and path dependence (Stoelhorst & Bridoux, 2007). Other issues addressed by this approach include the evolution of resource configuration and the differences in this process across firms (e.g., Helfat & Peteraf, 2003; Zott, 2003). One important concept argued by this approach is that firms achieve sustainable competitive advantages from their dynamic capabilities that continuously generate temporary advantages, rather than long-term advantages.

The fourth approach is concerned with a bargaining perspective, representing a move from focusing only on value creation to more attention on value capture. This approach argues that competitive advantage is not only determined by the strategic resources but is also influenced by the bargaining power between the firm and its critical stakeholders. For instance, Coff (1999) argues that internal stakeholders, such as managers or employees, may appropriate above-normal profit since they may be the proprietors of the resources utilised by the firm. On the other hand, Bowman and

Ambrosini (2000) focus more on the bargaining power between the firm and its external stakeholders, such as customers and resource suppliers. The feature of this approach is to place both value generation and value appropriation at centre stage (Lippman & Rumelt, 2003a; b).

Researchers espousing the resource-based view are also concerned with the durability of competitive advantage. Similar to the activity-position view, such as Porter's (1985) five-forces model, the barriers to imitation and substitution have captured much attention. For example, Rumelt (1997) coins the term 'isolating mechanisms' as mobility barriers (Caves & Porter, 1977) that a firm can employ to protect its resource heterogeneity and superior performance. In addition to unique resources and specialised assets, Rumelt (1997) notes that isolating mechanisms include causal ambiguity, switching and searching costs, consumer and producer learning, team-embodied skills, special information, patents and trademarks, reputation and image, and legal restrictions on entry. Among them, causal ambiguity (Lippman & Rumelt, 1982; Reed & DeFillippi, 1990) is frequently mentioned by researchers. It refers to the notion of uncertainty regarding the causes of competitive advantage for firms. Hence, causal ambiguity deters potential imitators by preventing them from understanding exactly the reasons why efficiency differences exist across organisations (Barney, 1991). However, there exists the causal ambiguity paradox that barriers to imitation created by causal ambiguity may hinder the firm's ability to leverage its competence and thus mitigate its competitive advantage (King & Zeithaml, 2001; Powell, Lovaglio & Caringal, 2006).

On the other hand, Dierickx and Cool (1989) argue that non-tradable assets developed and accumulated internally are the key to maintaining competitive

advantage. Dierickx and Cool highlight the features of the asset accumulation process that influence imitation: “asset mass efficiencies (the initial level of an asset stock significantly influences the pace of its further accumulation), time compression diseconomies (decreasing returns to the fixed factor time), interconnectedness (the pace of an asset's accumulation is influenced by the level of other asset stocks), asset erosion, and causal ambiguity about the accumulation process” (1989, p. 1509). It should be noted that these features are related to the process of developing and accumulating non-tradable assets within the firm. Development of such assets is path dependent and relies upon factors including organisational learning and accumulation of asset stocks. Thus, they would strongly prevent competitors from imitation because of tacitness and social complexity (Barney, 1991; Peteraf, 1993).

The resource-based view has also raised several criticisms from researchers. First, the resource-based view causes an issue of incoherence. For example, Foss (1998) divides these various approaches into two different perspectives: one is a static analysis; the other is a dynamic analysis. Moreover, as indicated by Stoelhorst and Bridoux (2007), the four approaches discussed above demonstrate their own very distinctive explanatory logic. In particular, some researchers argue that the resource-based view does not acknowledge the subjective perspective of resource heterogeneity (e.g., Penrose, 1995; Foss, 1994) and fails to recognise the significant role of the entrepreneurial judgments or managerial capabilities of a firm (Foss, Foss & Klein, 2007; Kraaijenbrink et al., 2010). Kraaijenbrink et al. (2010) argue that the resource-based view could improve substantially if it acknowledges the diversity among resources, for example, static and dynamic resources.

Second, an appropriate unit of analysis is a key question of the resource-based view. Foss (1998) submits that it is problematic that individual resource is frequently used as the unit of analysis to investigate competitive advantage. He argues that individual resources may be complementary to each other or in co-specialised relationships, and such resources often interact with each other or are clustered. Therefore they should be analysed as a group, rather than independently. In a similar line, Teece (2007) asserts that asset co-specialisations and complementarities are the sources of sustained competitive advantage, rather than individual resources. As Kraaijenbrink et al. (2010) put it, “it is not the value of an individual resource that matters but rather the synergistic combination or bundle of resources created by the firm” (p. 356).

Third, there is a tautological feature of the resource-based view (Lockett, Thompson & Morgenstern, 2009; Priem & Butler, 2001a; b). In particular, Priem and Butler (2001a; b) assert that Barney’s (1991, p. 107) statement, “that valuable and rare organisational resources can be a source of competitive advantage”, is problematic. Using value and scarcity to define competitive advantage creates the problem of confusing characteristics with outcomes. In other words, researchers cannot identify data patterns that may falsify or confirm the theory. Kraaijenbrink et al. (2010) argue that this is because the resource-based view “is unmistakably tautological: Value and uniqueness appear in both *explanans* and *explanandum* (p. 357). Moreover, Priem and Butler (2001a; b) argue that the factors, which influence value or rarity of a firm’s resources, are exogenous to the resource-based view. Specifically, Barney (2001a) explicitly agrees with Priem and Butler’s argument that the value in the resource-based view is not endogenously determined by the firm, and

the resource-based view itself does not offer alternatives for such exogenous determination. Priem and Butler (2001b) suggest that it is important for strategists to address issues on both the supply (resource) side and the demand (market) side in a competitive environment, rather than only on the resource side.

The relational view

The third research stream is the relational view which emphasises the inter-organisational relationship (Dyer & Singh, 1998). Similar to the resource-base view, it also assumes that a firm's resources are heterogeneous and imperfectly mobile. Although several scholars regard it as an extension of the resource-based view (e.g., Douglas & Ryman, 2003; Griffith & Harvey, 2001; Farjoun, 2002), the relational view provides a quite distinctive perspective of the source of competitive advantage. It argues that competitive advantage stems from collaboration between firms rather than from a firm's distinctive resources or individual activities. In contrast to the resource-based view, a firm's strategic resources or critical capabilities are not those accumulated or built within the firm, but are created through strategic relations between organisations (Baum, Calabrese & Silverman, 2000; Dyer & Singh, 1998). Accordingly, an individual firm acting alone is not able to generate a competitive advantage that is determined by the dynamic interactions between organisations to create mutual benefits. There are four main potential sources of inter-organisational competitive advantage (Dyer & Singh, 1998; Lavie, 2006).

The first source of relational competitive advantage refers to relation-specific assets. According to Dyer and Singh, such assets help realise "lower total value chain costs, greater product differentiation, fewer defects, and faster product development

cycles” (1998, p. 664). Williamson (1985, p. 55) states, “Asset specificity refers to durable investments that are undertaken in support of particular transactions, the opportunity cost of which investments is much lower in best alternative uses or by alternative users should the original transaction be prematurely terminated.” In particular, asset specificity often leads to sunk costs, which increase the risk of participants (Corsten & Kumar, 2005; Pitelis & Pseiridis, 1999).

Dyer and Singh (1998) suggest two key sub-processes that affect the impact of relation-specific assets on a firm’s competitive advantage: one is the duration of safeguards; the other is the volume of inter-organisational transactions. Safeguards can be a formal contract (a third-party governance mechanism) or a self-enforcing vehicle such as trust between partners. The relationship between formal contract and self-enforcing vehicle will be discussed later on, in relation to effective governance. The volume (both scale and scope) of the transactions regarding the relation-specific assets is similar to the notion of economies of scale. According to Williamson (1985), The volume of transactions positively influences the cost of specialised governance structures. Hence, durable safeguards and recurring transactions facilitate the generation of competitive advantage by relation-specific assets.

The second source of relational competitive advantage refers to knowledge-sharing routines. Dyer and Singh (1998, p. 665) define a sharing routine generated by inter-firm relations as “a regular pattern of inter-firm interactions that permits the transfer, recombination, or creation of specialised knowledge.” They argue that developing superior inter-firm knowledge-sharing routines through alliance partners “are, in many cases, the most important source of new ideas and information that result in performance-enhancing technology and innovations” (1998, p. 665).

Moreover, as know-how has the features of tacitness, it can generate competitiveness and prevent competitors from imitation due to difficulty of codification and transferability.

Creating knowledge-sharing routines through alliances can be facilitated by ensuring the positive side of partner-specific absorptive capacity and avoiding its downside such as using incentives to encourage transparency and to discourage free riding (Dyer & Singh, 1998; Kim & Song, 2007). Absorptive capacity, according to Cohen and Levinthal (1990, p. 128), refers to a firm's "level of prior related knowledge" which "confers an ability to recognise the value of new information, assimilate it, and apply it to commercial ends." The ability of transmitting tacit information between firms can be enhanced by their frequent interactions and close relations (Rosenkopf & Nerkar, 2001). Appropriate partner identification is also crucial to cultivating partner-specific absorptive capacity. This may require planned types of collective learning processes, such as articulate activities and codifying systems (Zollo, Reuer & Singh, 2002). Furthermore, the mechanism governing alliance partnerships should play the role as a facilitator for knowledge sharing. These incentives include formal (e.g., equity arrangements) and informal (trust or gentleman's agreements) (Dyer & Singh, 1998). However, trust tends to be the most effective mechanism to facilitate knowledge-sharing activities between organisations because it may minimise situational uncertainty (Adler, 2001).

The third source of relational competitive advantage refers to complementary resources and capabilities. Dyer and Singh (1998) argue that some distinctive resources or capabilities possessed by strategic partners may collectively create greater benefits than the sum of the benefits created by each firm individually

employing those resources or capabilities. Oliver (1997, p. 707) makes the interesting point that “strategic alliances allow firms to procure assets, competencies, or capabilities not readily available in competitive factor markets, particularly specialised expertise and intangible assets, such as reputation.”

Dyer and Singh (1998) also indicate two key sub-processes that facilitate generation of competitive advantage by complementary resources and capabilities. One is the ability to distinguish and assess potential partners’ complementary resources. Such ability is developed by a firm’s prior experience with its partners (Gulati, 1999; Kale, Dyer & Singh, 2002). Gulati, Lavie and Singh (2009) advocate that a firm’s specific experience developed through repeated partnerships with the same alliances would generate more advantage than the general experience acquired from any preceding alliance. The other key sub-process is the role of organisational complementarities to access benefits of strategic resource complementarity. Dyer and Singh (1998) indicate that organisational complementarity refers to the compatible relationships between strategic resources and a firm’s organisational systems, processes, and cultures. For example, Wu (2007) argues that abundance of internal resources would facilitate the focal firm to establish partnerships with external organisations, due to their mutual benefit, such as strengthening dynamic capabilities and use of complementary resources.

The fourth source of relational competitive advantage is effective governance. Effective governance involves minimising transaction costs and maximising the opportunity of value-creation initiatives. Thus, a firm that employs efficient governance structures will have an advantage over those that do not utilise such mechanisms (Dyer & Singh, 1998; Jones, 1995). Dyer and Singh categorise

governance into two types: third-party enforcing agreements (e.g., legal contracts) and self-enforcing agreements (e.g., trust, reputation, and financial hostage). Self-enforcing safeguards are further divided into formal and informal ones.

Dyer and Singh (1998) submit that self-enforcing safeguards are more effective than third-party enforcing agreements. First, self-enforcing safeguards reduce transaction costs such as costs of contracting, monitoring, adaptation, and re-contracting between alliance partners. Second, self-enforcing safeguards support tacit knowledge sharing and resource exchanging that cannot be easily found in the markets. Hence, firms with the ability to employ self-enforcement rather than third-party enforcement would achieve competitive advantage over their competitors which lack such ability. Dyer and Singh further argue that informal self-enforcing safeguards (e.g., trust) are superior to formal self-enforcing safeguards (e.g., financial hostage). Firstly, the costs of formal self-enforcing safeguards, generally involving capital outlays, tend to be higher than those of informal ones. Secondly, it is easier for competitors to imitate formal self-enforcing safeguards such as joint venture, franchising, and collateral bonds. By contrast, informal self-enforcing safeguards, such as trust or reputation, have the features of social complexity and idiosyncrasy that are more difficult for competitors to imitate. Accordingly, Dyer and Singh suggest two key sub-processes regarding effective governance: (1) ability to employ informal versus formal self-enforcement governance mechanisms; and (2) ability to employ self-enforcement rather than third-party enforcement.

However, there are debates on whether formal contract and trust are substitutes or complements. Some researchers argue that formal contract and trust are substitutes; in other words, if there is more trust, less monitoring by formal contracts is needed

(Faulkner, 2000; Lui & Ngo, 2004; Nooteboom, 1996). Alternatively, some other researchers suggest that formal contract and trust may work together to achieve higher exchange performance (Luo, 2002; Poppo & Zenger, 2002). In particular, Lazzarini, Miller and Zenger (2004) indicate that a combination of both formal and informal arrangements is an ordinary business practice. They go on to emphasise that the complementary relationship between formal contracts and informal arrangements is important, while self-enforcement is difficult to implement. Hence, on the one hand, formal contracts and trust can be viewed as substitutes; on the other hand, they can be treated as complementary. In other words, trust could create both positive and negative effects on contractual relations (Mellewigt, Madhok & Weibel, 2007).

As for the durability of competitive advantage, the relational view also focuses its attention on how to prevent imitation by competitors. Dyer and Singh (1998) list six different mechanisms that can make competitive advantage sustained. Two of them, which are included in the earlier discussion of the resource-based view, are also applicable to the relational view—causal ambiguity and time compression diseconomies. According to Dyer and Singh, relationships between strategic partners are socially complex and idiosyncratic to a situation, which often demonstrate causal ambiguity. In other words, competitors are unable to understand the link between the cause (inter-firm relationships) and a firm's competitive advantage. Moreover, development of relational advantage (e.g., reputation or partner-specific absorptive capacity) takes time and cannot be bought or sold in the markets.

Dyer and Singh (1998) propose four isolating mechanisms that are unique to the relational view: (1) inter-organisational asset interconnectedness, (2) partner scarcity (rarity), (3) resource indivisibility (co-evolution of capabilities), and (4)

institutional environment. First, inter-organisational asset interconnectedness is similar to the notion of 'interconnectedness of asset stocks' (Cool, Costa & Dierickx, 2002; Dierickx & Cool, 1989); Dyer and Singh extend this concept beyond the organisational boundaries. They argue that investment in relation-specific assets is also subject to accumulation of asset stocks. Second, partner scarcity highlights the difficulty of competitors to find potential partners for creating similar competitive advantage through inter-organisational relationships, which involves situations such as a high degree of resource dependence and a high level of complementarity (Dyer, Singh & Kale, 2008). Third, resource indivisibility refers to indivisible assets or capabilities that are collectively created by strategic partners. Besides, these resources or capabilities may have coevolved with an alliance relation over time. Competitors are difficult to imitate because of path dependence (Cool, et al., 2002; Dierickx & Cool, 1989). Finally, Dyer and Singh argue that institutional environment is also a preservation mechanism of competitive advantage. According to Oliver (1997), managing the institutional context of an organisation's resource decisions is crucial to its sustainable advantage. Oliver has indicated distinctive influences of a firm from its different levels of institutional environment, including internal culture, inter-firm relations or strategic partnerships, and impacts from social-cultural or political-legal contexts. Moreover, country-specific institutional environment may promote or discourage goodwill, trust, and co-operation (Huff & Kelley, 2003). As Oliver (1997, p. 704) puts it, "institutional isolating mechanisms explain resource mobility barriers as a function of firms' unwillingness to acquire and imitate resources."

Criticisms on the relational view come from two perspectives. First, Dyer and Singh (1998) do not examine issues regarding efficiency enhanced by competition in

their relational framework (Molina, 1999). However, Porter (1990; 1991; 1998; 2000) indicates that intense local competition is the driver of efficiency improvement and would help a specific industry attain competitive advantage in international markets. Moreover, the relational view ignores the potential disadvantages that may be created by close inter-firm partnerships. Barringer and Harrison (2000) investigate both advantages and disadvantages of inter-organisational relationships examined by previous empirical studies. Potential disadvantages summarised by them include loss of proprietary information, management complexities, financial and organisational risks, risk of becoming dependent on a partner, and partial loss of decision autonomy.

A brief comparison of the three views

The three research streams discussed above have different strategic implications. Based on market perfection and competition environment, the activity-position view advocates that decision-makers should make appropriate strategic choices in the industry position. By contrast, the resource-based view focuses on developing strategic resources or capabilities within the firm. Sharing the same perspective of market imperfection as the resource-based view, the relational view emphasises inter-firm interactions and strategic partnerships. From the discussion above, the three streams of studies on competitive advantage exhibit differences in their assumptions, units of analysis, and strategic implications. Dyer and Singh (1998) summarise their differences and illustrate that strategic implications among the three research streams may be contradictory. For instance, the relational view encourages sharing valuable knowledge with strategic partners, whereas the resource-based view tends to protect valuable knowledge within the firm and regards tacit knowledge as a kind of strategic resource. Moreover, the relational view supports close collaboration between the firm

and its suppliers to generate relational advantages. However, according to the activity-position view, this behaviour may impede the focal firm's bargaining power.

2.2.3 Common issues related to competitive advantage

Although scholars have distinctive views on the concept of competitive advantage, which are seemingly diverse and confusing, there exists common ground for the three major research streams. The concept of value emphasised by Bowman and Ambrosini (2000; 2001; 2007) contributes in-depth insights to our understanding of competitive advantage. They emphasise both value creation and value capture. Following their logic, the research on competitive advantage discussed above can be summarised as three common issues:

- How value is created
- How value is protected
- How value is captured

The three issues are quite similar to the three aspects of competitive advantage proposed by Coff (2003). However, using the notion of value has several advantages instead of discussing competitive advantage directly. First, value is a clearer term than competitive advantage and is, thereby, a solution to the problem of vagueness. Second, value is related to the source, durability and appropriation. Third, value can be a foundation that integrates different research streams.

Bowman and Ambrosini (2001, p. 501) identify three types of value as follows:

first, *perceived use value*—that is, product or service value defined by customers, based on their perceptions of the usefulness of the product on offer; second, *total*

monetary value—that is, the amount the customer is prepared to pay for the product, which is the sum of price paid plus consumer surplus (Collis 1994); and third, *exchange value*, which is realised when the product is sold—the amount paid by the buyer to the producer for the perceived use value.

According to this definition, firms create perceived use value through production activities or transformation processes, and realise exchange value through the sale of products or services (Bowman & Ambrosini, 2000; 2001). Accordingly, it is worth noting that the issues of value creation, value preservation, and value capture are closely related.

A firm may have competitive advantage that increases perceived use value (and/or total monetary value), or reduces input costs of a specific product or service (Lippman & Rumelt, 2003a). The resource-based and the relational views explain how an advantage in terms of resources or capabilities is created within a firm or through inter-firm interactions (e.g., strategic alliance), respectively. On the other hand, the activity-position view argues that value chain and activity systems are crucial to achieving favourable industry-specific positioning and generating such an advantage (Porter, 1985; 1991; 1996). Moreover, the impact on the firm's profit flow is reflected by changes in average price or sales volumes (Bowman & Ambrosini, 2007). In other words, both demand and supply sides should be considered. Furthermore, value creation may include value at distinctive levels—individual, firm, or society (Lepak et al., 2007)—and require different levels of analysis.

Regarding the issue of protecting value, many scholars focus their attention on the barriers that prevent imitation or substitution by competing firms. They regard

competitors as the most likely source of the reduction or removal of the value created by the firm. Hence, these barriers are crucial to the durability of an advantage because they support exchange value in a competitive environment. The activity-position view emphasises drivers such as economies of scale, linkages of activities, and proprietary learning (Porter, 1985; 1991). The resource-based view addresses isolating mechanisms related to firm-specific resources such as causal ambiguity, switching and searching costs, consumer and producer learning, team-embodied skills, special information, patents and trademarks, reputation and image, and legal restrictions on entry (Rumelt, 1997). The relational view focuses on isolating mechanisms suitable for inter-firm alliances, including causal ambiguity, time compression diseconomies, inter-organisational asset interconnectedness, partner scarcity (availability), resource indivisibility (co-evolution of capabilities), and institutional environment (Dyer & Singh, 1998).

Finally, value capture is determined by the bargaining power between the firm and its internal and external stakeholders. Based on the resource-based view, Coff (1999) argues that value creation and value capture are influenced by the bargaining power between the firm and its internal stakeholders, such as managers, employees, and shareholders. Regarding external stakeholders, Porter's five-force framework is a useful analytical tool. As Bridoux (2004, p. 10) puts it, "when choosing its product price the firm is influenced by its competitive environment, in particular by the bargaining power of customers and by the current prices of competitors and the expected reactions of competitors to the chosen price." Similarly, Bowman and Ambrosini (2000, p. 9) argue that exchange value is determined by "(1) comparisons customers make between the firm's product, their needs, and feasible competing

offerings from other firms, and (2) comparisons resource suppliers make between the deal they have struck with this firm, and possible deals they could make with alternative buyers of their resources.” It is worth noting that barriers that prevent competing firms from imitation not only moderate the influence of competitors but also impact on the bargaining power of the focal firm. In brief, bargaining power is crucial in analysing the issue of value capture.

2.3 Stakeholder management

In the book *Strategic Management: A Stakeholder Approach*, R. Edward Freeman (1984) pointed out, “if you want to manage effectively, then you must take your stakeholder into account in a systematic fashion” (p. 48). Both academics and practitioners have demonstrated their growing interest in stakeholder analysis and stakeholder management. Stakeholder theory is also a focal topic that has created many debates in the academic literature (Laplume et al., 2008). According to the stakeholder perspective, the main function of managers refers to engaging constructive relationships through co-ordinating interests of various stakeholders including employees, customers, suppliers, government agencies, communities and other interest groups as well as shareholders (Freeman & McVea, 2001).

To review the stakeholder management literature relevant to this thesis, firstly, the concept of stakeholders is outlined. It is followed by a discussion of major perspectives of stakeholder theory. Finally, a discussion of stakeholder management and strategy and a brief critique are presented.

2.3.1 The concept of stakeholders

According to Rowley (1997), stakeholder concepts were not new; several scholars (e.g., March & Simon, 1958; Mason & Mitroff, 1981) had already proposed similar ideas before Freeman's (1984) seminal work. However, it was only after Freeman (1984) presented a systematic framework that stakeholder management emerged as a popular subject in the management literature. Although the term stakeholder has been widely used in the literature, its definition is still relatively vague (Pesqueux & Damak-Ayadi, 2005). The question of who stakeholders are is always disputable. Freeman's (1984) definition is one of the most frequently cited ones in the literature. However, it is criticised as having a lack of clarity in terms of both the stakeholder and the stake (Fassin, 2009; Waxenberger & Spence, 2003). Its ambiguity creates debate on the broad versus narrow conception (Mitchell et al., 1997; Phillips, 1997). Freeman and Reed (1983, p. 91) provide two definitions of stakeholders and they suggest using the wide sense from a strategic perspective:

- *The Wide Sense of Stakeholder.* Any identifiable group or individual who can affect the achievement of an organisation's objective or who is affected by the achievement of an organisation's objectives. (Public interest groups, protest groups, government agencies, trade associations, competitors, unions, as well as employees, customer segments, shareowners, and others are stakeholders, in this sense.)
- *The Narrow Sense of Stakeholder.* Any identifiable group or individual on which the organisation is dependent for its continued survival. (Employees, customer segments, certain suppliers, key government agencies, shareowners, certain financial institutions, as well as others are all stakeholders in the narrow sense of the term.)

Similar to the broad versus narrow classification, there are different categorisations of stakeholders in the literature (e.g., Wheeler & Sillanpää, 1997; Frooman, 1999; Phillips, 2003b): primary versus secondary, direct versus indirect, and normative versus derivative. Carroll and Buchholtz (2006) distinguish core, strategic and environmental stakeholders. Core stakeholders refer to those who are crucial to an organisation's success or failure. Strategic stakeholders are closely related to a firm's threats or opportunities from the perspective of its strategy. Environmental stakeholders refer to stakeholders other than core and strategic ones. However, according to Phillips (2003b), an overly broad definition that seemingly treats everyone as a stakeholder contributes little value to the theory; by contrast, an excessively narrow definition may ignore organisational constituencies that are strategically important.

Other scholars have also developed their frameworks to distinguish different stakeholders. For instance, Mitchell et al. (1997) suggest three important attributes of stakeholder relations: the stakeholder group's power that may influence the firm; the legitimacy of the relationship between the stakeholder group and the firm; and the urgency with which the stakeholder group has a claim on the firm. By using legitimacy, power and urgency as three variables, managers are able to identify the degree of salience and types of stakeholders. According to Mitchell et al., there are definitive, dominant, dependent, dormant, discretionary, demanding stakeholders, and non-stakeholders.

Post et al. (2002) use the resource base, the industry structure and the social political arena to exemplify three levels of organisational environment. First, there are investors, employees, and customers, and users who contribute resources as input for

the organisation's operation. Second, supply chain associates, joint venture partners and alliances, unions, and regulatory authorities constitute the industry structure. Third, government, local communities and citizens, and private organisations are at the society level.

In particular, Fassin (2009) suggests a new taxonomy—stakeholders, stakewatchers, and stakekeepers—to clarify different levels of stakeholder relationship. Fassin uses stakeholders to represent the previous narrow sense of stakeholders who have a real stake in the firm. This category includes: management (board of directors and CEO), financiers (shareholders, bondholders, banks etc.), employees, customers, business (suppliers, trade associations, joint venture partners and alliances, consultants etc.), and communities. Stakewatchers are intermediaries who do not have a real stake in the firm but play a role in protecting some real stakeholders' interests. Stakewatchers include: pressure groups, unions, consumer associations, competitors, public interest groups, and activists. Finally, Fassin borrows the concept of gatekeeper and uses stakekeepers to label independent or external monitors who keep the stake by regulation, valuation, or certification. This group refers to government agencies, the media, and public and private accreditation institutions, and non-stakeholders.

From the above discussion, it is clear that a plethora of classifications of stakeholders have been suggested in the literature. It seems that none has been generally accepted. Nevertheless, they contribute to our understanding of both the stakeholder and the stake from different angles.

2.3.2 Perspectives of stakeholder theory

In the literature, studies on stakeholder theory differ according to their distinctive emphases. One approach to studying stakeholder theory deals mainly with the theories of the firm and focuses on economic analysis including agency problems, transaction costs, and property rights. The other approach to examining stakeholder issues falls into Donaldson and Preston's (1995) taxonomy as descriptive, instrumental, and normative foundations. However, these two approaches are not mutually exclusive and some overlap exists.

2.3.2.1 Stakeholder theory and the theories of the firm

Following Coase's (1937) analysis of the firm, a range of studies, labelled as "transaction cost economics" or "new institutional economics," explored the theories of the firm, and reflected the issues of market failure such as transaction costs, the principal-agent problem, asymmetric information, opportunistic behaviour and moral hazard (e.g., Alchian & Demsetz, 1972; Arrow, 1974; Holmström, 1979; Jensen & Meckling, 1976; Williamson, 1971; 1975; 1985). Generally, this stream of studies views the firm as a nexus of contracts to alleviate incentive conflicts between shareholders and managers as well as among different members within the firm (Cheung, 1983).

According to the types of contract, the studies can be divided into two categories: the complete contracting perspective and the incomplete contracting perspective. As for the complete contracting perspective, it assumes that agents are able to anticipate all future possibilities and draw up detailed contracts without costs (e.g., Grossman &

Hart, 1986; Williamson, 1981; 1988). On the other hand, the incomplete contracting perspective highlights the costs of drafting sophisticated contracts and the importance of carrying out *ex post* monitoring (e.g., Alchian & Demsetz, 1972; Hart, 1988; Holmström & Milgrom, 1994). Based on an alternative perspective of contractual relations, the stakeholder management literature argues that the management should take care of not only the relationships with shareholders but also relationships with other stakeholders such as employees, customers, suppliers, governments, and communities (e.g., Evan & Freeman, 1993; Freeman, 1984; Freeman & Evan, 1990). Thus, debates over several important issues, regarding management-stakeholder relationships versus management-shareholder relationships, have been created. These issues include agency problems, fiduciary duties, property rights, and transaction costs (other than agency costs). They are discussed as follows.

Agency theory is concerned with the agency problems that are characterised by divergence of interests between the agents (managers) and principals (shareholders). It regards the firm as a nexus of explicit contracts and advocates shareholders' primacy (Alchian & Demsetz, 1972; Jensen & Meckling, 1976). Williamson (1985) supports the corporate governance maximand that maximises shareholder value, by arguing that shareholders have fewer contractual arrangements to protect their investment than other stakeholders. According to Jensen and Meckling (1976), agency costs include monitoring costs, bonding costs, and residual loss. Principals may use incentives or monitoring mechanisms to limit opportunistic behaviours of the agent. The agents may incur expenditures for establishing bonding schemes to ensure that their actions would not be harmful to the principal. Moreover, as it is very difficult for the principal and the agent to optimise the monitoring and bonding activities with zero

cost, there must be some costs—residual loss. Hence, the critical issue of agency theory is to economise on agency costs (Fama & Jensen, 1983; Jensen, 1983).

Hill and Jones (1992) extend the concept of the firm, from a set of explicit contractual relationships to a nexus of both explicit and implicit contracts with its multiple stakeholders. They argue that agency theory is just a special case of agency-stakeholder theory. The agency theory assumes that markets are efficient and can adjust rapidly. By contrast, Hill and Jones (1992) allow for both endogenous and exogenous shocks that cause short-term market disequilibrium and power differentials between managers and other stakeholders. Consequently, disequilibrium conditions may be triggered by frictions such as barriers to entry and exit, the ability of managers and other stakeholders to enact their environment, and organisational inertia. Hill and Jones further suggest that stakeholder diffusion makes it difficult to enforce both explicit and implicit contracts, to monitor managers efficiently, and to use ‘exit’ and ‘voice’ as effective enforcement mechanisms. Hence, there exist the similar agency problems in manager-stakeholder relationships as in manager-shareholder relationships. In other words, other stakeholders are not better protected than shareholders, in terms of a contractual perspective.

A related debate is whether the managers’ duty is to serve the interests of shareholders only or of all the stakeholders. Stakeholder theory extends managers’ fiduciary duties from a shareholder-fiduciary orientation to a multi-stakeholder-fiduciary orientation (Evan & Freeman, 1993). To redefine the purpose of the firm, Evan and Freeman state, “The corporation should be managed for the benefit of its stakeholders: its customers, suppliers, owners, employees, and local communities” (1993, p82). However, other scholars argue that the concept of multi-fiduciary duty

(i.e., managers bear a duty to all stakeholders rather than only to shareholders) is morally lacking (Marcoux, 2003), and creates a ‘stakeholder paradox’ (Goodpaster, 1991). A stakeholder paradox is defined as:

It seems essential, yet in some ways illegitimate, to orient corporate decisions by ethical values that go beyond strategic stakeholder considerations to multi-fiduciary ones (Goodpaster, 1991, p. 63).

Goodpaster (1991) argues that the multi-fiduciary approach damages managers’ accountability to shareholders as it generates a contradiction that hinders and requests profit maximisation simultaneously. In a similar vein, Marcoux (2003) argues that it is not feasible for managers to perform multi-fiduciary duties among parties with competing interests. Accordingly, it is moral that fiduciary duties focus only on relationships between the managers and shareholders.

Based on a public policy imperative, Boatright (1994) disputes Goodpaster’s argument by three standpoints. First, there is no direct link between the property rights of shareholders and the fiduciary duties of management. According to Boatright, the shareholders, in fact, are beneficiaries rather than the owners of a corporation. Moreover, the existence of capital markets allows for shareholders to dispose of disappointing shares or diversify their investment with little cost. Second, Boatright further argues that there is no express contract and the (implicit) contract relationship between shareholders and the management is unclear. There are no negotiations on mutual obligations and little interaction between the two parties. Third, Boatright points out that managers “are agents of the corporation, not the shareholders” (1994, p. 399). Particularly, he addresses the legal definition of agency given in the second

Restatement of Agency, Section 1(1): “(1) consent to the relation, (2) the power to act on another’s behalf, and (3) element of control” (Boatright, 1994, p. 399). Accordingly, these features do not exist in the relationship between managers and shareholders. Similarly, Phillips (2003a) argues that the fiduciary duty born by managers is to the corporation, rather than to the shareholders (or to any single stakeholder). As Phillips puts it:

If care were taken to distinguish shareholder from corporation, we would see that the shareholders, in fact, continue to control the *stock* that is both their asset and their investment. The assets Marcoux describes as being under the control of management are the assets of the organisation, not the shareholders (2003a, p. 80).

In brief, the stakeholder management literature supports the view that managers’ accountability is to all stakeholders of the corporation, rather than to shareholders only. Nonetheless, Boatright (2002) emphasises that contract theory itself neither leads to the shareholder or the stakeholder perspective, nor serves as a normative foundation for either the shareholder or the stakeholder primacy.

Another issue is related to property rights. Property rights have two types of definition. The narrow definition refers to “legal recourse available to owners of property (either tangible or intangible) in the case of inappropriate actions by non-owners” (Asher, Mahoney, & Mahoney, 2005, p. 7); the general definition refers to “any sanctioned behavioural relations among decision makers in the use of potentially valuable resources” (Asher et al., 2005, p. 7). Asher et al. adopt the broad definition and include any social institutions as well as legally enforceable claims.

Coase (1960) suggests that resources can be regarded as the bundle of rights instead of physical resources. Therefore, the essence of the resources owned by a firm refers to property rights rather than physical resources. Following Coase's (1960) view, Donaldson and Preston (1995) incorporate the concept that "property rights are embedded in human rights and that restrictions against harmful uses are intrinsic to the property rights concept clearly brings the interests of others (i.e., of non-owner stakeholders) into the picture" (p. 83). Hence, ironically, they argue that "the stakeholder model can be justified on the basis of the theory of property, because the traditional view has been that a focus on property rights justifies the dominance of shareowners' interests" (Donaldson & Preston, 1995, p. 83).

In a similar vein, by linking property rights theory to the resource-based view, Asher et al. (2005) argue that the approach to maximising shareholders' value, which is consistent with the logic of the explicit contracting framework, cannot reveal the appropriate firm value due to its ignoring implicit contracts. They suggest taking stakeholders other than shareholders into account and posit: "when considering both explicit and implicit contracts when assessing the economic value generated by the firm, one needs to assess the economic surplus captured by all stakeholders" (Asher et al., 2005, p. 15). In other words, they acknowledge the importance of stakeholders regarding both value creation and value distribution of the firm.

One more issue is concerned with transaction costs. In addition to agency costs discussed earlier, Jones (1995) indicates three other sources of transaction costs. The first one is the information asymmetry between the seller of a resource and the buyer, which may create problems in terms of value uncertainty or opportunistic behaviour. Thus, in this respect, transaction costs involve "(a) search costs, (b) negotiating costs,

(c) monitoring costs, (d) enforcement costs, and (e) a residual loss” (Jones, 1995, p. 410). The second source is the hold-up problem discussed by Williamson (1985). The hold-up problem refers to a hindrance to investment in a specialised resource that would improve efficiency of both the supplier and the customer. Because of the difficulty of disposing of such specialised resource elsewhere, the hold-up problem may either reduce investment in specialisation or increase costs, such as negotiating, monitoring, and enforcing contracts, for preventing hold-up. The third source of transaction costs is team production (or consumption) problem. Jones (1995) describes the team production problem as the free rider of production in the economic literature and he depicts the team consumption problem as Hardin’s (1968) “tragedy of the commons”—where individuals tend to exploit or over-consume a resource owned by a society (in common). Consequently, transaction costs would inevitably increase due to opportunistic behaviours or arrangements needed to mitigate opportunism. Assuming that firms have (both explicit and implicit) contractual relationships with multiple stakeholders, Jones (1995) argues that mutual trust and co-operation, based on ethics and corporation morality, would reduce agency costs or transaction costs and there by result in efficient contracting. He further suggests, “Because the costs of opportunism and of preventing or reducing opportunism are significant, firms that contract on the basis of trust and co-operation will have a competitive advantage over those that do not use such criteria” (Jones, 1995, p. 432).

2.3.2.2 A taxonomy of stakeholder theory

In additional to the theory of the firm and economic analysis, research on stakeholder theory has developed in several major directions. Donaldson and Preston (1995) recommend a taxonomy that divides stakeholder research into three distinct categories,

according to their underlying theoretical dimensions—the descriptive, the instrumental, and the normative perspectives. This taxonomy addresses three questions: “What happens? What happens if? and, What should happen?” (Jones, 1995, p. 406). In other words, these perspectives examine: (1) how managers of the firm actually behave, (2) what outcomes the firm might achieve if its managers behave in some ways, and (3) how managers of the firm should behave.

The descriptive approach proposes to show how the thoughts embedded in stakeholder theory correspond to specific characteristics and behaviours of firms and their managers in the real world. Donaldson and Preston (1995) defined descriptive stakeholder theory as “a model describing what the corporation is. It describes the corporation as a constellation of co-operative and competitive interests possessing intrinsic value” (p. 66). Research in this category describes the value-free facts of what firms do or what they are able to do (Stephens & Shepard, 2005; Swanson, 1999). It also needs to precisely present the environment in which firms operate (Dentchev, 2009). For example, Rowley (1997) examines power interplays between the focal firm and its diverse stakeholders, generated by different network structures. Mitchell et al.’s (1997) framework to portray stakeholder salience also belongs to this category. Defining saliency in terms of actions, Eesley and Lenox (2006) confirm Mitchell et al.’s (1997) framework by investigating 331 US firms responding to the requests dealing with the natural environment. Jawahar and McLaughlin (2001) describe that the types of strategy adopted by the firm for managing its stakeholders are determined by an assessment of the importance of the stakeholders. In brief, descriptive stakeholder theory describes how firms interact with their multiple stakeholders (Rowley, 1997).

The instrumental approach examines the relationships between the practice of stakeholder management and the goals of firm performance. Donaldson and Preston (1995) defined instrumental stakeholder theory as “a framework for examining the connections, if any, between the practice of stakeholder management and the achievement of various corporate performance goals” (p. 67). It seeks to understand what kind of (positive or negative) results may be achieved if a specific practice is adopted. For instance, as discussed earlier, Jones (1995) argues that firms, which interact with their multiple stakeholders based on mutual trust, will have competitive advantages over their rivals that do not. Moreover, Berman et al. (1999) argue that managing stakeholder relations with employees and customers could enhance firm financial performance. For the purpose of pursuing mutual benefit, Heugen and van Oosterhout (2002) suggest three boundary conditions for stakeholder selection: being sufficiently autonomous, having compatible interests, and capable of meeting their obligations. Furthermore, Hart and Sharma (2004) go beyond traditional thinking of stakeholder management and suggest that firms need to pay attention to stakeholders who are seemingly “powerless, non-legitimate, isolated, or disinterested”(p. 12).

The normative approach identifies moral or philosophical principles for managers to perform their role. According to Donaldson and Preston (1995), stakeholder theory is normative because “stakeholders are persons or groups with legitimate interests in procedural and/or substantive aspects of corporate activity” and “the interests of all stakeholders are of intrinsic value” (p. 67). Donaldson and Preston argue that although the three approaches to stakeholder theory are distinctive, “the normative base serves as the critical underpinning for the theory in all its forms” (1995, p. 66). They go on to assert that the theory of property rights also provides the

normative keystone for stakeholder theory. Except for Jones's (1995) instrumental approach, most studies discussed in the previous subsection belong to the normative approach. Moreover, research in this stream demonstrates various themes to justify this normative core, such as Aristotelian ethics (Wijnberg, 2000), libertarianism (Freeman & Phillips, 2002), Kantian theory (Evan & Freeman, 1993; Lea, 2004), feminist theory (Lampe, 2001; Wicks et al., 1994) and the principle of fairness (Phillips, 1997; van Buren, 2001).

In addition to Donaldson and Preston's (1995) three perspectives of stakeholder theory, Freeman (1994) suggests the fourth perspective—metaphorical or narrative. In this sense, researchers use stakeholder concepts as metaphors to describe how people engage in their activities of value creation and exchange. Andriof and Waddock (2002) summarise the differences between the four perspectives of stakeholder theory according to their differences in rationale, unit of analysis, level of analysis, and underlying theory. Nevertheless, Donaldson and Preston (1995) argue that the three approaches to stakeholder theory are reciprocally supportive. Moreover, clear-cut distinction between descriptive, normative, and instrumental approaches would never be accurate (Freeman, 1999). Jones and Wick (1999) make a similar argument and say that “neither of the emergent forms of stakeholder theory is complete without the other and that convergent stakeholder theory, which combines normative and instrumental elements, meets many of the criteria for successful integration of normative and empirical theory” (p. 206). Responding to Jones and Wick, however, Freeman (1999, p. 233) argues “what we need is not more theory that converges but more narratives that are divergent—that show us different but useful ways to understand organisations in stakeholder terms.”

Interestingly, stakeholder theory has become one of the main theoretical foundations of the research stream of corporate social performance (CSP) (Clarkson, 1995; van der Laan, van Ees & van Witteloostuijn, 2008; Margolis & Walsh, 2003). There are three interconnected constructs related to CSP, which have been used throughout the literature, referring to different aspects of business involvement in social issues. First, corporate social responsibility (CSR, or CSR1) refers to the business philosophy that directs managers making policy and management decisions towards normatively correct performance regarding expectations of multiple stakeholders of the firm (Dentchev, 2009; Van der Laan et al., 2008). Carroll (1979, 1991) distinguishes social expectations as four dimensions of corporate social responsibility: economic, legal, ethical, and discretionary.

Second, corporate social responsiveness (CSR2) describes how firms respond to social issues. CSR2 is concerned with the “ability to achieve significant levels of social responsiveness” (Frederick, 1994, p. 156); the meaning of social responsiveness is “the ability to manage the company’s relations with various social groups” (Frederick, 1994, p. 156). Moreover, CSR2 can also be described as a process to resolve social issues for which a firm is accountable (Dentchev, 2009). Carroll (1979) suggests four responsiveness strategies to resolve social issues: reaction, defense, accommodation, and proaction. These CSR2 strategies are neatly summarised by Clarkson (1995). In particular, Clarkson (1995) emphasises the term responsiveness, arguing that “managers must resolve the inevitable conflicts between primary stakeholder groups over the distribution of the increased wealth and value created by the corporation” (p. 112). He goes on argue that ethical judgment and choices may turn out to be crucial to the firm’s survival.

Third, CSP is concerned with the outcomes of socially responsive behaviour. (Wood, 1991) describes CSP as the “the social impacts of corporate behaviour, regardless of the motivation for such behaviour or the process by which it occurs; the programmes companies use to implement responsibility and/or responsiveness; and the policies developed by companies to handle social issues and stakeholder interests” (p. 708). The CSP construct represents a feature of principle–problem–action framework that focuses on both stakeholders and social issues (Dentchev, 2009). There have been numerous studies on this topic based on a stakeholder perspective (e.g., Moore, 2001; Orlitzky, Schmidt & Rynes, 2003; Waddock & Graves, 1997; Makni, Francoeur & Bellavance, 2009). From the stakeholder perspective, meeting the expectations of multiple stakeholders would enhance a firm’s reputation and thereby have a positive impact on its financial performance. Conversely, failure to satisfy the needs of various stakeholders may, in many cases, result in a negative financial impact (Cornell & Shapiro, 1987; Margolis & Walsh, 2003; Preston & O’Bannon, 1997; van der Laan et al., 2008).

According to Dentchev (2009), the three constructs related to CSP can also be analysed in terms of Donaldson and Preston’s (1995) taxonomy. Firstly, CSR1 is mainly prescriptive. As Windsor (2001) puts it, “Responsibility must have a normative basis” (p. 228). Secondly, CSR2 suggests an instrumental approach to both social issues and stakeholders of firms by providing a business justification for firms responding to social issues. Lastly, CSP comprises a both normative and instrumental concept. Although stakeholder theory has frequently been used in the literature to support the constructs related to CSP, there are differences between them. While

stakeholder management focuses on various stakeholder groups, CSP is mainly concerned with both stakeholders and social issues (Dentchev, 2009).

2.3.3 Stakeholder management and strategy

As symbolised by the title of Freeman's (1984) book, strategic management is the main terrain of stakeholder management or stakeholder theory. Freeman (1984) addresses the need for a systematic framework of managing stakeholders due to internal change (from customers, employees, and suppliers) and external change (from governments, competitors, consumer advocates, environmentalists, special interest groups, and media). Harrison and St John (1997, p. 14) define stakeholder management as "communicating, negotiating, contracting, and managing relationships with stakeholders and motivating them to behave in ways that are beneficial to the organisation and its other stakeholders." Following this logic, stakeholder management tends to include an instrumental ingredient.

The first task of stakeholder management is stakeholder analysis. Harrison and St John (1997) suggest stakeholder analysis includes activities such as "identifying and prioritising key stakeholders, assessing their needs, collecting ideas from them, and integrating this knowledge into strategic management processes..." (p. 14). However, stakeholder analysis requires a dynamic perspective, rather than a stable list (Antonacopoulou & Méric, 2005b). Managers need to review their stakeholders regularly. According to Jawahar and McLaughlin (2001), critical stakeholders may be different at each stage of an organisational life cycle and the firm should adopt different strategies to manage those critical stakeholder groups accordingly.

As for generic strategies, Freeman (1984) suggests a revision of Porter's (1985) five-force framework, adding a sixth force—relative power of other stakeholders that would potentially enhance or threaten organisational objectives. Freeman states that this move is “beyond industry structure towards “stakeholder structure”” (1984, p. 141). Hence, managers could adopt different strategies according to relative influences of two important dimensions: co-operative potential and competitive threat (Freeman, 1984; Freeman, Harrison & Wicks, 2007; Freeman & Liedtka, 1997):

- If a stakeholder group has relatively high co-operative potential and relatively low competitive threat, the firm should adopt an offensive strategy to exploit the co-operative potential of this stakeholder group. Specific stakeholder programmes include changing the stakeholder's objectives or its beliefs about the firm, altering the transaction process, adopting the stakeholder's position, and linking the programme to others that the stakeholder views more favourably.
- If a stakeholder group has relatively low co-operative potential and relatively high competitive threat, the firm should adopt a defensive strategy to prevent competitive threat from these stakeholders. Specific stakeholder programmes include reinforcing the stakeholder's current beliefs about the firm, maintaining existing programmes, linking the programmes to others that the stakeholder views more favourably, and letting the stakeholder drive the transaction process.
- If a stakeholder group has relatively high co-operative potential and relatively high competitive threat, the firm should adopt a swing strategy, which seeks to influence the rules of the game that determine the firm-stakeholder relations. Specific stakeholder programmes include modifying formal rules through the government, changing the decision forum, and altering the transaction process.

- If a stakeholder group has relatively low co-operative potential and relatively low competitive threat, the firm should adopt a hold strategy to continue current strategic programme and maintain the current stakeholder position. Specific stakeholder programmes include doing nothing and monitoring existing programmes, reinforcing current beliefs about the firm, and maintaining the transaction process.

Harrison and St John (1996; 1997) make a distinction between two approaches to stakeholder management: the traditional approach—buffering and the proactive approach—bridging. Buffering focuses on activities to create buffers between the firm and its stakeholders for minimising their impacts on the firm, including regulatory compliance, advertising, and public relations. On the other hand, bridging concentrates on forming stakeholder relationships, which involves more communication between the firm and its stakeholders in order to pursue common goals. Hence, bridging tends to use partnering activities based on engaging stakeholder relationships and reinforcing interdependencies. The proactive approach focuses on creating shared values and searching for common goals rather than just adapting to stakeholders' wants and needs. Studies in this field have increasingly emphasised the proactive approach that advocates the use of the term 'stakeholder engagement' instead of stakeholder management to highlight the importance of partnership between the firm and its multiple stakeholders (e.g., Andriof & Waddock, 2002; Lozano, 2005; Wu & Eweje, 2007).

The concept of stakeholder engagement has also gained support among practitioners. For instance, Svendsen (1998), who advocates stakeholder collaboration as opposed to stakeholder management, proposes a guide to building collaborative

stakeholder relationships, including “(1) creating a foundation, (2) organisational alignment, (3) strategy development, (4) trust building, (5) evaluation, and (6) repeat” (p. 67). Another example is Wheeler and Sillanpää (1997), who encourage developing inclusive relationships with stakeholders. They suggest a model containing cycles of stakeholder inclusion and continuous improvement. In their view, “cycles of inclusion refer to processes of diagnosis, dialogue and audit aimed at securing the effective participation and active inclusion of stakeholders in the affairs of the company”, while “cycles of continuous improvement refer to more technical processes where diagnosis tends to be factually based” (including occupational safety and health, quality, environmental preservation and animal welfare) (Wheeler & Sillanpää, 1997, p. 180).

The essence of the shift from the traditional approach to the proactive approach to stakeholder management is a trend of increasing importance towards building successful stakeholder relationships. Essentially, these writers pay more attention to stakeholder engagement (i.e., partnership building) than to traditional stakeholder management, highlighting and dynamic efficiency—value creation and learning (Nooteboom, 1992)—in order to acquire critical resources, strategic information, and problem-solving capabilities. The proactive approach to stakeholder management emphasises that managers should focus their attention on creating value for the organisation’s multiple stakeholders, based on social capital⁴ and ‘value-based networks’ (Wheeler et al., 2003). In line with this sense, Post et al. (2002) propose a comprehensive model, indicating that a firm’s relationships with its critical stakeholders are crucial to generating organisational wealth. Post et al.’s model contains two main parts. One is the corporate core that comprises strategy, structure, and culture. The other is the strategic environment of the corporation including three

different levels of stakeholders: resource-based, industry-structure, and social and political. As stakeholders play important roles in the process of value creation, Post et al. argue that corporations need to be redefined to address stakeholder relationships and responsibilities by taking all relevant stakeholders into account.

In addition to the issue of unclear definition of stakeholders, the concept of stakeholder management has attracted other criticisms. First, having multiple objectives from stakeholders is not feasible for managers. For instance, Jensen (2002) argues that stakeholder management does not provide a single-valued measure of the manager's performance. Moreover, the argument of stakeholder theory may allow managers too much discretion, which is not appropriate, to allocate shareholder wealth (Sundaram & Inkpen, 2004). Similarly, Cennamo, Berrone and Gomez-Mejia (2009) emphasise the risk of executives having a self-interest in expanding their power by stakeholder management, due to the causally ambiguity of the relationship between stakeholder interactions and firm performance. Second, 'stakeholder theory' is not a theory. For instance, Grandori (2005) argues the stakeholder view lacks a theoretical foundation and needs to link to other theories (such as agency theory and property rights theory). Besides, as Antonacopoulou and Méric, (2005a) indicated, stakeholder theory cannot be falsified and is just an extension of the theories of control. Third, stakeholder management is merely a static analysis. Key (1999) argues that Freeman (1984) does not provide any indication about managing change even though 'managing in turbulent times' is one of his emphases.

In summary, there has been a wide range studies on stakeholder management or stakeholder theory. In spite of the criticisms discussed, many scholars agree that stakeholder theory has made a positive contribution to both management theory and

practice. For instance, Laplume et al., 2008), who have recently undertaken a literature review on stakeholder theory, reveal that stakeholder theory has increasingly been accepted by different disciplines concerned with unethical and irresponsible behaviour of a few firms. Fassin (2009, p. 116) states, “the stakeholder concept has the potential to deliver a theory of the organisation with practical usefulness for management.” Nevertheless, the relationship between stakeholders and strategy or strategic management is still under-researched (Laplume et al., 2008).

2.4 Linkage between stakeholder management and competitive advantage

Although the concept of stakeholder management was rooted in the field of strategic management, few studies have directly linked stakeholder management to competitive advantage. Nevertheless, some researchers have examined the association between these two subjects. For example, as discussed earlier, Jones (1995) has argued that stakeholder management may create competitive advantage by reducing transaction costs as a result of successful trust development. Rodriguez et al. (2002) posit that modern enterprises can achieve competitive advantages by acknowledging the concept of “scarcity of natural resources” (p. 139) and “co-responsibility between businesses and society for the development of social resources” (p. 140). They go on to argue that engaging stakeholder relationships will enhance two sources of competitive capabilities—innovation and reputation. Harrison, Bosse and Phillips (2010) suggest that firms, which share value with their stakeholders and involve them in their strategic decisions, could gain benefits such as “increased demand and efficiency, higher levels of innovation, and an increased capacity to deal with unexpected events” (p. 67), which would further become the source of competitive advantage. Thus, it can be argued from these studies that firms strengthen their

competitiveness by mobilising resources and developing capabilities as a result of successfully engaging stakeholder relationships (e.g., Ayuso et al., 2006; Svendsen, Boutilier, Abbott & Wheeler, 2001). Moreover, such relationships exhibit social complexity or causal ambiguity in nature, so it is difficult for competitors to imitate or substitute them, which could help sustain competitive advantage (Cennamo et al., 2009; Harrison et al., 2010; Rodriguez et al., 2002).

However, research on the linkage between competitive advantage and stakeholder management is at an early stage. It is not clear how to apply the concept of stakeholder management to the main research streams of competitive advantage such as the activity-position view or the resource-based view. While the stakeholder perspective is concerned with both internal and external attributes of the firm, a stakeholder approach examining competitive advantage is still missing. As discussed earlier, corresponding to the three aspects of the concept of competitive advantage—source, durability, and appropriation, common issues of competitive advantage include value creation, value preservation, and value capture. Besides, these issues are interconnected, rather than separate. A systematic approach should involve all the common issues. This review has shown that there is still a knowledge gap between stakeholder management and competitive advantage. In order to fill this gap, based on the common issues related to competitive advantage, three research questions are framed as below.

Value creation. Value creation is not only the key issue of competitive advantage but also the main theme discussed in the stakeholder management literature. For example, Freeman and Liedtka (1997) suggest a new perspective of the firm as creating value for stakeholders, termed stakeholder capitalism, emphasising that value

creation, instead of value capture, must be the priority of the organisation. Freeman and McVea (2001) suggest that creating value for multiple stakeholders provides opportunities that inspire change and innovation. McVea and Freeman (2005) argue that a stakeholder approach offers a “unique and neglected contribution to decision-making processes, particularly in innovative and entrepreneurial fields” (p. 59). Moreover, the relationships between the firm and its stakeholders can be viewed as value-based networks, moving towards creating value for all stakeholders involved (Wheeler et al., 2003). In brief, stakeholder management is quite compatible with competitive advantage in relation to value creation. However, the relationship between stakeholder management and the source of competitive advantage still merit further exploration. The first research question is framed as follows:

- How does stakeholder management influence the source of competitive advantage?

Value preservation. Value preservation is the key to durability or sustainability of competitive advantage. Regarding durability of competitive advantage, scholars tend to argue that social complexity, or causal ambiguity embedded in engagement of stakeholder relationships, makes it difficult for competitors to imitate a firm (Cennamo et al., 2009; Rodriguez et al., 2002). However, if a stakeholder approach is compatible to one of the three perspectives of competitive advantage—the resource-based, the activity-position, and the relational views, it should offer some elaboration on how stakeholder management can help a firm to sustain the competitive advantage generated, based on the specific perspective applied or, for instance, how stakeholder management may help sustain an advantage generated from enhanced mobilisation of resources, increased switching costs, or improved

proprietary learning, etc. Thus, there is a need to examine how to sustain competitive advantage by stakeholder management. Hence, the second research question is framed:

- How may stakeholder management help a firm sustain its competitive advantage?

Value capture. Value capture has frequently been addressed in the stakeholder management literature. For example, Clarkson (1995) points out that it is crucial for managers to distribute the economic value generated by the firm among primary stakeholders appropriately. Similarly, Asher et al. (2005) emphasise both value creation and value capture are important and managers need to take all relevant stakeholders into consideration in their strategic decisions. Value capture is a main theme of stakeholder management, which is concerned with dealing with multiple stakeholder interests. In particular, the stakeholder perspective is a shift from organisational value to a broader society value (Lepak et al., 2007). Appropriation of competitive advantage is a typical type of value capture that involves dealing with the bargaining power of different stakeholders. It is challenging for managers to balance different stakeholder demands. As indicated by Jensen (2002), the stakeholder management literature does not seem to give clear guidance for determining how to prioritise stakeholder interests or even how to reconcile the interests. Coff (2003) also indicates that the appropriation of competitive advantage is a relatively under-researched area. Thus, it requires exploring the managers' role in developing and sustaining competitive advantage while they face the issue of value capture among stakeholders. Hence, the third research question is framed:

- How do managers perform their roles in developing and maintaining competitive advantage by balancing different stakeholder demands?

2.5 Conclusion

This chapter reviewed two research topics: competitive advantage and stakeholder management. Firstly, the extant literature regarding competitive advantage was reviewed. The concept of competitive advantage consists of source, durability, and appropriation. Three major streams of studies, including the activity-position view, the resource-based view, and the relational view, were compared and discussed. Common issues related to competitive advantage were identified: value creation, value preservation, and value capture. Secondly, the literature on stakeholder management was reviewed. The concept of stakeholders was introduced. The major streams of studies on stakeholder theory were discussed, including the theories of the firm and different perspectives of stakeholder theory—descriptive, instrumental, normative, and metaphorical. Subsequently, stakeholder management and the strategy of the firm were discussed. Lastly, the linkage between stakeholder management and competitive advantage were discussed. This was followed by a discussion of how three research questions were framed according to the literature review.

Chapter 3: Theoretical framework and methodology

3.1 Introduction

This chapter presents the theoretical framework and the research methodology for this thesis. As stated, the objective of this study is to explore how stakeholder management has an influence on competitive advantage. It aims to get a better understanding of the relationships between stakeholder management and the important issues of competitive advantage, including value creation, value preservation and value capture. Thus, this study examines complex phenomena and explores the associations between stakeholder management and different aspects of competitive advantage. The general research approach chosen to achieve this objective is a qualitative, multiple-case study.

This chapter is organised as follows. First, the theoretical framework used is presented. Second, the choice of general research approach is discussed. Third, the criteria for case selection and the data collection procedures are described. Fourth, the method for case data analysis is summarised. Fifth, the reliability and validity of this study are discussed. Sixth, ethical considerations are outlined, and finally, a summary overview of each case company is presented.

3.2 Theoretical framework

This section presents the theoretical framework that is used to guide data collection, analysis, and interpretation of this study. According to Kilbourn (2006), the theoretical perspective in a research study reflects the researcher's theoretical orientation, which is crucial to interpreting the data in a qualitative study, irrespective

of whether it is explicitly or implicitly stated. In other words, theoretical perspectives play a role as the filter for limiting, choosing, collating, and interpreting the data for this study. Therefore, an analytical theoretical framework has been developed, as shown in Figure 3.1. It will also be further explained later, as shown in Table 3.1.

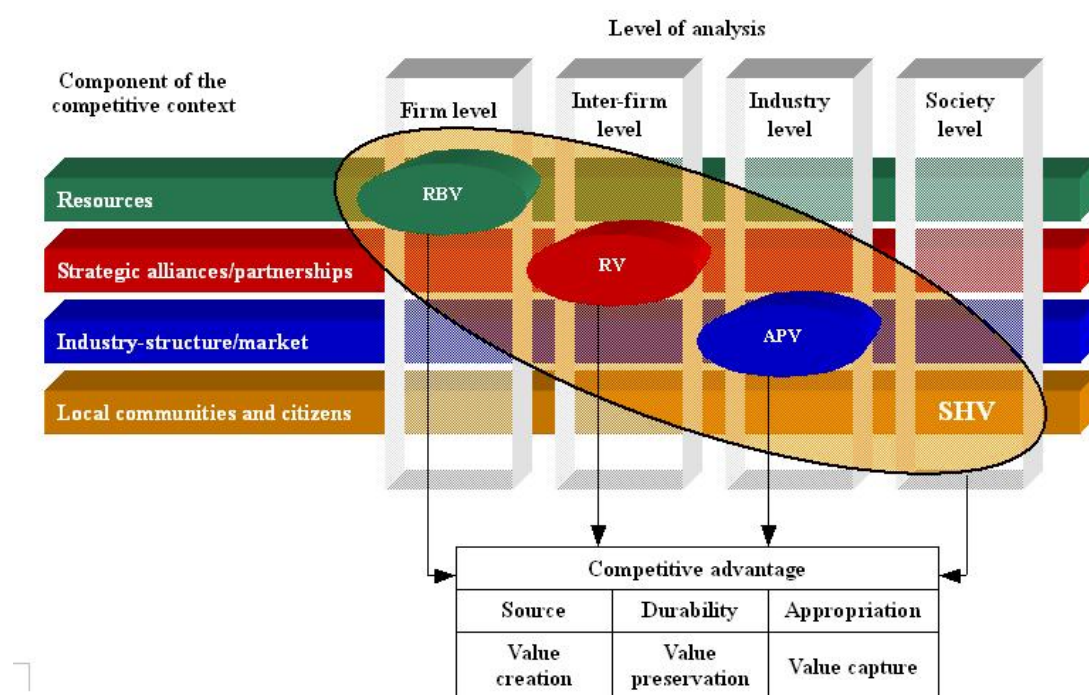


Figure 3.1: An analytical theoretical framework

Note: RBV: the resource-based view; RV: the relational view; APV: the activity-position view; SHV: the stakeholder view

Figure 3.1 exhibits two dimensions. One dimension is the level of analysis indicated by four columns; the other is the component of the competitive context. The three main perspectives of competitive advantage—the resource-based view, the relational view, and the activity-position view—are chosen to provide the foundation of the theoretical framework. A number of researchers argue that these perspectives of competitive advantage are the most influential in the strategic management literature (e.g., Dyer & Singh, 1998; Lavie, 2006; Post et al., 2002; Mesquita, Anand & Brush,

2008; Rodriguez et al., 2002). The stakeholder view incorporates and complements the three perspectives of competitive advantage in a holistic approach that encompasses all internal and external attributes of a firm. Each perspective of competitive advantage has its focus on the level of analysis. The resource-based view focuses on firm level analysis and addresses firm-specific resources. The relational view centres on inter-firm level analysis and emphasises relational assets generated from inter-firm collaborations such as strategic alliances. The activity-position view concentrates on industry or market level analysis and tackles activities and strategic position in the industry structure. The stakeholder view is concerned with all relevant stakeholders and provides a multiple-level analysis, including the society level which is not covered by the three perspectives.

The initial theoretical research framework was developed by focusing on the stakeholder view (addressing a firm's critical stakeholders only). However, the stakeholder view was required to integrate other theories because its theoretical foundation was inadequate (Grandori, 2005). Although, the stakeholder view could be argued as an extension of the relational view (Post et al., 2002), it did not address the role of stakeholders as resource providers or catalysts to contribute to the generation of firm-specific assets, if the resource-based view was not included. Furthermore, activities and resources are two sides of the same coin for explaining the source of competitive advantage (Sheehan & Foss, 2007). It was necessary to include the activity-position view to emphasise activities and drivers and address the important stakeholders in the competitive context (Porter & Kramer, 2002; 2006).

However, from the above assertions, the general orientation of the theoretical framework has remained the same since it was first developed. The data collected in

this study supported the stakeholder view and the integration of the three main perspectives of competitive advantage—the resource-based, the relational, and the activity-position views. Nevertheless, the framework was modified and improved in order to convey a clearer and informed schema of this study. For instance, in Figure 3.1, the initial ‘Dimension of the stakeholder context’ was replaced by ‘Component of the competitive context’. The box of ‘Competitive advantage’ was expanded by incorporating value creation, value preservation, and value capture.

By using the analytical theoretical framework, this thesis seeks to contribute to the literature on competitive advantage and stakeholder management in three ways. First, this study explores the applicability of the three perspectives of competitive advantage in Chapter 4, the empirical work shows that competitive advantage is contributed by various factors and it requires explanations from multiple perspectives of competitive advantage, confirming the need for a holistic approach. Second, the analytical theoretical framework reflects both internal and external environments of the firm by integrating three main perspectives of competitive advantage. The three perspectives include many critical stakeholders, such as employees and shareholders at the firm level, strategic partners at the inter-firm level, and customers and suppliers at the industry level. Integrating the three perspectives with the stakeholder view allows the research to examine the linkage between competitive advantage and stakeholder management in a systematic approach. Third, based on the case companies, it shows that the stakeholder view is able to encompass the three perspectives and explain how they complement each other. In the following core chapters (Chapters 5, 6 and 7), the analytical theoretical framework helps to examine

the three important aspects of competitive advantage—source, durability and appropriation—in terms of value creation, value preservation, and value capture.

The theoretical framework is used as a lens for subsequent analysis to address the three research questions in this study. The three views on competitive advantage are outlined and their relevance to the stakeholder view is discussed as follows.

The resource-based view

The resource-based view argues that a firm's competitive advantage comes from firm-specific resources that are valuable, rare, imperfectly imitable, and non-substitutable (Barney, 1991; Barney, 2001b; Peteraf, 1993; Peteraf & Barney, 2003). Critical resources, which are scarce in nature, are indispensable to generate differentially greater value, leading to better performance. Whether a resource is critical is determined by its superior efficiency that can provide the customers with higher value with a given cost or can provide them with the same level of value with a lower cost. The resource-based view is in line with Williamson's (1991) description of 'economising' which is mainly concerned with efficiency and internally-oriented activities. Generally, the resource-based view focuses on the resources and capabilities controlled by a firm (Barney, 2001b; Peteraf & Barney, 2003). Research tends to centre on intangible resources such as capabilities (e.g., Amit & Schoemaker, 1993; Dierickx & Cool, 1989; Makadok, 2001; Siqueira & Cosh, 2008), knowledge (e.g., Nonaka, Toyama & Nagata, 2000; Nguyen, Neck, & Nguyen, 2009; Poppo & Zenger, 1998), or reputations (e.g., Fombrun & van Riel, 1997; Rindova & Fombrun, 1999; Dolphin, 2004a). In brief, it could be argued that the resource-based view explains performance differentials across firms in a factor-based, efficiency-oriented, and firm-level approach (Peteraf & Barney, 2003).

The relational view

The relational view addresses the importance of strategic relational resources generated from collaboration between firms, which can be the source of competitive advantage (Lavie, 2006; Dyer, Kale & Singh, 2001; Dyer & Singh, 1998; Gulati, Nohria & Zaheer, 2000). Dyer and Singh (1998) suggest four potential sources of inter-organisational competitive advantage: relation-specific assets, knowledge-sharing routines, complementary resources, and effective governance. In the literature, the relational view tends to be regarded as an extension of the resource-based view (e.g., Lavie, 2006; Douglas & Ryman, 2003; Farjoun, 2002), for example, knowledge or capabilities generated by inter-firm relations (Kogut, 2000; Rosenkopf & Nerkar, 2001). However, there are two issues that need to be addressed. First, the relational view focuses on shared resources instead of non-shared resources (Dyer & Singh, 1998; Lavie, 2006). Thus, the relational view itself could only complement the resource-based view, rather than replace it. Other resources or capabilities that are built within the firm still play important roles in the generation of competitive advantage. Second, the relational view only refers to inter-firm relationships; it does not involve social partnerships between business and not-for-profit or civil society organisations, which could also create strategic advantages for firms (Eweje, 2007; Eweje & Palakshappa, 2009). In summary, the relational view describes competitive advantage in a resource-based, relation-oriented, and inter-firm-level approach.

The activity-position view

In contrast to the resourced-based view, the activity-position view is characterised by its focus on external environment (Jørgensen, 2008) despite its internal ingredients—the firm's value chain/system (Porter, 1985; 1991) and activity systems (Porter, 1996).

Porter (1980; 1985) suggests that competitive advantage comes from the strategy that effectively places the firm in a favourable position within an industry structure. In particular, Porter's (1980) five-force model suggests that firms need to assess the relative power and influences of their stakeholders, including customers, suppliers, competitors, new entrants, and substitute producers. In addition, Porter (1996) emphasises the importance of a set of well-organised strategic activities, rather than an individual activity or the resources per se. The activity-position view is closely aligned with Williamson's (1991) notion of 'strategising' which is concerned with industry structure, market power, and competitive strategy. Porter (1990) introduces four key components in the external environment, a broad concept of industry structure, as a dynamic system: input factor conditions, demand conditions, related and supporting industries, and firm rivalry based on strategy and structure. Porter and colleague apply a similar concept, while using different terms in his subsequent research such as local environment (Porter, 1991) and competitive context (e.g., Porter & Kramer, 2006). To sum up, the activity-position view portrays competitive advantage in an activity-based, market-oriented, and industry-level approach.

Towards a stakeholder approach

Based on the discussion above, the resource-based, the relational, and the activity-position views focus on distinctive levels of analysis. Peteraf and Barney (2003) indicated that multiple levels of analysis contribute significantly to an understanding of competitive advantage. However, integration is not simply combining these perspectives together. To reconcile different perspectives needs systematic analysis because there are not only different assumptions but also contrasting core logics involved (Lengnick-Hall & Wolff, 1999).

Post et al. (2002) suggest the stakeholder view is a comprehensive approach to examine how the firm creates its wealth. The stakeholder view is compatible with the three perspectives of competitive advantage. First, stakeholders are the major providers of resources to firms; for example, employees supply labour and shareholders supply capital (Harrison & St. John, 1997). Besides, stakeholders are catalysts facilitating the generation of valued resources such as reputations or trusts for the firm. These resources are often co-created by the firm and its stakeholders (Gregory, 2007; Heugens, van den Bosch & van Riel, 2002). Thus, the stakeholder view is consistent with the resource-based view, in terms of obtaining valued resources. Second, the stakeholder view could be regarded as an extension of the relational view, including the relationships between the focal firm and other stakeholders, rather than being limited to inter-firm business partnerships (Andriof & Waddock, 2002; Post et al., 2002). Third, Freeman (1984) argues that stakeholder management is compatible with Porter's five-force model, but focuses more on stakeholder wants and needs; he proposes a modification, incorporating a sixth force—relative power of other stakeholders, which advances the focus from industry structure towards stakeholder structure. Moreover, the stakeholder perspective views firms as 'value-based networks' that work together with their stakeholders to create value (Wheeler et al., 2003). Hence, the stakeholder view is quite compatible with the activity-position view, in terms of engaging activities for enhancing firm value.

Comparing various perspectives

Although the three perspectives of competitive advantage exhibit different foci, they are not totally contradictory. In terms of distinctive levels of analysis, they contribute to the common issues of value creation, preservation and capture (see Table 3.1).

Table 3.1: Comparing different perspectives of competitive advantage

Dimensions	The resource-based view	The relational view	The activity-position view	The stakeholder approach
Level of analysis	Firm	Inter-firm	Industry structure	Generic
Value creation	Firm-specific resources <ul style="list-style-type: none"> Physical assets Human resources Knowledge/technology Financial resources Intangible resources 	Inter-firm resources <ul style="list-style-type: none"> Relation-specific assets Knowledge-sharing routines Complementary resources Effective governance 	Activities and strategies Generic strategies of positioning: cost advantage, differentiation and focus	Stakeholder management <ul style="list-style-type: none"> Market resources Internalized resources Relational resources Symbolic and idiosyncratic resources Activities and strategies
Value preservation	Firm-level barriers to imitation <ul style="list-style-type: none"> Resource scarcity Causal ambiguity Time compression diseconomies Asset stock interconnectedness 	Inter-firm barriers to imitation <ul style="list-style-type: none"> Causal ambiguity Time compression diseconomies Inter-organizational asset interconnectedness Partner scarcity Resource indivisibility Institutional environment 	Drivers of activities <ul style="list-style-type: none"> Economies of scale Cumulative learning The timing to market entry Linkages between activities Degree of vertical integration Geographic location 	Isolating mechanisms generated by stakeholder management <ul style="list-style-type: none"> Time compression diseconomies Causal ambiguity Social complexity Transaction costs
Value capture	Appropriation between the firm and its resource suppliers based on relative bargaining power arising from the ability to form coalitions, unique information, or switching costs.	Appropriation between allied firms based on relative bargaining power stemming from asset specificity, monitoring costs, etc.	Appropriation between the firm and its customers or suppliers based on relative bargaining power inherited in the market/industry structure	Appropriation between the firm and its multiple stakeholders, including resource providers, strategic partners, customers, suppliers and other stakeholders.

Value creation. The source of competitive advantage is concerned with value creation. The resource-based view asserts that the resource heterogeneity creates differential value among firms (Peteraf & Barney, 2003). As shown in Table 3.1, in the row labelled ‘Value creation’, firm-specific resources include physical assets, human resources, technology and knowledge, financial capital, and intangible assets (e.g., trademarks, patents, copyright, and goodwill). Efficiency of critical resources that can create more value than rivals can is the root of competitive advantage. The relational view extends the concept of critical resources to relational resources. Shared resources, such as relation-specific assets, knowledge sharing routines, and complementary resources, generated by close buyer-supplier relationships or strategic alliances play the lead characters, which dominate value creation (Lavie, 2006; Dyer & Singh, 1998). According to the activity-position view, strategic choices, firm activities and related drivers determine the relative competitiveness. Strategic positioning in the context of the industry structure, in this view, is much more important than efficiency in the process of value creation (Porter, 1980; 1985; 1996). In particular, Porter (1991) argues that resources and capabilities contribute to competitive advantage only if they support favourable positions of the firm, which are often guided by managerial choices.

Interestingly, Lado, Boyd, and Hanlon (1997) suggest a taxonomy of firm resources: (1) market, (2) internalised, (3) relational, and (4) symbolic and idiosyncratic resources. Market resources refer to those that can be acquired from the market, such as materials, parts, and components. Internalised resources refer to those that are directly controlled by the firm, such as patents, formulas, technology, and production or innovation capabilities. Relational resources refer to those that are

generated by inter-firm relationships, as proposed by the relational view. Symbolic and idiosyncratic resources refer to those that are intangible and socially complex, which facilitate a firm to accumulate, improve, and organise the tangible resources, such as trust, reputation, and reciprocal exchange. Symbolic and idiosyncratic resources are closely related to the arguments by some scholars that stakeholder engagement could help generate competitive capabilities through trust, innovation, and reputation (e.g., Ayuso et al., 2006; Jones, 1995; Orlitzky et al., 2003; Rodriguez et al., 2002). From the stakeholder view, this taxonomy could be a good foundation for integrating different perspectives of competitive advantage. The empirical findings discussed in Chapter 4 justify that the sources of competitive advantage could be manifold. A firm can be regarded as a value-based network (Wheeler et al., 2003) and the empirical results of this study, discussed in Chapter 5, suggest that a firm can enhance its capacity to generate value by formulating a set of good and reliable relationships with its multiple stakeholders, through valued resources as well as activity drivers

Value preservation. The durability of competitive advantage is concerned with value preservation. As shown in Table 3.1, in the row labelled ‘Value preservation’, to prevent imitation from rivals, the resource-based view addresses isolating mechanisms related to firm-specific resources, such as resource scarcity, causal ambiguity, time compression diseconomies, and asset stock interconnectedness. The relational view, in addition to causal ambiguity and time compression diseconomies, accentuates isolating mechanisms related to relational resources, including inter-organisational asset interconnectedness, partner scarcity, and resource indivisibility (Dyer & Singh, 1998). Alternatively, means to preserve competitive

advantage suggested by the activity-position view focus on drivers of activities, such as scale, sharing across activities, and optimal degree of integration, which configures firm resources to meet the strategy (Porter, 1985; 1991; Sheehan & Foss, 2007).

From the stakeholder view, isolating mechanisms generated by stakeholder management includes time compression diseconomies, causal ambiguity, social complexity, and transaction costs. They are discussed in Chapter 6. Following the multiple-source logic, the stakeholder view also integrates different perspectives, according to their respective levels.

Value capture. The appropriation of competitive advantage is concerned with value capture. As shown in Table 3.1, in the row labelled ‘Value capture’, the resource-based view addresses the issue of appropriation between the firm and its resource suppliers based on relative bargaining power. Coff (1999) posits that relative bargaining power is determined by the stakeholder’s ability to form coalitions, their unique information, or switching costs. The transaction cost economists argue that bargaining power relies on asset specificity, information asymmetries, and monitoring costs (e.g., Williamson, 1985). The above principles of transaction costs can also be applied to the situations proposed by the relational view, relative bargaining power of allied firms or strategic alliances. The activity-position view focuses on appropriation between the firm and its customers or suppliers based on relative bargaining power inherited in the market/industry structure (Porter, 1980), and the ability of the managers to identify the opportunities for competitive success in the context (Porter, 1991). The traditional perspectives of competitive advantage have ignored the role of society value in strategic decisions. The stakeholder view proposes to involve all relevant stakeholders while dealing with appropriation of interests. However, tackling

multiple stakeholders could be challenging and complicated. Managers need to consider value creation and value capture together. As Lepak et al. (2007, p. 187) put it, “the issue of different stakeholders and competing interests makes the issue of value creation very complex and also points to the importance of capturing value.”

From the discussion above, each perspective of competitive advantage makes a unique contribution to the stakeholder view, based on its distinctive level of analysis. In essence, the linkage between stakeholder management and competitive advantage is value—in terms of value creation, value preservation, and value capture. Through a generic level of analysis that involves all critical stakeholders, the stakeholder view is a holistic and coherent approach to embrace the three perspectives of competitive advantage and go beyond merely combining them directly. Nevertheless, the stakeholder view of competitive advantage is not meant to replace any of them. It is complementary to these perspectives, by providing a different dimension for better understanding the strategic decisions of firms.

3.3 Approach of the research

The objective of this study is to explore how stakeholder management influences firms' competitive advantage. The subject of this research involves a relatively under-researched area and needs an exploratory study, and thus makes the qualitative approach appropriate for this type of inquiry. Moreover, case studies provide researchers with opportunities to examine complex relationships between the firm and its social networks. Therefore, as suggested by Miles & Huberman (1994) and Eisenhardt (1989), the general research approach chosen to achieve the objective of this study is a qualitative, multiple-case study.

Denzin and Lincoln (2005) described qualitative research as being surrounded by “a complex, interconnected family of terms, concepts and assumptions” and related to “methods connected to cultural and interpretive studies” (2005, p. 2). Gummesson (2006) argues that qualitative research is a superior approach, allowing researchers to examine issues including complex, context and persona. Morgan and Smircich (1980) suggest that the research approach should be selected on the basis of the nature of the social phenomenon to be explored. This study examines the linkage between competitive advantage and stakeholder management, which involves the complex firm-stakeholder relationships, their multitude of interactions, and the uncertainty of the context. According to Gummesson (2006), quantitative methods are not appropriate for these aspects and a qualitative approach is better. Hence, this study follows the features of qualitative research design.

As stated in Chapter 1 and Chapter 2, in order to capture the complex and dynamic aspects of stakeholder interactions and competitive advantage, the research questions of this study were framed to start with ‘how.’ This type of research questions refers to more uncontrollable situations in which the researcher may be involved. According to Yin (2009), the case study approach allows a researcher to examine a social phenomenon and its context and provides more holistic explanations. Moreover, there are some advantages in using a case study method. Orum, Feagin and Sjoberg. (1991, pp. 6–7) state:

1. It permits the grounding of observations and concepts about social action and social structures in natural settings studied close at hand.

2. It provides information from a number of sources over a period of time, thus permitting a more holistic study of complex social networks, social action and social meaning.
3. It allows for time and context specific investigation.
4. It encourages and facilitates theoretical innovation.

In a similar vein, Eisenhardt (1989) argues that case study is a research approach that concentrates on examining a dynamic social phenomenon within individual organisational settings and it is appropriate to use case study research for theory building. Furthermore, multiple-case studies are a robust approach to creating theory because they allow replication and extension across cases (Eisenhardt, 1989; 1991). For the purpose of contributing insights into a relatively unexplored area, case study method can be a useful exploratory approach for acquiring data, where suitably planned and designed (Bryman, 1989). Answering the ‘how’ research questions lead this study on to choose a qualitative research design and take an exploratory research approach. The comprehensive and exploratory features of this study direct it to the case study method. This study examines a topic which is relatively under- researched. Explaining how stakeholder management affects competitive advantage can be better achieved by a profound exploration of the background, processes and outcomes of multiple cases. Given the nature of this study, the use of a qualitative, multiple-case design is deemed an appropriate approach for achieving the research purpose.

Generally, researchers use a deductive approach in quantitative studies and an inductive approach in qualitative research (Strauss & Corbin, 2008). However, some scholars suggest a combination of deductive and inductive methods, termed “abduction” or “systematic combining” (Dubois & Gadde, 2002, p. 555). Charles S.

Peirce (1839–1914) was the first philosopher who introduced abduction as a logic form. He portrays the development of knowledge in analogy to the Darwinian model of evolution (Skagestad, 1979). Peirce (1931–1958) illustrates three modes of reasoning—deduction, induction, and abduction and argues: deduction is the only reasoning of the three that is entirely certain; induction generates a rule only proved in the long run; and abduction indicates that something might be the case. Peirce proposes abduction as a third way between deduction and induction, which is referred to the generation of new ideas (Buchler, 1955). According to Hanson (1958, 1960), both the inductive and the deductive models of inquiry do not describe the processes that lead to discovery. He applied Peirce’s notion of abduction to explain how scientific discoveries occur. Alternatively, Harman (1965) addresses ‘the inference to the best explanation’ and the issues are usually connected with realism. Lipton (1991) further develops it by distinguishing between actual and potential explanations.

The abductive logic is particularly suited to research where some guidance is necessary to manage the development of novel knowledge during the study. For example, Pettigrew (1997) highlights an important characteristic of processual analyses—the ongoing iterating cycle of deduction and induction. Langley (1999) argues that “theory building involves three processes: (1) induction (data-driven generalisation), (2) deduction (theory-driven hypothesis testing), and (3) inspiration (driven by creativity and insight)” (p. 708). This study examines a relatively unexplored topic—the impacts of stakeholder interactions on competitive advantage, within the bounds of a set of well-established academic areas (stakeholder management and competitive advantage). In line with Langley (1999), this study pursues both inductive and deductive approaches iteratively in the process of theory

development, working together with inspiration. It is quite compatible with the abductive logic. As Miles and Huberman (1994) put it, “any researcher, no matter how unstructured or inductive, comes to fieldwork with some orienting ideas” (p. 17). Following the abductive reasoning, an analytical theoretical framework was proposed in the previous section. This framework revealed the important issues that need to be resolved, specified what data should be collected, provided the initial coding scheme for data analysis, and suggested disciplines for interpretation of data.

3.4 Case selection and recruitment

In this study, case selection was purposive, not random. Harrison and Freeman (1999) indicate that case studies with a purpose are most likely to contribute to new knowledge. In a discussion of case studies for theory building, Eisenhardt also argues that “random selection is neither necessary, nor preferable” (1989, p. 537). In this regard, the major concern of the researcher is not to generalise the result of the research but to make the most of the opportunity to identify the emergent patterns or theory. The aim is to pursue analytic generalisation rather than statistical generalisation (Yin, 2009). Hence, the cases selected should be able to cover various aspects of the research that is being conducted. According to Eisenhardt (1989), four to ten cases are sufficient for theory building. Pettigrew (1997) also suggests a small number of cases (normally six to ten) are appropriate for a processual analysis. In this study, the case number was ten based on the requirement to collect information from a diverse range of organisations.

The case companies were selected from firms in Taiwan. Taiwan is a small and open economy that has experienced significant positive and negative impacts from

globalisation and technological advancement in the past few decades (Dahlman, 2008). Many firms in Taiwan had to develop and maintain their competitiveness under a complex and dynamic environment for their survival. Moreover, the researcher is a Taiwanese, who has lived in Taiwan for over forty years with eighteen years of working experience in senior management positions. Taiwan was selected since the researcher could more easily collect data, from a personal perspective. Taiwanese firms were suitable for this study as they could exemplify typical firm behaviours in a competitive environment. The environment of these firms—further information on the Taiwanese context—is provided as follows.

Background of Taiwan

Taiwan is an island situated in East Asia between the South China Sea and the East China Sea off the southeastern coast of China. It has been under the government of the Republic of China since 1945. The Republic of China's political status, as a state, has been controversial in the international community since 1971, when its United Nations seat was replaced by the People's Republic of China (PRC)⁵. Nevertheless, Taiwan's rapid economic growth in the past few decades has advanced it from a developing economy into a Newly Industrialised Economy and one of the Four Asian Tigers—Hong Kong, South Korea, Singapore, and Taiwan (Page, 1994). In 2007, Taiwan was ranked as the world's 24th-largest economy among the 181 economies listed by the IMF.⁶

The success of Taiwan's economic growth can be attributed to its economic policy, including encouragement of exports and foreign direct investment (Dollar, 1992; Edwards, 1993). This explains why most of the case companies were export- or international-market-oriented. Although, the role of government has created hot

debate regarding Taiwan's growth because of the government's support, intervention and protection by scholars (Aberbach, Dollar & Sokoloff, 1994; Schrank & Kurtz, 2005), the Taiwanese government's intervention in economic activities has been dramatically reduced since the 1980s owing to more liberal policies, such as deregulation, trade liberalisation and relaxed foreign exchange control. In other words, the role of government intervention in its economic policies, such as promotion of exports, was not so important as before (Hsueh, Hsu & Perkins, 2001). Moreover, the government has since needed to integrate environmental considerations into industrial policy because of increasing demands from stakeholders (Ho, 2008; Rock, 2002).

In maintaining its economic growth, since the 1980s the Taiwanese economy has increasingly abandoned its labour-intensive industries, which were unable to compete with other developing countries such as China, Vietnam, Thailand, etc. Taiwanese companies began moving to southern China in order to take advantage of cheaper labour costs and tax incentives offered by the Chinese government (Hsing, 1999; Young & Lan, 1997). Despite the political tension, the economic relations between Taiwan and China have improved rapidly since the beginning of China's open door policy in 1978. In 2004, China became Taiwan's second-largest trading partner, accounting for 15.13% of its total trade. Since 2005, China has become the largest trading partner of Taiwan. In 2008, the trade between Taiwan and China accounted for 19.41% of Taiwan's external trade, which, together with Hong Kong, totalled 26.7%, of Taiwan's external trade.⁷ This explains why there were many activities, such as exporting goods and services, investment in plants and operations sites, and establishing strategic partnerships for marketing research, R&D and new product development, which had been engaged in by case companies in this study.

A final point that needs to be mentioned is about trade unions in Taiwan. Taiwanese workers were not allowed to form trade unions until the lifting of Marshal Law in 1986. Due to the legacy of government intervention, institutional constraints and the problem of limited organisational strength, unions' bargaining power has always been insignificant in Taiwan, compared to other developed countries (Huang, 2002; Pan, 2001). The implication is that most Taiwanese firms do not treat trade unions as powerful stakeholders, and this was reflected in each case company.

Selection of purposive cases

Miles and Huberman (1994) suggest four parameters as comparable choices for multiple-case studies: setting, actors, events, and processes. To facilitate the comparability of cases, this study uses the same parameters. The settings include the focal firms and their different stakeholders. The actors are the firms, through their senior management, such as the CEOs or senior managers. The events refer to the main foci of interest, which contribute to the understanding of the relations between stakeholder management and competitive advantage, such as investments in R&D and equipment, technology transfer, new product development, environmental protection, and participation in various social or philanthropic activities. The processes are signified by those advancements facilitated by stakeholder management, including resource commitment, capability development and relationship building, which generate and sustain competitive advantage.

To keep the four parameters constant in selecting case companies, it is possible to achieve analytic generality by selecting a diversity of case companies, in terms of different ages, industries, and sizes of organisations. Different ages partially reflect

different stages of the life-cycles of firms. Various industries can mirror numerous dimensions, such as industrial versus consumer goods, individual versus corporate consumers, general versus niche markets, traditional versus high-tech products. Different sizes of firms were sought in terms of different capital value and the number of employees.

The general criteria for case selection

In order to collect sufficient data, this study chose a mix of information-rich cases that could demonstrate the diversity mentioned above. Accordingly, the general criteria for case selection in this study were set as follows:

- The firm has been established for more than ten years.
- The firm is able to display its leadership position in relation to its competitive advantage, such as financial performance or market share.
- The firm has demonstrated its orientation in stakeholder management.
- The number of firms selected from the same industry is limited to two.

Procedure of case recruitment

Having determined the criteria for inclusion of case companies, there were several steps necessary to recruit the potential participants for this study. Firstly, the main targets were listed companies or public offering firms in Taiwan, as their background information could be collected from sources, such as corporate websites and the database of listed companies in Taiwan, which are accessible by the public. Secondly, the researcher made a phone call or sent an e-mail to each potential company in order to get the names, telephone numbers or e-mail addresses of the CEOs or the senior managers, who had been involved in strategic decisions and stakeholder management

of their companies. Thirdly, the researcher sent e-mail invitations to all potential participants, introducing this research project and inviting them to participate in it. Once the CEO or the senior manager of the potential company had agreed to be a participant, an appointment was made for the interview.

Profiles of case companies

In this study, the capital of case firms ranged from US\$ 1.54 million to 2.61 billion; the numbers of employees ranged from 30 to 42,000. The founded year of case firms ranged from 1960 to 1996, reflecting both traditional and high-tech industries, as well as different paths of growth. Details of the case companies are show as Table 3.2.

Table 3.2: Profiles of case companies

Company Name	Founded Year	Industry	Number of Employees	Capital Size (US\$,000)
Alpha	1982	Enterprise resource planning (ERP) software	950	40,960
Beta	1995	Industrial computers	470	32,470
Gamma	1988	Textbook publishing	1,000	26,248
Delta	1960	Adhesive tape	580	89,049
Epsilon	1996	Thin film transistor liquid crystal display (TFT-LCD) panels	42,000	2,401,762
Zeta	1971	Cathode ray tube (CRT); (TFT-LCD) panels	24,000	2,610,741
Eta	1961	Textiles (Apparel)	570	42,561
Theta	1980	Property development	60	32,048
Iota	1983	Contracted dyeing & finishing	370	57,973
Kappa	1993	Computer security system	30	1,539

Note: Data of October, 2007; Conversion rate: US\$ = 32.5 NT\$

3.5 Data collection

3.5.1 Semi-structured interviews

Interviews, ranging from open-ended to completely structured, are very common strategies for collecting data in qualitative research (Bryman, 1989; Creswell, 2007). Kvale defines the qualitative research interview as “an interview whose purpose is to obtain description of the life world of the interviewee with respect to interpreting the meaning of the described phenomena” (1996, p. 5). The semi-structured interview approach combines both completely structured and open-ended questions, which can focus on main themes within the research but allow new themes to emerge (Pettigrew, 1990). In other words, this approach was guided by a pre-planned interview schedule, but acknowledges that departure could occur if remarkable themes developed from interviewees’ responses (Bryman, 1989). This is consistent with the logic of this study—including both deduction and induction. Hence, the semi-structured interview approach was used to collect primary data for this study. The detailed interview schedule is in Appendix 1.

Interviews were conducted in Taiwan during September and October in 2007. The interviewees were the CEOs and/or senior managers of the selected case firms. In other words, the choice of informants—the actors—of this study was determined by the research questions, rather than by representativeness (Miles & Huberman, 1994). Interviews were carried out at the premises of the case companies. Each interview lasted for one to one and a half hours. All interviews were tape recorded with the interviewee’s consent.

3.5.2 Documentary data

Documentary data were used in this study as secondary research material. Documentary data mainly refer to the company's history and important events for each case company. They can be collected through different forms and sources. In this study, documentary data of each case company included company strategy and policy documents, company announcements, press releases, annual reports (or financial data), and information from company websites. Other secondary data, such as research or journal articles, industry yearbooks or other books, could also be included if necessary. Bryman (1989) argues that documents can offer three benefits for qualitative researchers, which other sources cannot give: first, to provide an additional channel to acquire information; second, to verify the validity of information from other sources; third, to introduce a distinct level of analysis. However, there may be some limitations of secondary data. Information contained in reports for the public may not fully reflect the true situation of a firm, for example, the missions and objectives set out in the annual reports. Hence, it is uncommon for a researcher to use documents only as the main source of research data.

Documentary data in this study were employed to help validate the interview data. They can also serve as the basis for establishing a summary of each case, such as "the case as analytical chronology" (Pettigrew, 1990, p. 280), for data analysis. According to Bryman (1989), a study belongs to the category of interview-based studies, if it mainly uses unstructured or semi-structured interviews and documents as sources of data and puts little emphasis on participant observation. Thus, this study could be labelled as an interview-based study.

3.6 Data analysis

Analysis of qualitative data refers to searching for meaning through interpreting the views and behaviours of the participants. However, it is challenging to record the process thoroughly. As Bryman put it, “unlike the analysis of quantitative data, there are few generally agreed rules of thumb for the analysis of qualitative material” (1989, p. 166). In general, Miles and Huberman (1994) suggest three types of activity in data analysis: (1) data reduction, (2) data display, and (3) conclusion drawing and verification. Miles and Huberman portray qualitative data analysis as an iterative process, consisting of the action of data collection and the above-mentioned three forms of activities in data analysis. Creswell presents the process of data analysis for the case study, including several phases as below (2007, pp. 156–157):

- Data managing: Create and organise files for data;
- Reading, memoing: Read through text, make margin notes, form initial codes;
- Describing: Describe the case and its context;
- Classifying: Use categorical aggregation to establish themes or patterns;
- Interpreting: Use direct interpretation; develop naturalistic generalisations;
- Representing, visualising: Present in-depth picture of the case (or cases) using narrative, tables, and figures.

The data analysis process for this study followed a similar set of steps to those recommended by Creswell (2007). First, the interviews were recorded and transcribed.

Data of each company, including interview transcript and documentary data, were put into an individual file folder (both electronic files and printed hard copies).

Second, initial data analysis included reading the interview transcripts and related documents, and sorting out the data. The researcher made margin notes, while noticing particular themes. The data analysis was facilitated by a coding list (See Appendix 3). The coding of this study involved three main steps: generating initial codes; collating data relevant to each code, revising the codes or creating new codes; and searching for themes. The initial coding categories were developed based on the theoretical framework and the three research questions. The codes were divided into three tiers. While reviewing the data collected, the researcher started to place the collected data into general and, subsequently, into more specific categories. For example, one of the questions posed to all participants was the sources of competitive advantage of the company. The transcripts were initially coded under the tier one category, 'Source of competitive advantage'. When all the relevant transcripts of the participants had been placed under this category, they were further analysed. This process was to determine what sub-categories (tier two) might be identified from this broad category, for example, 'Resource advantage'. Furthermore, the transcripts in this category were further placed into the tier three categories—'Markets', 'Internal', 'Inter-firm' and 'Others' respectively—as the characteristics had been distinguished from the data. While re-examining the tier three category, 'Markets', the themes emerged were 'human resources' and 'financial capital'. During the process of coding, the transcripts were coded by using the initial set of codes at the beginning. Then, a new code might be created, or an existing code modified, if needed. The coding list was finalised when all the transcripts were coded by the tier three codes.

Third, the next step was to analyse the case companies individually. As Stake put it, “our first obligation is to understand this one case” (1995, p. 4). The attention of within-case analysis is put on the particularities and complexity of each case. To achieve this goal, a case summary of each case company of this study was made. During the process of data analysis, the most important thing was to identify any emergent theme that could be linked to the research questions, or could potentially contribute new insights to the subject area.

Fourth, the following work involved categorising and organising emerged themes. For example, Alpha’s engagement in customers, by continuous efforts in product development and customer services, was a key factor of its source of competitive advantage, which could differentiate itself from its rivals. The huge capital commitments by Epsilon and Zeta created significant cost advantages, in terms of economies of scale, of the production of large TFT-LCD panels.

Fifth, as this thesis is a qualitative, multiple-case study, each individual case was a part of the whole study. Accordingly, the subsequent step was to draw cross-case conclusions. The conclusions drawn from each case would then be considered as the base of supporting evidence for replication in other cases. To search for cross-case patterns, Eisenhardt (1989) recommends three strategies: (1) the aspects suggested by the theoretical framework or current research questions were identified and cross-case similarities and differences were acknowledged; (2) similarities and differences of selected cases were displayed; (3) data gathered from different sources had been compared and prioritised in order to determine which patterns were more significant than others. For example, the isolating mechanisms that could preserve competitive advantage, including time compression diseconomies, causal ambiguity, social

complexity, and transaction costs (e.g., Dierickx & Cool, 1989; Jones, 1995; Reed & Defillippi, 1990) were identified from the literature. In the cross-case analyses, three themes emerged: technological and manufacturing capacities, environmental investments, and internationalisation, which were more significant than other themes and could be used to elaborate on and support time compression diseconomies.

The last step was to present the arguments of the research by using tables or figures. The purpose of quantitative analysis is to identify or discover conceptualisations of pattern, structure and meaning from the empirical data (Patton, 2002; Strauss & Corbin, 2008). Thus, in the key chapters of this study (Chapters 4, 5, 6 and 7), tables or figures were used to summarise and illuminate the important themes or concepts resulted from the empirical findings.

3.7 Reliability and validity

Yin (2009) suggests some criteria for assessing the quality of case-study research, including construct validity, internal validity, external validity and reliability. These criteria are common to qualitative social science research and have been suggested by other scholars (e.g., Judd, Smith & Kidder, 1991).

Validity means “the extent to which a measure reflects only the desired construct without contamination from other systematically varying constructs” (Judd et al., 1991, p. 51). It is a gauge that indicates how a theory or model describes the phenomenon investigated as a good fit (Gummesson, 2000). There are three types of validity: construct, internal, and external validity.

Construct validity is concerned with whether the constructs developed during the research refer to a set of sufficiently operational measures and genuinely reflect the social phenomenon, being investigated (Yin, 2009). Judd et al. (1991) describe construct validity as “the degree to which both the independent and dependent variables accurately reflect or measure the constructs of interest” (p. 28). To address the issue of construct validity in this study, the research employed the tactics suggested by Yin (2009), including using multiple sources of data and establishing chains of evidence, for example, using endnotes for referring to specific interviews or documents.

Internal validity concerns the causal relationships in research. Judd et al. (1991) describe internal validity as “the extent to which conclusions can be drawn about the causal effects of one variable on another” (p. 28). According to Yin (2009), internal validity is only applicable for causal or explanatory case studies, rather than exploratory or descriptive research. Although this study is exploratory, it adopts an abduction logic, which includes both induction and deduction reasoning. The arguments drawn from data need to be linked to related theories or previous studies. Thus, emphasis should be placed on the process of checking, questioning, and theorising the phenomena examined in order to achieve high credibility (Kvale, 1995).

Another issue of internal validity is related to the ability of making inference, especially considering rival explanations and possibilities (Yin, 2009). To minimise the problem of making inferences, the researcher had checked the transcripts of the interviews with other sources such as documentary data and company information from the Internet. For instance, by searching information of the case companies on the

Internet, the researcher could confirm whether a participant's response was consistent with the material gathered from other channels. The purpose of this procedure was to ensure whether the evidence was convergent. Thus, through this process, the validity of the data from the interviews was confirmed.

External validity refers to whether research findings can be generalised to other research or a similar phenomenon in the outside world. Judd et al. (1991) describe external validity as “the extent to which one can generalise the results of the research to the populations and settings of interest in the hypothesis” (p. 28). Yin (2009) emphasise the difference between case studies and survey research:

This analogy to samples and universes is incorrect when dealing with case studies.

Survey research relies on *statistical* generalisation, whereas case studies (as with experiments) rely on *analytical* generalisation. In analytical generalisation, the investigator is striving to generalise a particular set of results to some broader theory (p. 43).

To achieve external validity, this study used a multiple-case design, with ten case companies, to show different firms displaying similar patterns that relate to the research questions. However, such analytical generalisation would not happen automatically (Yin, 2009), nor be mechanical (Miles & Huberman, 1994). Researchers need to demonstrate similarity, difference, or similarity at a higher level among the multiple-case studies by skills such as translating, refuting, or synthesising (Noblit & Hare, 1988).

Reliability refers to the possibility that the research can be replicated by other investigators (Gummesson, 2000). Judd et al. define reliability as “the extent to which it is free from random error components” (1991, p. 51). As this study was conducted by only one researcher, its reliability may be subject to question. To minimise this concern, the researcher developed case study database and made a case study protocol (see Appendix 2), suggested by Yin (2009), which could facilitate an auditor to repeat the research procedure in order to achieve the same outcome.

3.8 Ethical considerations

Ethical approval of this study was required before proceeding further, as a requirement of the University, despite the fact that this project was considered to be low risk in terms of ethical concerns. The researcher acknowledged and read the ‘Code of Ethical Conduct for Research, Teaching and Evaluations involving Human Participants’ before assessing the ethical status of this research. In addition, the researcher discussed the project with his supervisor to ensure that all the potential risks to the participants in this study had been identified. Moreover, measures for dealing with the potential risks were considered. The Human Ethics Approval application for this research was approved by the Massey University Human Ethics Committee: Northern at its meeting held on 24 May 2007 (Reference No.: MUHECN 07/32).

Before conducting interviews, the researcher sent the consent form through the e-mail to ask each interviewee to sign the consent form under the permission of the company. Moreover, according to the standard information sheet of Massey

University, the candidates were advised that they were under no obligation to accept the invitation and, if they decided to participate, they had the right to:

- decline to answer any particular question;
- withdraw from the study (any time before or during the interview);
- ask any questions about the study at any time during participation;
- provide information on the understanding that the candidate's name would not be used unless s/he gave permission to the researcher;
- be given access to a summary of the project findings when it was concluded; and
- ask for the audio tape to be turned off at any time during the interview.

Documentary data regarding selected companies were collected from public sources, such as corporate websites and databases of listed companies in Taiwan. This study did not collect any documentary data that were not publicly available or had not been disclosed publicly by the case companies.

3.9 Summary of case companies

3.9.1 Alpha⁸

Alpha was established in 1982. It is located in Taipei County, northern Taiwan. The company's main business was to provide business software packages of operations management to local small- and medium-sized enterprises. At the very beginning, it had only three employees. To date, Alpha has experienced several stages of growth in revenues as well as company size. In 1988, the number of employees increased to 100 as it started after-sales customer service. In 1993, a Singaporean computer consultant company became a strategic investor in Alpha and helped it start business in the

international markets. In 1996, the number of customers increased to 5,000. Better customer services differentiated Alpha from its competitors and thus it enjoyed increasing customer patronage.

In 1998, Alpha successfully developed new products, including enterprise resource planning (ERP) and web-based electronic data interchange (EDI) systems, which could integrate all the business functions of an organisation. In 1999, Alpha was the first ERP provider that listed its shares on the Taiwan over-the-counter (OTC) stock market and formed seven strategic business units. From then on, it was able to raise funds more easily than its rivals and make more resource commitments in R&D. In 2001, its customers increased to 12,000; it also established a wholly-owned subsidiary in Shanghai, China, promoting its ERP products and providing related customer services. In 2002, it formed a joint venture with the largest Chinese IT distributor and system integrator in China, actively starting its ERP business in the Chinese market.

Although there were strong foreign competitors, such as SAP and Oracle, Alpha has been the market leader of ERP in both the Taiwanese and the Chinese markets. In 2003, it successfully developed new products, including the second generation ERP—ERP II, CRM (client relation management), SCM (supply chain management), and BSC (balanced scorecard) systems. In 2004, it started to provide customers with online customer service. In 2005, it established a strategic business unit to provide tailor-made products and services specified by a customer as well as mass customisation according to the different needs of customers from different industries. In 2006, its turnover totalled US\$ 64.8 million and the number of employees had increased to 950.

Alpha's critical stakeholders include customers, employees and shareholders. However, it implicitly respected stakeholders such as the government, media, and local communities in order to keep a good reputation for recruiting competent employees and raising funds. As its business in China has increasingly become much more important, it also began to take the government into account, which meant it faced new challenges in stakeholder management.

3.9.2 Beta⁹

Beta was established in 1995. It is located in Taipei County, northern Taiwan. The company's business idea is to provide high-quality industrial computer, components and related products such as compact peripheral component interconnect (PCI), single board computers, industrial motherboards, industrial computer peripherals, industrial computer chassis and subsystems, and computers-on-modules. The industrial computer market in Taiwan had high entry barriers, which were characterised by high technology, short product life-cycle, and small lot-size. Beta's customers were mainly from overseas and its rivals were local firms and manufacturers in South Korea.

To achieve its competitiveness, Beta's strategy was to build strategic alliances with foreign partners in order to acquire advanced technology and provide superior customer services. In 1999, to facilitate its international operation, Beta set up one subsidiary in Beijing, China, another one in Singapore, and still another in the United States of America (USA). In 2001, for the purpose of technology transfer, it built a strategic alliance with Motorola and a motor technology alliance with Mitsubishi. It established one subsidiary in Shanghai and another one in Shenzhen, China, in the same year to provide marketing and customer services. In 2002, Beta listed its shares

on the Taiwan OTC market. It established a global alliance with Sun Microsystems and set up an R&D centre in California, USA in order to access advanced technology.

Beta has been a fast-growing and major player in the industrial computer industry, with ongoing capability development and increasing marketing networks. In 2003, Beta became an associate member of Intel Communications Alliance. Its total revenues exceeded US\$ 30 million. In 2004, four products items of test & measurement and four products items of networking & communication were granted the 12th Annual Taiwan Symbol of Excellence Awards. Near the end of 2004, Beta listed its shares on the Taiwan Stock Exchange. In 2005, it established two foreign offices, one in Germany and the other in India. In 2006, it set up a sales office in Korea and co-operated with Toshiba Teli Corporation on providing vision platform solutions. In 2007, Beta acquired a US company with a total investment of US\$ 20 million. This investment significantly enhances Beta's capabilities of design, R&D, and manufacturing in embedded computing. Moreover, Beta is able to utilise its US sales channels, customer services, and logistic centres. In the same year, Beta's revenue totalled US\$ 63.8 million and the number of employees increased to 470.

The critical stakeholders of Beta include customers, strategic partners, and employees. Compared to other companies, strategic partners were extremely important because they influenced its technological capabilities. Following the same logic, employees were crucial as well. Moreover, the top management of Beta acknowledged its corporate social responsibility, and devoted much effort in stakeholder engagement, taking other stakeholders, such as local communities, into account. The challenges confronting Beta included escalating competition from larger

firms in local PC related industries, such as notebook or motherboard manufacturers, and increasing sophisticated demand for advanced or new product development.

3.9.3 Gamma¹⁰

Gamma was established in 1988. It is also located in Taipei County, northern Taiwan. Its main business was publishing non-core curriculum textbooks of primary and junior high schools, including arts and humanities, health and physical education, and integrated activities. In 1991, it set up Taichung (central Taiwan) and Kaohsiung (southern Taiwan) branch offices.

In 1995, after the deregulation of the textbook market by the government, it began to publish primary-school textbooks of core curriculum and supplementary materials. Due to its past experience in publishing non-core curriculum textbooks, Gamma became the market leader of primary school textbooks in Taiwan. In 1998, it set up a Tainan (southern Taiwan) branch office. In 2002, owing to further deregulation, it started publishing junior high school textbooks for the core curriculum. It leveraged its capabilities accumulated from publishing primary-school textbooks and actively integrated its resources to improve its operations efficiency. For example, in the same year, it successfully introduced the SAP ERP system and launched a centralised distribution centre and warehouse in northern Taiwan. Such integration of resources helped it enjoy many cost advantages in communication, data and document processing, and transportation over its rivals.

As the local textbook market matured because of more intense competition, in 2003, Gamma decided to make some strategic changes to cope with the challenges of

shrinking profit margins. First, it established a bilingual (English and Mandarin Chinese) school as a brand new business unit and started recruiting students of kindergarten and primary school levels. Second, it determined to explore the Chinese market and set up a Beijing office in China to conduct supplementary textbook market research.

In 2004, the bilingual school began to recruit junior-high-school students. Gamma established two subsidiaries in China, one in Beijing, the other in Nanjing. In 2006, it began to sell a series of kindergarten material in China. In 2007, the bilingual school started to recruit senior high school students. Gamma has become the largest primary and junior high school textbook publisher in Taiwan, in terms of market share (approximately 35%). The bilingual school has become Gamma's most profitable business unit, although its primary objective was not to make a lot of money. In 2006, Gamma's revenue totalled US\$ 82.2 million and its employees increased to 1,000.

The textbook industries involve high government intervention in both Taiwan and China. The governments are the most powerful stakeholders. Without clear and open policies, players in this industry could be at high risks. Another powerful stakeholder in this business referred to the opinion leaders of the customers. They were school teachers who could influence students and their parents. Nonetheless, the end users, the students, should not be ignored. Thus, the root of its success related to managing these critical stakeholders successfully. The challenges faced by Gamma included how to leverage their current success to future business, which involved new stakeholders.

3.9.4 Delta¹¹

Delta was founded in 1960. It is located in Taipei City, capital of Taiwan. Its first product line included pesticides for farmers. In 1964, it developed and produced polystyrene (PS) plates and closed its pesticide business at the same time. In 1974, it successfully developed and produced oriented polypropylene (OPP) adhesive tapes. The production and distribution of adhesive tapes has become its main business since then. In 1987, it started to produce printed circuit boards (PCBs) and created a separate strategic business unit.

As the main customers of Delta's two product lines were from overseas markets, it actively pursued internationalisation of its marketing and production in order to improve its competitiveness. For example, in 1988, it set up a subsidiary in South Africa, producing OPP adhesive tapes. In 1990, it formed a joint venture with a local plastics manufacture in Southern China, producing OPP adhesive tapes. In 1992, it established a subsidiary in the USA, in charge of production and marketing of OPP adhesive tapes. In the same year, Delta became a listed company on the Taiwan Stock Exchange, making it easier to raise funds for facilitating its international operation and business expansion.

In 1993, it set up another subsidiary in the USA, in charge of production and marketing of PCBs. In 1995, it established a subsidiary in Malaysia, in charge of production and marketing of OPP adhesive tapes. In 1997, it established a subsidiary in China, producing and marketing both PCBs and OPP adhesive tapes. Moreover, in 1998, it set up a subsidiary in Singapore in charge of business in Southern Asia. In 1999, it established its US headquarter in charge of all its business in the USA. In

2000, it closed its PCB business, which was purchased by a British group. From then on, Delta has focused only on its adhesive tapes related business and became a main adhesive tapes manufacturer.

Since 2000, in both the polyvinyl chloride (PVC) tape and the OPP tape industries, Delta has become one of the top three firms in the world, in terms of production volume. It achieved its competitiveness by advanced know-how as well as operations efficiency, in terms of high quality and reasonable price. There were five international business units: China, Northern Asia, Southern Asia, America and Europe. In 2003, it established a factory in Shanghai and has become the largest adhesive tape manufacturer in China. With ongoing introduction of new products, it has experienced continuous growth in its adhesive tapes and related products business. In 2007, its revenue totalled US\$ 126.3 million and the number of employees was 580.

Delta is the oldest company of the cases companies in this study. Based on its initial chemical background, it had successfully developed new products and transformed itself into a top company in manufacturing adhesive tapes. It had a history of good CSR and respected its multiple stakeholders including shareholders, employees, customers, and local communities. In particular, it had a good tradition of taking care of its employees and minimising environmental pollution. In the increasingly maturing market of adhesive tapes, the challenges faced by Delta included searching for new suppliers in order to reduce its costs of materials, and developing new products for higher profit margins. New stakeholder relations needed to be dealt with, while carrying on these strategies.

3.9.5 Epsilon¹²

Epsilon was established in 1996. It is located in Hsinchu Science and Industrial Park, sitting between Hsinchu City and Hsinchu County of northern Taiwan. Its main business idea was to manufacture plasma display panels (PDPs) and thin-film transistor liquid crystal display (TFT-LCD) panels. In 1998, Epsilon and IBM signed a contract on the technology transfer of manufacturing 3.5 generation of TFT-LCD panels. In 1999, it successfully commenced mass production of 13.3 inch-TFT-LCD panels. In 2000, Epsilon successfully commenced mass production of 17 inch-TFT-LCD panels and listed its shares on the Taiwan Stock exchange.

In 2001, Epsilon merged with another local TFT-LCD panel company and formed the largest TFT-LCD panel manufacturer in Taiwan, accounting for over 20% of the world's large-sized TFT-LCD panel market. In 2002, Epsilon went public on the New York Stock Exchange. The key competitive edge of Epsilon is to achieve the cost advantages of economies of scale by enormous resource commitments in production capacity and the application of quality control. Being listed on the New York Stock Exchange provided it with opportunities of raising huge amounts of capital through the international financial market.

In 2003, Epsilon was ranked number one in the corporate governance poll in the technological industry by Asiamoney magazine. In 2006, Epsilon merged with another local company, which enhanced its market position as well as its competitiveness. It became one of the world's top three TFT-LCD panel manufacturers, in terms of market share. Its main products included TFT-LCD panels for LCD Monitors, notebook PCs and LCD televisions. Epsilon has supplied its

products to world-leading companies, such as Samsung, Apple, and ViewSonic. In 2007, its turnover totalled US \$14.76 billion and the number of employees was 42,000; it was still the largest TFT-LCD panel manufacturer in Taiwan.

Although Epsilon is a relatively young firm compared to other case companies, it is a leader in terms of sustainability, CSR, and corporate governance, in Taiwan. One reason for this could be that many of its shareholders were institutional investors, such as the major shareholder, Acer. It is a proactive company that works towards being a 'green' company. Since 2007, it has started to implement an environmental protection policy, termed the 'Green Solution', which involved R&D, procurement, operations, logistics, service, recycling. Its major challenges included the increasing pressure for environmental protection from stakeholders, and the ongoing demand for huge amount of capital for R&D and new production capacity expansion.

3.9.6 Zeta¹³

Zeta was established in 1970. It is located in Taoyuan County, northern Taiwan. The main business was to produce and sell cathode ray tubes (CRT) for televisions. Its initial strategic partner was RCA Corporation, the then leader of television technology in the USA, to produce Black and White CRT. In 1980, it co-operated with Toshiba to develop colour CRT. In 1984, it started to produce mono displayer grade gun parts and signed a contract with Toshiba on LCD technology transfer. In 1985, it started mass production of colour CRT. In 1987, it set up a new factory producing colour CRT and became the largest manufacturer of colour CRT in Taiwan. It enjoyed advantages of technological competence and economies of scales over its competitors.

Owing to the trends of technological advancement and increasing labour costs in Taiwan, Zeta adopted two strategies. First, it decided to internationalise its production in order to take advantage of lower labour costs and leverage its previous success. For example, in 1989, it established a subsidiary in Malaysia, producing colour CRT as well as mono displayer grade gun parts. Moreover, it invested in a factory in Fu Chou, China in 1994. In 1996, Zeta established a subsidiary in the UK, producing colour televisions. Second, it started to absorb new techniques for product development. For instance, it set up an LCD lab in 1993. In 1995, it produced the first LCD module in Taiwan. In 1999, its TFT-LCD panel plant started mass production and signed a contract with Mitsubishi on plasma display panels (PDP) technological co-operation.

In 2000, Zeta was listed on the Taiwan OTC Market and it built the TFT-LCD Overseas Maintenance System. In 2001, it founded another factory in Jiangsu, China. In 2002, its PDP plant started mass production. Its Fu Chou plant was ranked the largest firm in global colour monitor CRT production. In 2007, Zeta was ranked as the fifth-largest TFT-LCD panel producer in the world, and the third-largest producer in Taiwan. Its revenue totalled US\$ 4.43 billion and the number of total employees was 9,000.

Zeta has inherited a pro-stakeholder philosophy from its parent company, rather than following the philosophy of shareholder supremacy. This philosophy has been promoted to the employees of the whole company and its customers. Zeta's critical stakeholders include shareholders, customers, employees, strategic partners, suppliers, and local communities. However, as a relatively old and conservative company, its efforts devoted in CSR and sustainability were not so significant as Epsilon's.

3.9.7 Eta¹⁴

Eta was founded in Tainan, southern Taiwan, in 1961. Its main business was the production of apparels for export markets, including the USA, Europe, and Japan. With steady growth, its capital increased from an initial investment of US\$ 92.3 thousand to US\$ 369.2 thousand in 1989 after it merged with two local plants in southern Taiwan.

The apparel industry is a typical labour-intensive industry. Eta was confronted with increasing labour costs in Taiwan and rising competition from other developing countries, such as China, Thailand and Indonesia. Eta started its plan of strategic change. First, it decided to internationalise its production. In 1991, it invested in a subsidiary in China, producing garments. In 1993, it set up a garment plant in Indonesia. In 1994, it established another garment plant in China. In 1996, its second Indonesian subsidiary plant started production. In 1998, it invested in a subsidiary in Cambodia and started production. In 1999, its second Cambodian subsidiary factory started production. In 2000, it invested in a subsidiary in El Salvador and started production. In 2004, it dissolved its subsidiary in El Salvador because of an unpleasant experience with the local union; it also invested in a subsidiary in Jordan, producing garments. In 2006, it invested in a subsidiary in Qingdao, China, producing garments.

Moreover, Eta was determined to establish a retailing business by franchises from reputable companies and establish its own fashion brands, instead of being limited to the original equipment manufacturer (OEM) business. In 1993, it established Brand A menswear and started to sell in China. In 2002, it obtained the

franchise from a German company and marketed Brand B menswear in China; in the same year, it launched its second own brand, Brand C of men's casual wear. In 2003, it obtained the franchise from a Singaporean company and marketed Brand D men's casual wear in China; in the same year it acquired a local Brand E of womenswear in the Taiwanese market. In 2004, it invested in a subsidiary in Shanghai, and developed its third own brand, Brand F womenswear in the Chinese market. In 2005, it obtained a franchise from a French company and marketed Brand G men's wear in China. In 2006, it obtained a franchise from a French company and marketed Brand H womenswear in Taiwan.

In 1999, Eta listed its shares on the Taiwan OTC market, and listed its shares on the Taiwan Stock Exchange in the following year. Up to now it has successfully diversified its production sites in Taiwan, China, Indonesia, Cambodia, and Jordan. It has also succeeded in extending its business to fashion retailing through its own brands as well as franchises. In 2007, the revenue of Eta totalled US\$ 294.2 million and the number of employees was 570.¹⁵

Eta is a successful example that has transformed itself from a traditional labour-intensive manufacturer into a leading fashion company, which has built its own brand and obtained several international franchises. Its critical stakeholders have evolved along with its changes. Its initial critical stakeholders were customers, employees and banks. Shareholders, strategic partners and local communities have become more important as it grew over time. The challenges faced by Eta included more complex stakeholder relations and shifting stakeholder expectations which it needed to manage. For instance, it needed to develop or introduce new fashion products continuously, which involved not only customers but also suppliers and other stakeholders.

3.9.8 Theta¹⁶

Theta was founded in 1980. It is also located in Taipei County, northern Taiwan. Its main business was residential property development. With steady growth, it became one of the major residential developers in northern Taiwan due to its quality, services and affordable prices. In 1999, it was granted the quality certification of ISO 9002. The main factors of its success could be attributed to the leadership and competencies of the top management, who have been in the industry for over thirty years.

Since 2005, Theta has been ranked as one of the top ten residential property developers in Taiwan. However, in an increasingly competitive and maturing local market, the top management of Theta decided to diversify its business. First, it started to develop and run a chain of full-service hotels in 2005, this plan included 14 hotels island-wide in Taiwan and will be completed around 2011. Second, in 2006, by investing US\$ 66.8 million, it acquired the majority ownership of a large theme park from a bank mortgagee sale and began a different line of business. In 2007, Theta was ranked the third-largest property developer in Taiwan, in terms of project value (US\$ 1.15billion), and its revenue totalled US\$ 171.3 million.

Residential property developers displayed an interesting phenomenon in their stakeholder relations. Along the product life-cycle, as a developer, Theta faced different key stakeholders, including land owners, governments, local communities, contractors, banks, and customers. Since its customers were the general public, it also needed to cultivate its reputation by being committed to corporate social responsibility and taking care of various stakeholders. Among the selected cases, Theta is the only company that did not engage in international business. However, as

the tension increasingly relaxed between Taiwan and China, the possibility has emerged of investment in residential properties by Chinese in the future. Moreover, the new business units of hotels and the theme park are expected to receive more Chinese tourists. In other words, new stakeholder relations could emerge.

3.9.9 Iota¹⁷

Iota was established in 1983. It is located in Taoyuan County, northern Taiwan. The main business included commission dyeing and finishing, and sales of a full-range of woven cellulosic and synthetic fabrics. In 1987 it introduced a management information system (MIS) to improve its production efficiency as well as the quality of marketing and customer service. The company philosophy was to provide high-quality services to its customers. In 1992, it was granted quality certifications, including ISO-9002, EN 29002 of Europe, and BS 5750 PART 2 of UK.

As the operations of dyeing and finishing involved high potential for pollution by toxic chemicals, Iota paid much attention to environmental protection in order to minimise its risks. Ongoing commitments in environmental protection differentiated itself from other firms and gained recognition from different stakeholders. For example, in 1993, it was appointed by the Ministry of Economic Affairs, Taiwan as a demonstration firm committed to energy saving. In 1996, it served as a leading demonstration firm for pollution prevention and waste reduction in the textile industry, assisting the government to promote environmental protection policy.

In 1996, Iota was listed on the Taiwan Stock Exchange. This is expected to support its resource commitments in new product development and pollution

prevention through raising funds from the public. It was granted international certifications for its environmental protection, such as ISO-14001 in 1998 and Oeko-Tex Standard 100 in 1999.

Due to increasing costs of labour and environmental protection, Iota has confronted escalating competition from China and other developing countries. Although it was still the leading firm for dyeing and finishing in Taiwan, it has suffered from dramatically shrinking profit margins on the relatively matured market. It has started to co-operate with foreign partners to develop new products by using advanced technologies. For example, in 2005, Iota co-operated with Nano-Tex, a leading fabric innovation company, to develop several nanotechnology-based products such as Nano-Pel and Nano-Tex Coolest Comfort. In 2007, its revenue totalled US\$ 28.2 million, and the number of employees was 370.

As a traditional textile company in Taiwan, in the past, Iota recognised its critical stakeholders including customers, the technical team, the government and suppliers. Being in a high-potential pollution industry, it was committed to many resources in environmental protection so as not to impair the welfare of local communities. However, past success does not automatically help it triumph in the future. Iota is struggling with intense competition from both local and foreign rivals. Increasing costs of labour and environmental protection have diluted its cost advantage.

3.9.10 Kappa¹⁸

Kappa was founded in 1993. It is also located in Taipei County, northern Taiwan. Its main business idea was to provide a wide range of information security devices for

E-security solutions. In 1996, it completed an RSA¹⁹ hardware encryption/decryption circuit design. In 1998, it developed the first generation of hardware encryption engine as well as key management of crypto card with Kappa's own brand name. In 1999, it released a Personal Computer/Smart Card (PC/SC) reader chip. In 2000, it released the RSA security chip. In 2001, Kappa successfully developed the Public Key Infrastructure (PKI) enabled solution and crypto smart card chip. In the same year, it became IBM's security product provider in the Pacific Asia market and successfully developed the Web Access Control System (WACS) for dealing with problems of document management. In 2003, Kappa was the first firm in Taiwan to develop the RSA, 32K smartcard IC chip successfully. In 2004, its PCI interface crypto card gained the US Product Certification of FIPS 140-1 level 3 Certification from the National Institute of Standards and Technology.

Recently, Kappa has become the leading local designer and manufacturer of PKI enabled applications, including government, financial service, health-care, and e-business transaction systems. It has provided both software and hardware solutions in both domestic and international markets. Its competition has been mostly from international firms, rather than local rivals. In 2007, its revenues totalled US\$ 1.91 million, and the number of employees was 30. Kappa is a technological design firm for web-based security solutions. Its critical stakeholders include customers, technical team, shareholders and the government. In particular, the government determined the specification of security requirement, which influenced whether Kappa was qualified as a bidder to bid a government project. Although it is a small company, compared to other selected cases in this study, the management has demonstrated its commitment to CSR and paid much attention to the needs of its multiple stakeholders.

3.10 Conclusion

The literature has indicated that there could exist a positive relationship between stakeholder management and competitive advantage. However, there is a certain knowledge gap, regarding how stakeholder management influences the source, durability and appropriation of competitive advantage. The purpose of this study was to examine the issue through a systematic approach to help fill the gap. Using a stakeholder approach, this study proposed a theoretical framework to guide the data collection, analysis and interpretation. To find a holistic approach, the starting point is trying to integrate different perspectives, including the resource-based view, the relational view, and the activity-position view. However, integration is not simply combining them together. To reconcile different views requires taking the different underlying assumptions into account. As the stakeholder theory is well established in the literature, employing a stakeholder approach to embrace the three views would not only develop a coherent perspective but also go beyond merely combining them. Nevertheless, a stakeholder approach to competitive advantage is not meant to replace the resource-based, the relational or the activity-position view. It would be complementary to these perspectives, by providing a different dimension for a better understanding of the strategic decisions of firms.

This chapter has outlined the research method of this study, including the choice of the general research approach, the criteria for case selection, the procedure for data collection, how the case data were analysed, and ethical considerations. In order to capture the complex and dynamic aspects of stakeholder interactions and competitive advantage, the general research approach chosen to achieve the objective of this study is a qualitative, multiple-case study method. Ten case companies were selected from

leading firms of several industries in Taiwan. These firms have had experiences of creating and maintaining their competitiveness under a complex and dynamic environment. They exemplify how a firm's strategic behaviour could manage their stakeholder influences in a competitive environment. Data collection included in-depth interviews and gathering documentary data. This chapter has provided the background information of Taiwan and a summary of each case company.

Chapter 4: Integrating different perspectives of competitive advantage

4.1 Introduction

This chapter examines the source of competitive advantage. As stated in the literature, competitive advantage is generally viewed as a result of a firm's competitive strategies that enhance its competitiveness over its current or potential rivals (e.g., Porter, 1980; 1985; Rindova & Fombrun, 1999; Walley & Thwaites, 1996). To achieve a competitive advantage, a firm needs to identify its source appropriately and allocate its resources efficiently. However, different views of competitive advantage provide different possible routes and suggest distinctive business strategies to achieve an advantage. For example, as stated in Chapter 2, the resource-based view emphasises the resources or capabilities that are valuable and inimitable (e.g., Barney, 1991; Dierickx & Cool, 1989; Peteraf & Barney, 2003). The relational view centres on inter-firm relationships that could generate relational assets or capabilities (e.g., Dyer & Singh, 1998; Lavie, 2006). The activity-position view highlights the importance of systematic activities that fit the strategic position or respond to the competitive context (e.g., Porter, 1985; 1991; 1996). It could be argued that any one of these views considered alone does not fully explain the source of competitive advantage. Some scholars have suggested combining different perspectives (e.g., Ray et al., 2004; Sheehan & Foss, 2007).

According to some marketing scholars (e.g., Bharadwaj, Varadarajan & Fahy, 1993; Day & Wensley, 1988; Hunt & Morgan, 1995), competitive advantage is the result of a chain effect, including both resource and positional advantages. For example, Day and Wensley (1988) suggest that the concept of competitive advantage

includes: (1) sources of advantage from superior skills and resources, and (2) positional advantages from superior customer value or lower relative costs. Hunt and Morgan (1995) provide a notion of competitive advantage that comprises comparative advantage in resources and competitive advantage in marketplace position. Following their arguments, the three perspectives of competitive advantage can be divided into two categories. First, the resource-based and the relational views are more resource-oriented. Second, the activity-position view is more position-oriented. Although Porter (1985; 1996) emphasised that competitive advantage originates from business activities in pursuit of a favourable strategic position, such activities would not be successful without deploying firm resources efficiently and effectively. Similarly, Walley and Thwaites (1996) argue that the corporate strategy determines how the resources, which forms the source of competitive advantage, are mixed. This view is compatible with Porter's (1991) argument that resources are only valuable in the situation when they are required and utilised to realise a firm's strategy. Successfully achieving competitive advantage requires not only possessing or building strategic resources or capabilities but also taking a smart strategy for strategic positioning—in terms of cost leadership, product differentiation, or focus (Porter, 1985). In other words, both resources and activities play important roles in achieving competitive advantage. Therefore, it would advance our understanding of competitive advantage to examine the two closely related concepts: resource advantages and positional advantages.

The objectives of the chapter

This chapter seeks to integrate the various perspectives by identifying their common characteristics in order to serve as a foundation for the following chapters. The main

research streams of competitive advantage concerns both resource and positional advantages; thus, two questions will be addressed:

- How does a firm achieve resource advantages over competitors?
- How does a firm achieve positional advantages over competitors?

Theoretical framework

The framework proposed in Chapter 3 (Figure 3.1) is used to analyse and explain the empirical data in this chapter. Based on this framework, the concept of competitive advantage includes four perspectives—the resource-based, the relational, the activity-position, and the stakeholder views, in terms of distinctive levels of analysis: firm, inter-firm, industry structure and society. However, in this chapter, the stakeholder view is only limited to the analysis at the society level. An integrative stakeholder view will be discussed in the following chapters. Moreover, the source of competitive advantage will be analysed by resource advantages and positional advantages respectively.

This chapter is organised as follows. First of all, how a firm can gain resource advantages through resource acquirement and accumulation is discussed. Next, how a firm can achieve positional advantages by activities and drivers is analysed. It is followed by a discussion of the relationship between resource advantage and positional advantage. Lastly, a discussion of the integrative approach to competitive advantage and the conclusion of this chapter are presented.

4.2 Resource advantages

This section addresses the question of how a firm achieves resource advantages over its rivals. The purpose of achieving resource advantages is to provide customers with better-value products or services than its competitors provide, by acquiring or accumulating superior resources. Valued resources have been a key issue across various perspectives of competitive advantage. Inspired by Sanchez (1995), Lado et al. (1997) suggest a taxonomy of firm resources: (1) market, (2) internalised, (3) relational, and (4) symbolic and idiosyncratic. Accordingly, there are four major channels through which a firm can acquire or accumulate its resources. First, resources can be purchased from the markets through transactions. Second, for some specific resources or capabilities, there are no such markets and they can only be created or accumulated within the organisation. Third, some strategic assets or capabilities can only be generated (or at lower costs) by inter-firm partnerships. Thus, they are generated by relationships and would neither be purchased from the markets nor be created or accumulated within the organisation alone. Fourth, intangible resources, such as reputations, need long-term investments as well as commitments by the firm; for the most part, it is needed to be recognised by other constituents (e.g., governments, certification organisations or local communities). They are symbolic and idiosyncratic in nature.

4.2.1 Resources acquired from the markets

In line with the resource-based view, resources that could be acquired from the markets cannot be the source of competitive advantage as they may fail to meet Barney's (1991; 2001b) VRIN/O criteria. One of the critical issues here is that due to

the mobility of resources, a firm cannot prevent competitors from imitating its activities. In other words, if resources can be recruited from the markets, they would not meet the VRIN/O criteria. However, human resources, for example, are acquired from the markets but are still crucial to the success of every organisation regardless of their different needs and wants (Barney & Wright, 1998). Wright, McMahan and McWilliams (1994) argue that, owing to differences in cognitive ability and skills among people, good candidates for a firm's human resource are limited. Thus, firms need to compete for good people in the human resource markets.

Based on the empirical results from this study, most firms interviewed suggested that they regarded human resources, including both managers and employees, as the source of competitive advantage, and they competed with other firms (including competitors and other industries) for these resources in the markets. For example, the CEO of Alpha stated: *"The major difference between our company and our competitors is that we have had a strong management team and good employees since we were established and we have been continuously employing and maintaining high quality staff."* A similar argument was made by the CEO of Beta: *"Managers and employees are crucial to our competitiveness and we are very proud of ourselves that we have an excellent system of training and development, which can attract new employees and retain existing staff."* This view was further supported by the senior manager of Zeta who pointed out that: *"Engineers are very important in this industry and one of the critical factors of our competitiveness is how to maintain these skilled human resources."*

It is evident that in the face of an intensely competitive environment, firms need superior staff for executing strategic plans to achieve their organisational goals. In

looking for specific employees that fit the organisation, the CEO of Gamma stated that: *“We need staff that fit our culture ... Compared to our competitors, we have hired and trained appropriate staff who are much more empowered and aggressive so as to face difficulties and solve problems in this highly competitive industry.”* This is also supported by the senior manager of Epsilon who said that: *“In this industry, human resources are extremely important because they are the foundation of our competitiveness ... We need to fight for talents such as managers and engineers, otherwise we cannot compete in this industry.”* He further asserted that: *“Talented people are wanted by every industry; if we don’t offer them better remuneration, other firms will recruit them right away.”*

As long as imperfect competition exists in the markets, quality heterogeneity and differential costs are likely to occur, and firms can have an advantage by acquiring and deploying these resources (Wright et al., 1994). The above quotations support the assertion that managers and employees are important sources of competitive advantage if firms utilise the potential of human resources to strengthen their capabilities further (Wright et al., 1994). They are also consistent with Wright, Dunford & Snell’s (2001) argument that human resources are a key component of a firm’s core competencies and a source of competitive advantage.

Similarly, since firms need sufficient funds to support their strategic investments, financial capital is another important source of competitive advantage, which can be obtained from the markets. In the literature, financial capital tends to be regarded as homogeneous; few studies focus on heterogeneous financial capital. One exception is a study by Foss, Foss, Klein and Klein (2007) that presents a comprehensive analysis addressing capital heterogeneity based on Austrian capital theory. This study shares

the similar notion that capital is not completely homogeneous. The empirical findings of this study confirm the importance of financial capital in generating competitive advantage. For example, the CEO of Alpha said: *“One of our competitive advantages is that we have invested significant financial resources in R&D...It is impossible for our local competitors to invest such a substantial amount of capital in new product development because they don’t have as much capital as we have.”* This argument was supported by the CEO of Delta who made a similar assertion: *“In this industry, we are one of the very few companies in the areas of China and Taiwan that can afford to have active R&D efforts and wholly-owned distribution channels in the US market, which need huge capital; both of them are our sources of competitive advantage.”*

Other respondents in this study shared a similar view and argued that financial capital is important in their industries for competition. Specifically, the senior manager of Epsilon stated that: *“Financial capital is crucial to this industry because our competitiveness is determined upon economies of scale that needs a huge amount of money for investment in production capacity.”* The senior manager of Theta also supported this view by asserting that: *“Financial costs play an important role in our industry because we are a project-based business and each project needs funding by a large sum of money... Strong financial capital position definitely strengthens our competitiveness.”* Arguably, in the case of Epsilon and Zeta, both viewed institutional investors as more important than private investors (regardless of their amount of investment).²⁰ Compared to its competitors, a firm may have an advantage if either it can acquire the resource at a lower cost (of the same quality) or of a higher quality (at the same cost). According to Janney and Folta (2006), appealing for capital from more professional investors strengthens a firm’s ability to raise subsequent financial capital.

The above discussion suggests that human resources and financial capital acquired from the markets can be sources of competitive advantage. Moreover, in the capital market, financial capital keeps on searching for better investment opportunities in terms of higher rates of return or lower risk relatively. However, it should be noted that firms compete for human resources and financial capital with other firms, and such competition is not limited to within the same industry. In other words, human resources and financial capital are mobile across different industries. Correspondingly, financial capital chases better investment opportunities all the time. This argument is in line with the activity-position view's assumption that strategic resources could be acquired from the market and their scarcity is a result of managerial choice that may change over time (Porter, 1991). As Porter put it, "Pure managerial choices lead to the assembly or creation of the particular skills and resources required to carry out the new strategy" (1991, p. 105).

4.2.2 Resources built or accumulated internally

The resource-based view tends to advocate that valued resources or capabilities, possessed or built by an organisation, are the main sources of competitive advantage (Amit & Schoemaker, 1993; Barney, 1991; 2001b; Dierickx & Cool, 1989). The empirical findings of this study confirm the above arguments that resources built or accumulated within the organisation are important. For example, the CEO of Alpha said that: "*The source of our competitive advantage includes the knowledge in this industry, our R&D capabilities, and a strong management team ...* " This view was also supported by the CEO of Delta: "*The source of our competitive advantage contains our formula, production and management capability, and R&D competence ...* " Moreover, the CEO of Eta shared a similar view by saying that: "*The*

main source of our competitive advantage includes our knowledge, experience, and managerial capabilities in the industry ... that's why we can enjoy our competitiveness."

In addition, Mahoney (1995) argues that organisational rents are generated by the combination of resources and mental models within the firm. Similarly, Schroeder, Bates and Junttila (2002) emphasise that both internal and external learning in an organisation trigger unique physical resources and distinctive capabilities, which result in superior firm performance. This is somewhat similar to Farjoun's (1998) argument that skill and physical bases are complementary. A similar argument was made by the CEO of Gamma: *"We have developed and accumulated sound know-how and human capital for the past two decades, which are difficult to be caught up with by our competitors."* The senior manager of Zeta also supported this argument by stating that: *"The source of our competitive advantage includes our production capabilities ... It is important for us to build and maintain human capital through on-the-job training and accumulation of work experience."* In a similar vein, the senior manager of Theta argued that: *"As we are a project-based business, our knowledge and experience accumulated in this industry are crucial to our competitiveness ..."* This view was further confirmed by the senior manager of Epsilon:

The source of our competitive advantage is not only dependent upon recruiting the right people but also we provide them with good training and development. In contrast to our competitors, I think, our company is superior to them regarding how to accumulate human capital ... Moreover, we have several patents, developed by ourselves ...

Certainly, intangible resources such as human capital and knowledge seem to be much more firm-specific, time-consuming, and path-dependent than resources from the markets (Dierickx & Cool, 1989; Schroeder et al., 2002). As internally built resources and capabilities are difficult to be purchased from the markets (Teece et al., 1997), they have more chance of meeting the VRIN/O criteria (Barney, 1991; 2001b). The above discussion supports the view that competitive advantage comes from valued resources possessed by the organisation as well as capabilities built or accumulated within the organisation.

Moreover, a combination of resources from two different sources may reinforce each other and provide a firm with an advantage over its rivals. For instance, more financial capital in R&D investments could facilitate knowledge or capability building. On the other hand, a firm with unique human capital or capabilities may find it easier to persuade potential investors and raise capital than those who lack such features (Youssef, 2001). Therefore, they may be complementary rather than independent.

4.2.3 Resources acquired or generated through inter-firm partnerships

According to the relational view, inter-firm partnerships can create network resources such as pooled human resources, financial assets, marketing efforts, R&D investments, and reputations, which enhance the performance of the interconnected firms (Lavie, 2007). Ireland, Hitt and Vaidyanath (2002) argue that inter-organisational alliances are a valuable channel for firms to gain access to strategic resources. The following quotations from interviewees of this study confirm that inter-organisational alliances may be an important source for firms to acquire strategic resources that can help them achieve their competitive advantages. Three kinds of strategic resources were

generated through inter-firm interactions or strategic partnerships: relation-specific assets, knowledge-sharing routines, and complementary resources and capabilities (Dyer & Singh, 1998; Lavie, 2006).

First, the empirical findings support the view that inter-firm partnerships encouraged firms' commitment to strategic investments at lower risk because of mutual trust (Dyer & Singh, 1998). Relation-specific assets generated through inter-firm partnerships would lower co-ordination costs and can benefit more efficient communications (Dyer, 1996). This phenomenon is common in joint R&D projects and joint production (Teng, 2007; Ha & Rothaermel, 2005). For example, Alpha and Eta illustrated that relational-assets were created to strengthen their competitiveness and achieved superior performance, including those related to new product, advanced equipment replacement, and specific capacity expansion. The CEO of Alpha stated that:

In the process of our product development, we have also added new functions, which we regarded as important when an enterprise (customer) succeeded in growing to a certain size ... our growth comes from the increased needs of our customers, which make us upgrade our products and facilitate our innovation ... We learnt and developed our new products in accordance with business practices of our customers.

This view was confirmed by the CEO of Eta who said that: *"We have developed so-called 'strategic partnerships' with our core customers; based on this kind of relationship, we are able to upgrade our competitiveness by related strategic investment, including new product introduction, human resource development and financial capital expansion."* Nevertheless, investment in relation-specific assets

still bears the risks of opportunism and a partner's exit from the alliance (Dyer & Singh, 1998; Teng, 2007). CEOs of both Alpha and Eta emphasised that the trust between strategic alliances should be based on a long-term relationship.

Second, the case companies in this study illustrated that strategic partnerships could be the source of competitive advantage by facilitating the generation of knowledge-sharing routines (Dyer & Singh, 1998). According to Nahapiet and Ghoshal (1998), common goals and compatible culture support knowledge-sharing between organisations. Knowledge-sharing routines exemplify the benefits from shared resources of alliances (Lavie, 2006). According to the CEO of Gamma, the common goal of his company and its customers is to help generate new knowledge for product improvement and development. He stated that:

We have held a wide range of seminars for the past decade and accumulated very close relationships with our customers, especially those opinion leaders ... the feedback either from these opinion leaders individually, or from seminars as group conclusions, continuously played an important role in our product improvement and development, which enhanced our competitiveness.

Moreover, knowledge sharing requires some supporting conditions. Mathews (2003) indicates that the process of strategic resource acquisition includes three stages—search, acquisition and absorption. One important issue is the absorptive capacity, which is mainly determined by a firm's prior knowledge (Cohen & Levinthal, 1990). Therefore, Mathews (2003) argues that absorption is the most challenging stage of the resource acquisition process, for it requires the firm to assimilate the shared resource effectively into its existing resource profile. This view

was supported by the senior manager of Epsilon who said that: *“Based on the early technological development, the knowledge and technology were transferred from our strategic partners smoothly ... As for our subsequent R&D efforts, we have already developed our own technology capabilities and acquired quite a few patents in this industry.”* This argument was also confirmed by the senior manager of Zeta who pointed out that:

Through our parent company, we established relationships with our strategic partners and acquired advanced knowledge and technology from them; the technology transfer also included managerial know-how ... We chose partners with the similar culture and we also engaged in our own R&D activities ... We not only obtained operations skills and routines but also built the management systems needed with their help.

In the cases of Epsilon and Zeta, the senior managers of the two companies stressed that learning culture and current capabilities influenced their absorption capacities that facilitated them to absorb new ideas, knowledge and technology generated from interactions between themselves and their strategic partners.

Third, the empirical data showed that firms gained competitive advantages from the benefits generated by leveraging complementary resources or capabilities through strategic alliances (Das & Teng, 2000; Dyer & Singh, 1998). Stuart (2000) argues that a firm's resource base plays an important role in establishing strategic partnerships. Thus, firms prefer to choose particular partners which possess strategic resources that cannot be easily acquired elsewhere (Doh, 2000). Strategic resources encompass capabilities, human capital, technology, know-how, and reputations. The CEO of Eta

supported this argument by stating that: *“For the past few years, we have enjoyed an advantage in a specific market segment that is high unit price and relatively small order; we have integrated and mobilised the resources of upper, middle, and lower streams as a strategic alliance. Each participant has its unique contribution to this alliance, which helps provide products with high quality and flexible design within a very short period.”* A similar argument was made by the CEO of Iota: *“We formed a supply network with our strategic partners, from spinning, weaving to dyeing and arranging; it strengthened our competitiveness in this highly competitive market.”* This view was further supported by the CEO of Kappa: *“In co-operation with our prestigious foreign partners, we leverage our technologies, capabilities and experiences in the local market so that we have competitive advantage in several overseas markets ... we can share our resources or capabilities with each other.”*

In the cases of Eta, Iota and Kappa, all of them possessed distinctive resources or capabilities, for example, Eta’s know-how in apparel production and Iota’s expertise in textile dying and arranging. They collaborate with their strategic partners and thereby strengthened their competitiveness, collectively. Moreover, successful partnerships facilitate learning owing to the exposure to new resources, capabilities and novel combinations of existing ones (Ireland et al., 2002).

In short, the above empirical findings clearly illustrate that competitive advantage can be generated not only by individual firms acting alone, but also through interactions between organisations. As Ireland et al. put it, *“Few firms have all of the resources needed to compete effectively in the current dynamic landscape. Thus, firms seek access to the necessary resources through alliances”* (2002, p. 413).

4.2.4 Resources built or generated through other channels

In addition to those resources acquired from the markets, built or accumulated within the organisation, and through interactions between firms, strategic resources may come from other channels. One important such resource is a firm's reputation that has the potential for value creation and cannot be easily imitated by competitors (Roberts & Dowling, 2002). Fombrun (1996) proposes that corporate reputations comprise four elements: credibility, reliability, responsibility, and trustworthiness. A good reputation can be regarded as a strategic resource and the source of competitive advantage. First, it may help a firm enjoy cost advantage such as the higher level of value created by superior employees (Dierickx & Cool, 1989; Roberts & Dowling, 2002; Rumelt, 1987). Second, it may enhance differential advantages such as corporate awareness and branding (Balmer & Gray, 2003; Walley & Thwaites, 1996). However, corporate reputations are not an ordinary type of intangible assets. It is necessary to note that corporate reputations cannot be solely built within the firm, purchased from the market, or created by inter-firm partnerships. A corporate reputation is generally created as the result of a multifaceted process and it needs endorsement by both internal and external constituents of the organisation. Gotsi and Wilson (2001) describe corporate reputations as “dynamic constructs, which influence and are influenced by all the ways in which a company projects its images: its behaviour, communication and symbolism” (p. 29).

The empirical findings of this study demonstrate that reputations, recognised by different stakeholders, is an important resource to a successful firm. For example, the CEO of Alpha confirmed this argument by saying that: “*We promoted effectiveness, responsibility, and passion as our corporate culture ... We have been successful for*

over twenty years and have become the leader in this industry because we have respected and fulfilled our responsibility to our employees, shareholders and customers, and they can trust us as a reliable and reputable company.”

This view was also supported by the CEO of Beta and he stated that: “*Our superior performance in the past few years exemplifies the core value of our company, ‘CARE’; it includes commitment, assurance, reliability, and execution ... We care about our customers, shareholders, and employees ... our commitment to stakeholders has made us a reliable and trustworthy institution.*” Moreover, a similar argument was made by the senior manager of Zeta: “*Our corporate culture comprises honesty, integrity, industriousness, frugality, which support us as a prestigious company to achieve the vision of sustainable development with the 4S goal of customer's satisfaction, employee's satisfaction, social satisfaction and global satisfaction.*”

The above quotations confirm that reputation is an important strategic resource, in which most firms actively invest. Corporate reputations signify firms’ economic performance, consistency with social norms, and strategic positions (Fombrun & Shanley, 1990) and influence different decisions of various stakeholders, including investment decisions, career selections, and product choices (Dowling, 1986). Accordingly, a good reputation helps a firm recruit talented people, raise financial capital, and build alliance partnership with other organisations. This argument was supported by the senior manager of Epsilon who argued that:

Integrity has been an important culture of our company as a reputable organisation that can be trusted by our customers, shareholders and potential

investors, and our employees ... it's a plus for us to raise funds in the capital market and recruit high quality employees, not to mention helping us establish business relationships with our customers and suppliers.

On the other hand, sufficient resources enable a firm to build a good reputation, especially in the field of philanthropy. This view was supported by the senior manager of Theta: *"We have established our reputations by continuous improvement in every respect, which is extremely important to our business ... As we felt that we should give something back to the society, we established a foundation in charge of holding various charity events such as supporting the disabled ..."*

4.2.5 Developing a resource profile through numerous sources

This section seeks to answer the question of how a firm achieves superior resource advantages against its rivals. The key issue is how a firm provides its customers with better-value products or services by deploying its resources in a more efficient way. The empirical findings of this study highlight that the source of competitive advantage is not limited to any single perspective. All respondents revealed that their competitive advantages originate from combinations of strategic resources from different channels (see Table 4.1). Strategic resources include those acquired from the markets, internally built or possessed by the firm, jointly generated by strategic partnerships, or created through other channels. The proposition of developing a resource profile coming from numerous sources is consistent with Lado et al.'s (1997) argument that competitive advantage is based on multiple resources. In other words, to gain resource advantage, a firm needs to develop an effective bundle of resources, instead of relying on an individual resource. It also supports Sanchez's (1995; 1997)

Table 4.1: Empirical findings: Source of resource advantages

Case company	Types of resources			
	Market	Internal	Relational	Other
Alpha	<ul style="list-style-type: none"> • human resources • financial capital 	<ul style="list-style-type: none"> • knowledge • R&D capabilities 	<ul style="list-style-type: none"> • complementary capabilities in product innovation 	<ul style="list-style-type: none"> • culture of commitment and integrity; reputation
Beta	<ul style="list-style-type: none"> • human resources • financial capital 	<ul style="list-style-type: none"> • product design • innovation capabilities 	<ul style="list-style-type: none"> • complementary resources and capabilities in product innovation 	<ul style="list-style-type: none"> • culture of commitment, assurance, reliability, and execution • learning culture • reputation
Gamma	<ul style="list-style-type: none"> • human resources 	<ul style="list-style-type: none"> • knowledge • experience • management capabilities 	<ul style="list-style-type: none"> • relational assets (joint venture) • complementary resources and capabilities 	<ul style="list-style-type: none"> • culture of learning and problem-solving • reputation
Delta	<ul style="list-style-type: none"> • human resources • financial capital 	<ul style="list-style-type: none"> • formula • production and management capabilities • R&D competence 	<ul style="list-style-type: none"> • relational assets (joint venture) • complementary resources and capabilities 	<ul style="list-style-type: none"> • culture of commitment and integrity • reputation
Epsilon	<ul style="list-style-type: none"> • human resources • financial capital 	<ul style="list-style-type: none"> • Patents • innovation and production capabilities 	<ul style="list-style-type: none"> • advanced knowledge, technology and managerial know-how from strategic partners 	<ul style="list-style-type: none"> • culture of commitment, integrity, and sustainability • reputation
Zeta	<ul style="list-style-type: none"> • human resources • financial capital 	<ul style="list-style-type: none"> • Patents • innovation and production capabilities 	<ul style="list-style-type: none"> • advanced knowledge, technology and managerial know-how from strategic partners 	<ul style="list-style-type: none"> • culture of honesty, integrity, industriousness, frugality • reputation
Eta	<ul style="list-style-type: none"> • human resources • financial capital 	<ul style="list-style-type: none"> • knowledge • experience • managerial capabilities 	<ul style="list-style-type: none"> • relational investment in new product introduction, human resource, and production capacity • complementary resources and capabilities 	<ul style="list-style-type: none"> • learning culture • reputation
Theta	<ul style="list-style-type: none"> • human resources • financial capital 	<ul style="list-style-type: none"> • knowledge • experience 	<ul style="list-style-type: none"> • complementary resources and capabilities 	<ul style="list-style-type: none"> • learning culture • reputation
Iota	<ul style="list-style-type: none"> • human resources • financial capital 	<ul style="list-style-type: none"> • knowledge • technology of operations 	<ul style="list-style-type: none"> • complementary resources and capabilities 	<ul style="list-style-type: none"> • culture of integrity • reputation
Kappa	<ul style="list-style-type: none"> • human resources 	<ul style="list-style-type: none"> • technologies • capabilities • experiences 	<ul style="list-style-type: none"> • complementary technologies, capabilities and experiences 	<ul style="list-style-type: none"> • reputation

argument that a firm's competitive advantage stems from its capacity to acquire multiple resources and its capability to co-ordinate the utilisation of those resources from different sources—internalised, relational and market. Sanchez (1995; 1997) proposes that a firm's ability to develop and deploy its resource base provides it with strategic flexibility to cope with unstable market opportunities and threats. This is in line with the dynamic capabilities approach, which suggests that, in a dynamic environment, each company may organise, adjust, and reconfigure its resource profile over time (Eisenhardt & Martin, 2000; Teece et al., 1997). In other words, firms need to perform two kinds of activities—resource picking and capability building—in order to gain their competitive advantages (Makadok, 2001). Moreover, as mentioned in the previous subsections, firms with valued resources enhance their capacities to acquire or accumulate further strategic resources. Resources from different sources can reinforce each other to expand or strengthen the resource portfolio.

The above discussion generates the subsequent proposition:

Proposition 4.1: *A firm's resource advantages are based on an effective resource portfolio consisting of strategic resources acquired or accumulated from multiple channels, including markets, within the organisation, inter-firm relationships, or interaction with other stakeholders.*

4.3 Positional advantages

This section addresses the question of how a firm achieves positional advantages over its rivals. According to Porter (1985), the generic competitive strategies, which can help a firm achieve a favourable position in an industrial structure, include cost

leadership, product differentiation, and focus—either cost leadership or product differentiation in a niche market. In contrast to the resource-oriented perspectives of competitive advantage (i.e., the resource-based and the relational views), the activity-oriented view (i.e., the activity-position view) focuses on activities rather than on resources per se. Porter (1985; 1991; 1996) emphasises that competitive advantage stems from the strategy, in which a firm effectively configures its resources and links a set of activities, creating lower cost or better customer value than its rivals. Therefore, it is activities (of a strategy) that determine what strategic resources should be acquired or generated in order to achieve competitive advantage (Porter, 1991; Walley & Thwaites, 1996).

In a similar vein, marketing scholars emphasise the concept of customer value and argue that customer value creation is crucial to gaining competitive advantage (e.g., Anderson, Narus & Van Rossum, 2006; Rintamäki, Kuusela & Mintronen, 2007; Smith & Colgate, 2007). Woodruff defines customer value as “a customer’s perceived preference for, and evaluation of, those product attributes, attribute performances, and consequences arising from use that facilitates (or blocks) achieving the customer’s goals and purposes in use situations” (1997, p. 142). The concept of customer value is well-matched with Porter’s (1985; 1991) argument, in terms of positional advantages. For instance, Porter (1991) emphasises that the term ‘value’ in his value chain analysis (Porter, 1985) means ‘customer value’, which leads to a prospective profit for the firm. Thus, customer value is relevant to competition and firms that offer better value products than rivals would achieve competitive advantages.

Specifically, Porter (1985; 1991) emphasises the analysis should be focused on discrete activities. Furthermore, Porter (1991) proposes that the drivers of a discrete

activity, and in particular the mix of individual drivers, structurally determine the variation among rivals in terms of cost advantage or product differentiation. Porter (1985) identifies two types of drivers. Cost drivers lower the cost of an activity by reducing the costs of the inputs for generating the same level of output or by increasing output without adding the costs of the inputs. Differentiation drivers lead to a customer's greater willingness to pay by enhancing the customer value of the product. Sheehan and Foss (2007) describe the meaning of the drivers by including both the firm in which the activity operates and the context in which the firm operates. In other words, to gain competitive advantage, the activity-position view concerns activities and drivers on two levels. One focuses on the organisation itself; the other focuses on the competitive context of the organisation (Jørgensen, 2008).

According to the empirical data collected from this study, there are three main findings relevant to positional advantages. First, firms acquire resources and maintain their resource portfolios that are related to their positional advantages. In addition, firms achieve their competitive advantages, by being, at least, partially influenced by discrete activities and drivers of firms. Moreover, firms, which achieve competitive advantages by taking advantage of activity drivers, demonstrate that they have sensed the opportunities in the competitive environments and appropriately responded to them.

4.3.1 The resource portfolios and positional advantages

An emphasis that has emerged from the empirical findings of this study is that a firm's competitive advantage relies on a superior resource portfolio, rather than on individual resources. Moreover, it could be argued that an effective resource portfolio

contributes significantly to the opportunities in achieving favourable strategic positions. In other words, how the resources are combined is crucial to the firm's competitiveness.

As shown in Table 4.2, using the typology of the generic competitive strategies proposed by Porter (1985), the competitive strategies of companies interviewed can be put into four categories: differentiation, cost advantage, focus and a mixed strategy. The mixed strategy includes both cost advantage and differentiation.

Table 4.2: Positional strategies of case companies²¹

Company	Positional strategy	Pure or mixed
Alpha	Differentiation	Pure
Beta	Focus/Cost advantage	Pure
Gamma	Differentiation	Pure
Delta	Cost advantage + Differentiation	Mixed
Epsilon	Cost advantage	Pure
Zeta	Cost advantage	Pure
Eta	Cost advantage + Differentiation	Mixed
Theta	Cost advantage + Differentiation	Mixed
Iota	Cost advantage + Differentiation	Mixed
Kappa	Focus/Cost advantage	Pure

The first category is characterised by its differentiation strategy. This category includes Alpha and Gamma. The competitive strategy of the two companies was to create higher customer value by product or service differentiation, including new product development and upgrading customer services. They tended to emphasise

flexibility and customised products or services. Therefore, the two companies needed more internalised resources, such as empowered or innovative staff, to meet customer demands. Relational resources were not so important as for other groups. Reputations, in this situation, focused on product and service quality, brand awareness and trust in the industry that helped them facilitate the establishment of transaction relations with counterparts or support better terms of transactions. This could also have helped them recruit good employees and raise capital. Thus, the mix of resources in this category displayed a customer-oriented resource advantage that could support their differentiation strategies.

Cost advantage is a feature of the second category. Epsilon and Zeta belong to this category. Both of them enjoyed cost advantages through economies of scale, which relied upon huge financial capital. However, most investors should have reasonably assessed several factors before deciding on their investments. The success of their business included technological and production capability, which was supported by a strong management team and engineers. Relational resources were important because they needed advanced technological transfer from strategic partners. Reputations, in this situation, focused on cost advantage, quality stability, trust in the industry, and corporate image that helped them facilitate the establishment of transaction relations with counterparts or support better terms of transactions, including recruiting good employees and raising huge capital. As a result, the mix of resources of this category displayed a production-oriented resource advantage that was able to match their cost advantage strategies.

The third category exemplifies a focus strategy. This category includes Beta and Kappa. They targeted the customers of specific niche markets, which had high

technological entry barriers and required the accumulation of innovation capabilities. The most important strategic resources were core technological knowledge and capabilities embedded in their management teams. Their resource portfolios were dominated by internalised resources and capabilities. Market resources were not as important as internalised resources. Relational resources tended to focus on those that could enhance their technological or innovation capabilities. Reputations also centred on how to strengthen their technological knowledge or capabilities. Consequently, the mix of resources of this category displayed a capabilities/knowledge-oriented resource advantage that was capable of fitting their focus strategies.

The fourth category contains four companies—Delta, Eta, Theta, and Iota. This category demonstrates a mixed strategy, including both cost advantage and differentiation within the same organisation. However, the case companies in this category used different competitive strategies implemented by separate strategic business units according to the different markets (or segments) targeted, rather than using a mixed strategy in the same market. For example, Eta used a differentiation strategy for its fashion products, but used cost leadership for its OEM apparels. The mix of resources of companies in this category involved both customer-oriented and production-oriented resource advantages. However, they usually established separate departments to handle different orientations of resource advantages that supported two different positional advantages in distinctive markets (or segments).

The empirical findings of this study show that a firm's resource portfolio is closely related to its positional advantage. On the one hand, a superior resource portfolio can create efficiency (Bowman & Ambrosini, 2007; Peteraf & Barney, 2003) and thus help create positional advantages; on the other hand, it is the managerial

choices that determine how resources are picked, developed and accumulated (Porter, 1991; 1996). In particular, Porter (1996) disputes the view that treats critical resources as key factors of success. It is worthwhile to examine the other side of the coin—activities and their drivers.

4.3.2 The role of activities and drivers

Using Porter's (1985) value chain analysis, a firm's activities are divided into two categories: primary and support activities. Primary activities include inbound logistics, operations, outbound logistics, marketing and sales, and services. Support activities refer to procurement, technology development, human resource management and firm infrastructure, such as planning, finance, accounting, and public affairs. Porter (1985; 1991) identifies important drivers that affect both relative cost and differentiation. They could be either a cost driver or a differentiation driver, or both. There are six drivers of activities revealed by the case companies in this study: (1) economies of scale, (2) cumulative organisational learning, (3) the timing to market entry, (4) linkages between activities, (5) degree of vertical integration, and (6) geographic location (see Table 4.3).

The first driver is economies of scale. Economies of scale create cost advantages for operations by decreasing unit costs of output. They are usually enjoyed by large firms because of the larger scale of production capacity. Economies of scale enable large firms to grab a major portion of market share (Christensen, 2001). For example, Delta and Zeta have actively expanded their production capacities and taken the advantage of lowering production costs, particularly fixed costs, by mass production.

Table 4.3: Empirical findings: Source of positional advantages

Case company	Positional advantages	
	Activities Drivers	Responses to the competitive context
Alpha	<ul style="list-style-type: none"> economies of scale in R&D 	<ul style="list-style-type: none"> availability of financial capital and human resources
	<ul style="list-style-type: none"> cumulative learning in comprehensive customer service 	<ul style="list-style-type: none"> sophisticated customer demand
Beta	<ul style="list-style-type: none"> the timing to market entry into the industrial computer market; 	<ul style="list-style-type: none"> context for strategy and rivalry
	<ul style="list-style-type: none"> geographic location: international operations network and access to customers 	<ul style="list-style-type: none"> availability of specialised inputs sophisticated customer demand
Gamma	<ul style="list-style-type: none"> the timing to market entry into the local textbook market 	<ul style="list-style-type: none"> context for strategy and rivalry
	<ul style="list-style-type: none"> cumulative learning in textbook publishing 	<ul style="list-style-type: none"> sophisticated customer demand
Delta	<ul style="list-style-type: none"> economies of scale in production 	<ul style="list-style-type: none"> availability of financial capital and human resources
	<ul style="list-style-type: none"> degree of vertical integration 	<ul style="list-style-type: none"> availability of effective supporting industries
Epsilon	<ul style="list-style-type: none"> economies of scale in production 	<ul style="list-style-type: none"> availability of financial capital and human resources
	<ul style="list-style-type: none"> cumulative learning in TFT-LCD panel design, patent, operations and related management systems linkage between activities: R&D and marketing activities; HR development and technology development 	<ul style="list-style-type: none"> sophisticated customer demand
Zeta	<ul style="list-style-type: none"> economies of scale in production 	<ul style="list-style-type: none"> availability of financial capital and human resources
	<ul style="list-style-type: none"> cumulative learning in TFT-LCD panel design, patent, operations and related management systems 	<ul style="list-style-type: none"> sophisticated customer demand
Eta	<ul style="list-style-type: none"> geographic location: international production network 	<ul style="list-style-type: none"> availability of human resources
	<ul style="list-style-type: none"> integrated supply network 	<ul style="list-style-type: none"> availability of related and supporting industries
Theta	<ul style="list-style-type: none"> geographic location 	<ul style="list-style-type: none"> availability of financial capital and human resources
	<ul style="list-style-type: none"> degree of vertical integration 	<ul style="list-style-type: none"> availability of related and supporting industries
Iota	<ul style="list-style-type: none"> the timing to market entry: the local dyeing and arranging market 	<ul style="list-style-type: none"> context for strategy and rivalry
	<ul style="list-style-type: none"> integrated supply network 	<ul style="list-style-type: none"> availability of related and supporting industries
Kappa	<ul style="list-style-type: none"> linkage between activities: R&D and marketing 	<ul style="list-style-type: none"> sophisticated customer demand

Both of the two companies were ranked in the world's top ten firms in their industries in terms of production volume and market share. As the CEO of Delta put it:

Our level of production is ranked the second or the third in Asia, and ranked in the top ten in the world ... our competitive advantages include our production process and management systems ... which can automate the production process and lower the cost ratio of labour ... the quality and reliability of our products are also very important to our competitiveness ...

The senior manager of Zeta further supported this argument by saying that: *“Our competitive advantage is our production capability ... It is not a special technology but a capability to minimise the cost by mass production.”*

Besides, the advantage of economies of scale can be applied to R&D activities; thus large firms are more able than smaller firms to afford new product development that needs more investment. The following quotation from Alpha's CEO supports this argument: *“When the scale is large to some extent, ... we have the ability to research, implement and deliver what we want ... to tailor customer needs ... We can allocate our costs of R&D to our customers and enjoy cost advantage.”*

Although economies of scale provide competitive advantage, they also constrain a firm's flexibility (Fiegenbaum & Karnani, 1991). The concepts of economies of scale is closely related to cost leadership. However, as there exists merely one cost leader in a market or a market segment (Porter, 1985), the opportunity to pursue the cost leadership route is small (Walley & Thwaites, 1996). Thus, it is rare that firms solely depend on economies of scale or lower cost to compete, they tend to link them

to other activities and drivers. For example, Delta has the cost advantage of economies of scale, but it focuses on the reliability and quality of its products as well as good customer service. Alpha enjoyed the advantages of economies of scale in its R&D and customer services, but it has been in pursuit of a differentiation strategy in the market.

The second driver is cumulative organisational learning. Learning refers to increased efficiency in an activity developed from prior practice and experience. A number of studies record the phenomenon of learning in many industries, such as pharmaceuticals (Pisano, 1996), semi-conductors (Bohn, 1995; Hatch & Mowery, 1998), and health care (Waldman, Yourstone & Smith, 2003). Cumulative organisational learning could be closely related to other drivers such as economies of scale and the timing to market entry. It improves operations, including know-how and management systems, and furthers the advantages of scale economies and early movers. Porter (1985) argues that learning could result in cost reductions in operations or services over time. The empirical data of this study support this argument. For example, from the experiences of interacting with customers, Alpha learnt and improved its customer services by introducing new technologies in order to serve more customers and more efficiently than its rivals. As the CEO of Alpha stated that:

We keep on improving our customer service from our prior experience ... Generally speaking, customer service is critical in this industry. Thus, we divided the areas of our service very delicately and improved them continually ... In particular, the modes of customer service such as call centres and e-learning have been our competitive advantage while we faced a huge market—China. As China is a large

region, it's impossible for customers to come to our offices to participate in the training we hold, especially the costs would have become very high ... we needed to create many kinds of services that customers recognised.

On the other hand, cumulative organisational learning supported accumulation of knowledge and skills and enhanced Gamma and Zeta's competitiveness. As the CEO of Gamma said:

The advantage is mainly from building up of human resources ... Therefore, the advantage is mainly focused on human resource development and knowledge development ... To be ahead of our competitors, we have to learn how new products are developed in the advanced countries such as Japan, USA, and European countries. We need to keep learning new things. We also rely on our staff and contacts with our customers to realise what customers want, which are the main sources of our learning and improvement.

Similarly, the senior manager of Zeta emphasised that: *"For us, TFT-LCD panel was a brand new product ... , based on learning and accumulation of skills and knowledge, we were able to allow production expansion and market growth in order to reduce our costs and that's our competitive advantage."*

It is necessary to clarify two related concepts regarding cumulative organisational learning: organisational learning and organisational knowledge. Generally, the literature of organisational learning tends to view learning as a social process (Cook & Yanow, 1996; Gherardi, Nicolini & Odella, 1998). On the other hand, the literature of organisational knowledge tends to view organisational knowledge as

an intangible assets, which is a kind of resources that can be possessed by firms (Grant, 1996; Teece, 1998; Nonaka, 1994). Therefore, the resource-oriented perspective focuses on what resources could be generated by cumulative organisational learning; alternatively, the activity- oriented perspective emphasises the process—the activity of learning per se.

The third driver is the timing to market entry. A pioneering firm that enters into an emerging market can make positive economic profits from first-mover advantages—by building a reputation in the business, utilising the learning curve, or gaining consumer patronages (Lieberman & Montgomery, 1988; 1998; Porter, 1980). Lieberman and Montgomery (1988) suggest three origins of first-mover advantages: technological leadership, preemption of assets, and buyer switching costs. In this study, there are three companies displaying the driver of the timing to market entry. For instance, the CEO of Gamma said that:

The government only opened a very limited scope of textbook market in 1989 ... It was only until 1996, the government opened the primary school textbooks for core subjects ... The business in textbooks was all done by the government in the past. In the private sector, there was no know-how. I utilised the period 1989-1996, and built up my know-how. While the government further opened up the market in 1996, I had the advantage in the industry, as I was the first one that entered the market ... It contributed to the significant growth of my company ...

In addition, the CEO of Beta confirmed this view by stating that:

We first entered this market by leveraging the excellent manufacturing infrastructure in Taiwan—high efficiency in manufacturing, designing and application

of the IT and the electronic industries ... and we chose a niche market that had higher entry barriers...Although competitors from the US and European countries had their own competitive advantages, the demand for better cost performance kept increasing, and our competitive advantage was actually the best cost performance. When facing local rivals, our first-mover advantage was that we entered the market earlier than them and we accumulated much better technology and capabilities.

Similarly, the CEO of Iota also supported this view by revealing that:

Our company was established in 1983. In Taiwan, it was the time that original fabric had become a matured product in export markets and required value-added function to upgrade the products of this industry. I think it was a good time for us to enter this market and we organised a team with good dyeing and arranging techniques, which was the first-class team at that time in Taiwan ... Through interactions with customers and continuous learning, for the past twenty-several years, this team has contributed to our R&D, production and management and we have been the leader of this industry in terms of technique and management.

The above case companies have supported technological or knowledge leadership as the main source of first-mover advantages. Furthermore, it is worthwhile to note that first-mover advantages may come from the opportunity to lock in customers because of switching costs or customer learning (Makadok, 1998; Porter, 1985). However, the timing to market entry is not the only determinant of the performance; the competitive strategy and other factors, such as possessing patents or trade secrets, should also be taken into account (Carow, Heron & Saxton, 2004). The

above quotations demonstrate that Gamma, Beta and Iota were not only early movers but also benefited from cumulative organisational learning as their advantages.

The fourth driver is linkage between activities. According to Porter (1985), linkages between related activities need co-ordination within the organisation and the quality of such co-ordination determines performance. Porter (1996) emphasises that to gain competitive advantage, firms should identify distinctive activities and connect them together in a unique way. This argument is supported by the empirical data of this study. For instance, Epsilon and Kappa linked their R&D and marketing activities in order to compete against their rivals. The senior manager of Epsilon pointed out that:

For us, R&D is extremely important, ... in the past few years, we have actively engaged in R&D activities. We obtained the second most number of patents among Taiwanese companies ... this became the weapons of our defending strategy against competitors' lawsuits—such as injunctions—that have been a kind of barrier to entry into the international markets ... As we have our own patents, rivals would hesitate to take legal actions.

In addition, the CEO of Kappa made a similar argument, saying that:

Our competitive advantage relies not only on our R&D activities but also on our quick response to market demands. Facing competition from large companies, we integrated our core technology and marketing activities in order to meet the local requirements in terms of cost and quality ... We take advantage of our great strength of flexibility and responsiveness.

Moreover, Epsilon also linked its human resource management and technology development activities together, which enhanced its competitiveness. It confirms Hatch and Dyer's (2004) argument that investment in human capital could enhance technology development and thus improve firm performance. The senior manager of Epsilon stated:

A professional management team is crucial to our industry. Compared to our local competitors, ... we have an excellent human resource management system to recruit, cultivate and maintain our staff ... This is very important to our technology development. With the right people and good systems, we can develop advanced technology since Taiwan is still a developing country.

Linkages between activities have an important implication for competitive advantage. In contrast to the argument that advocates unique resources or resource mix, the concept of linkages between activities emphasises synergy effects that could be generated and the characteristics that are complex and unique in nature (Porter, 1996; Sheehan & Foss, 2007). In other words, a unique collection of activities is the key factor that determines competitive advantage.

The fifth driver is geographic location. Porter (1985) suggests that location should be viewed as an independent driver. Location of an activity not only affects its costs but also generates other added value. For example, Beta established global marketing and R&D bases, which helped its access to global customers as well as enabling talented people around the world to join their staff. The CEO of Beta state:

We need to establish closer relationships with our customers...Being a local company, we are not able to grow continuously (due to limited market size). So, we

extended our operations and set up our bases around the world in order to realise our core value. On the other hand, it is a challenge for us to search better talents at different places, recruit them to the organisation, and make the organisation grow.

Another example is Eta. Its internationalisation of production sites effectively reduced its production costs, particularly the labour costs, which provided it with significant cost advantage. As the CEO of Eta said that:

Our company belongs to the earliest overseas movers in this industry ... In 1989, we decided to move overseas. We have established several production sites in different countries since then. Based on this production network, we can take advantage of each production site and provide our customers with the most competitive price ... the apparel industry is labour intensive and depends on management ... For example, there are at least one thousand employees working in a factory.

On the other hand, Theta illustrates that a unique feature of the property development industry, location involves its operations and marketing activities. It may be either a cost driver or a differentiation driver, dependent on the competitive strategy of each project. The senior manager of Theta stated that:

In the industry of residential property development, location is vitally important. The location choice of land for development is the key in our business ... With appropriate decision making, it is still possible to maintain the competitiveness regardless of the economic cycle ... Properties in good areas are irreplaceable ... On the other hand, if the location choice is inappropriate, ... it might result in a failure.

Porter (1990; 1998, 2000) argues that clusters, or geographic assemblies of inter-related firms, demonstrate a region or country-of-origin competitive advantage. In other words, location matters. From the above quotations, it is evident that location plays an important role in both primary and support activities. However, the empirical findings reveal a different meaning. Firms in Taiwan tend to utilise internationalisation to enhance their competitiveness, including access to factors, markets and activities. This argument is consistent with Fahy's (2002) argument that in a global context, countries seem to be insignificant since firms may arrange their operations in different parts of the world. However, the finding of this study does not necessarily deny Porter's location-based theory of competitive advantage. For instance, Sturgeon (2003) argues that geographic clustering and dispersal may not be contradictory. He uses Silicon Valley as an example to display that the advantage of proximity can reinforce international operations networks. Steinle and Schiele (2002) argue that industries are unevenly influenced by the mode of clustering. Therefore, the driver of geographic location may include two alternative approaches: local cluster and international dispersal. It could be argued that a firm may gain its competitive advantage by each of them, depending on the strategy that determines how it configures its activities and resources.

The sixth driver is degree of vertical integration. Porter (1985) suggests that integration may have an influence on costs and provide a firm with cost advantages. One way is to avoid the issue of bargaining power between buyers and suppliers and thus increase efficiency. There are two case companies in this study, which confirm such an argument. Delta and Theta exemplify that vertical integration offered them significant cost advantages. The CEO of Delta revealed that:

As for our company, the most important thing for tape production is how to achieve 'full integration' ... We own the formula ... acquire more advanced technology through purchasing from external sources or in-house R&D; we have differentiated our products from our competitors. In distribution, we have established channels all over the world, bypassing the middlemen. This is the only way that we can realise the whole profit.

Similarly, the senior manager of Theta said that:

One of our areas of competitiveness is the structure of our company. We have integrated an upstream contractor into our company. This could effectively control our construction costs within a reasonable scope. If there is any fluctuation in the upstream market, we could adjust our construction costs and still maintain our competitiveness in the market. I think this is the main portion of our competitive advantage.

Similar to geographic location, degree of vertical integration is not necessarily beneficial for all firms. This is a 'make or buy' issue proposed by transaction cost economists (e.g., Coase, 1937; Williamson, 1985). Firms decide to make or buy according to their transaction costs. If costs of contracting, co-ordinating and controlling are high, firms tend to make rather than buy; on the other hand, if there is cost advantage of outsourcing, firms would choose the buy option. In the literature, there are two approaches regarding the outsourcing option: market transactions (Jones & Hill, 1988; Leiblein, Reuer & Dalsace, 2002) and strategic alliance (Pisano, 1990; Steensma & Corley, 2001). In particular, Christensen (2001) argues that the advantage of vertical integration is determined by the current technology that is required to meet

customer needs. A high degree of vertical integration provides potential to advance available functions by interactions between integrated sub-systems. On the other hand, if customer needs can be satisfied by current technology, vertical integration is inefficient. The cases of Delta and Theta do not support Christensen (2001) argument because they addressed more on cost perspective. However, both of them also depend on the upstream firms to strengthen their competitiveness by innovative activities.²² In other words, they do not completely contradict Christensen's (2001) argument.

4.3.3 The influences of the competitive context

Porter (1990; 1991) argues the origin of competitive advantage is not merely within the organisation and may be the local environment in which the firm operates. A similar argument was proposed by Porter and colleague but using a different term, the competitive context, instead of the local environment (Porter & Kramer, 2002; 2006), maintaining that firms can strengthen their competitive advantages by improving their competitive contexts. Porter (1990; 1991) identifies four broad determinants of the local environment: factor conditions, demand conditions, related and supporting industries, and context for strategy and rivalry, termed as Porter's diamond framework. First, factor conditions refer to the availability of high-quality inputs such as human resources and financial capital. Instead of generalised factors, Porter focuses on specialised factors that meet the needs of specific industries. Second, demand conditions concerns the volume and characteristics of local demand, which shape the sophistication of products and services and improvement of quality over time. Porter suggests that demanding home customers may play the role as a trigger for competitive success in the international markets. Third, related and supporting industries refer to suppliers of upstream components or machines and service

providers. Porter addresses those that can be integrated in the supply chain and stimulate innovation in the industry. Fourth, context for strategy and rivalry concerns the presence of local competitors that could support improvement and innovation through vigorous competition. Porter emphasises the importance of information flow and incentives that encourage competing firms to race for enhancing competitiveness. In this regard, the government plays an important role in shaping the competitive context by means of its competition policies, including protection of intellectual property, transparency in government operations, and promotion of investment.

In particular, Porter (1991) argues that the competitive context may determine how activities are organised, which results in development and accumulation of unique combinations of resource or capabilities. Hence, the competitive context provides opportunities for competitive success and firms need to recognise and respond to them appropriately. It could be argued that a strategy is how a firm configures its activities in order to achieve success, while properly identifying and responding to the potential in the competitive context. This four-determinant framework of competitive context can be used to analyse the activities and their drivers of the case companies described in the previous subsection (see Table 4.3).

Factor conditions

The driver of economies of scale could be explained as the response of firms to factor conditions. Due to having access to substantial financial capital, Alpha could afford to engage in rigorous R&D activities and reliable new product development, and Delta, Epsilon and Zeta have significantly expanded their production capacities. All of them are listed companies and have successfully raised funds in the financial market.

Another driver related to factor conditions is geographic location. For instance, Eta established and relocated their factories in overseas in order to take advantage of geographic location for access to cheaper labour. Another case is Beta, which utilised its global networks to hire talented staff from the world markets. It is different from Porter's (1990; 1991) argument that high-quality and specialised inputs need to be locally based. Both Eta and Beta exemplify their responses to lack of human resources in the local market. In brief, each firm could find an appropriate way to respond to the availability or shortage of inputs, rather than following a mechanistic approach.

Demand conditions

There are three drivers related to demand factions. The first driver is cumulative organisational learning. Alpha and Gamma accumulated their skills and knowledge in order to satisfy the particular customer needs efficiently and effectively. Both of them focused on customer services, improvement of existing products, and introduction of new products. On the other hand, Zeta developed its technology in production for improving product quality that met customer requirements. The second driver is linkage between activities, including Epsilon and Kappa. Both companies integrated R&D into their marketing and sales activities in order to compete against their rivals. Epsilon used the patents, acquired as the results of their R&D efforts, as a defensive strategy to prevent rivals from taking legal actions regarding intellectual property protection. Kappa utilised its R&D activities as marketing weapons to compete over its rivals. Both companies demonstrate that competition stimulates innovative activities that may benefit customers. Moreover, firms also benefit from competition if they can distinguish these opportunities from changes in the environment and take appropriate actions. The third driver is geographic location. Beta and Theta have been

successful by serving their customers through the advantages of geographic proximity. In summary, all firms discussed above demonstrated that they effectively responded to sophisticated and changing customer demands.

Related and supporting industries

The driver concerning related and supporting industries is the degree of vertical integration. Both Delta and Theta demonstrate their responses to inefficiencies of the supply network based on arm's length relationships. They internalised upstream or downstream firms in order to economise transaction costs. On the other hand, Eta and Iota formed efficient supply networks based on arm's length relationships, which were examples of non-integration that created competitive successes (see quotations in Subsection 4.2.3). Nevertheless all of them demonstrated their appropriate responses to the different situations of related and supporting industries.

Context for strategy and rivalry

The driver of the timing to market entry was the result of responding to context for strategy and rivalry, including Beta, Gamma, and Iota. These companies took advantages of the timing to market entry and had first-mover advantages. However, they faced different competitive environments. Beta focused on a niche market, of industrial computers, which was ignored by most local firms in the mid-1990s. Gamma sensed the potential and decided to enter the textbook market as a pioneer as the government gradually deregulated the textbook industry in Taiwan from 1989 onwards. Iota built up a technical team that could catch up with an emerging market

of dyeing and arranging cloth in the mid-1980s. The three companies had appropriately identified the market opportunities and responded to them effectively.

4.3.4 Configuring activities as responses to the competitive context

This section addresses the question of how a firm achieves its positional advantage. From the empirical findings of this study, all respondents revealed that their competitive advantages were influenced by both activities and drivers (see Table 4.3). The results support Porter's (1985; 1991; 1996) argument that strategy is doing something different from rivals, and the distinctive strategic choices of activities, together with their drivers, provide the firm with advantages against competition. In contrast to the resource-based view, the activity-position view focuses on strategic choices of activities per se, rather than choices of resources. Moreover, to achieve competitive advantage, coherence among activities and drivers is vital. It is needed to balance different drivers across different activities within the organisation (Porter, 1985; 1996). For example, the driver of economies of scale may negatively impact on the driver of location regarding transportation costs (local cluster vs international dispersal). Sheehan and Foss (2007) emphasise the complexity of managing activities and drivers which are difficult to imitate, for instance, the unique linkages between activities by Epsilon and Kappa in this study.

Porter (1996) describes the coherence between activities and the firm's strategic position as 'fit', which determines the efficiency and effectiveness of the interconnected activities of a firm. He identifies three types of fit. The first-order fit refers to harmony between each discrete activity and the whole strategy. The second-order fit indicates the situation where activities strengthen each other. The

third-order fit is optimisation of effort. Fit between position and activities requires significant trade-offs. As the CEO of Beta put it: *“Strategies, from Michael Porter’s point of view, is actually about learning what not to do instead of learning what to do, fully utilising your resources and maximising the core of your competitiveness, instead of thinking whether to go after what other people have already done.”*

The empirical data reveal that resource advantage and positional advantage are interdependent. First, a firm’s resource portfolio should be consistent with its competitive strategy, reflecting cost advantage, differentiation or focus. Second, a firm’s activities and drivers reflect its response to the competitive context, including factor conditions, demand conditions, related and supporting industries, and context for strategy and rivalry. This supports Porter’s (1991) proposition that competitive context can shape the competitive success of a firm. Moreover, as discussed above, each driver is not necessarily creating positive or negative effects, such as geographical location or degree of vertical integration. Firms need to consider the specific situation they face. This logic is also consistent with the discussion above that to achieve competitive advantage, the firm needs to choose a unique collection of activities that fits both internal and external environments.

The above discussion generates the subsequent proposition:

Proposition 4.2: *A firm may achieve its positional advantages, based on a collection of strategic activities responding to its competitive context.*

4.4 Towards an integrative approach

From the empirical findings of this study, it could be argued that each view of competitive advantage only explains a part of the whole. None of them can fully describe the overall phenomenon displayed by the case firms. As stated in Chapter 2, there is debate regarding the resource-based view versus the activity-position view. However, some common ground still exists between them. For instance, Porter (1991) argues that competitive advantage stems from the competitive context that shapes a firm's strategy, determining how its activities are organised and linked and how the resources are configured. One of the four components of the competitive context proposed by Porter (1990; 1991) refers to factor conditions, which emphasise specialised inputs. This is typically compatible with how firms deploy their valuable, rare, and difficult to replicate resources as suggested by the resource-based view (Barney, 1991; 2001b). Similarly, another component of the competitive context—related supporting industries—concerns capable and locally based (especially clustered) suppliers. This is in line with the relational view, arguing that a firm's critical resources can be created beyond a firm's boundaries and the networks or alliances can thus generate relational advantages (Dyer & Singh, 1998; Lavie, 2006; Hervas-Oliver & Albors-Garrigos, 2009). In particular, Porter argues that performance differences among firms “are partly a function of managerial choices, differential rates of resource accumulation, or chance” (1991; p. 115). It could be argued that a firm achieves its competitive advantage through both resources and activities.

In the literature, there are quite a few researchers argue for integrating the resource-oriented and activity-oriented approaches. For example, Porter states, “If you

could hook the resource-based view to the value chain, to strategic choices, and ultimately to profit, then you could build a more robust role for resource/capability thinking” (Argyres & McGahan, 2002, p. 50). Ray et al. acknowledge the role activities play in creating competitive advantage by saying that: “Activities, routines, and business processes are the mechanisms through which resources and capabilities get exposed to market processes where their ultimate value and ability to generate competitive advantage are realised” (2004, p. 35). Sheehan and Foss (2007) suggest that the resource-based view and the activity-position view are complementary. They argue that, on the one hand, the weakness of assumptions in factor markets (i.e., homogeneity of factors) proposed by the activity-position view can be improved by the resource-based view; on the other hand, inclusion of the activity-position view could unravel the criticism addressing the static nature of the resource-based view. Stoelhorst and van Raaij (2004) suggest that bridging the gap between the two perspectives may be achieved by understanding the role of process efficiencies in transforming unique resources into positional advantages in order to explain performance differentials.

It is clear that the theoretical framework of this study (Figure 3.1) fits well with the empirical results. From the discussion in the previous two sections, the source of competitive advantage can be better understood by incorporating both resource and positional advantages. Firstly, resource advantages of a firm are based on its strategic resource portfolio. Individual strategic resource alone is not enough to create a unique advantage. The resource-based, the relational, and the stakeholder views help explain how a firm builds up its resource advantages, as each of them emphasises different types of resources. Strategic resources of case companies were purchased from the

markets, built up within the organisation, generated by alliance partnerships, or created by other channels. The notion of strategic resource mix emphasises resources from multiple sources, rather than an individual one. According to this logic, the source of competitive advantage of a firm is based on its capacity to utilise and combine the strategic resources acquired or accumulated from multiple channels (Lado et al., 1997; Sanchez, 1995; 1997). Hence, the resource-based, the relational, and the stakeholder views contribute to our understanding of resource advantages, as each of them emphasises different types of resources.

Secondly, a firm may achieve its positional advantages by providing its customers with lower cost or better-value products through its activities and drivers. This study found strong evidence in support of the activity-position view. In particular, strategic activities of case companies were responses to the competitive context, including factor conditions, demand conditions, related supporting industries, and context for strategy and rivalry. The case companies in this study revealed two distinctive features. One is that the ways in which case companies responded to the competitive context were not limited to local proximity only, but also included global context, for example, Beta and Kappa's responses to demand conditions. The other is that drivers are not one-directional only. The same driver could be positive for one company but negative for another, for example, the degree of vertical integration. Firms need to identify the opportunities and respond to them appropriately (Porter, 1991; Sheehan & Foss, 2007). As Porter (1991; p. 115) put it: "Firms must understand and exploit their local environment in order to achieve competitive advantage." In this regard, the activity-position view contributes to our understanding of positional advantages.

Thus, competitive advantage comes from a firm's resource capacity (superior resources, unique capabilities, and solid relationships) and a mix of activities/drivers that respond to the competitive context. The integrative approach of the theoretical framework proposed in Chapter 3 of this study has been supported by the empirical findings of this chapter.

The following proposition is generated from the above discussion:

Proposition 4.3: *Competitive advantage includes both resource advantages and positional advantages; firms could achieve competitive advantage by developing a superior resource portfolio or smart collection of activities or both.*

4.5 Conclusion

This chapter sought to examine the source of competitive advantage from an integrative approach. The empirical results of this study supported the concept of competitive advantage that encompasses both resource and positional advantages. Resource advantages come from an effective resource portfolio that contains various strategic sources. Strategic resources include those acquired from the markets, internally built or possessed by the firm, generated through strategic partnerships, or created by other channels. Positional advantages result not only from resources but also from activities and their drivers. Moreover, as suggested by Porter (1991), a firm's competitive context shapes its competitive advantage; on the other hand, the firm can seek to influence the competitive context to enhance its competitive advantage. Thus, the origin of a firm's competitive advantage includes its resource capacity (superior resources, unique capabilities, and solid relationships) and its activities that respond to the competitive context.

The resource-based, the relational, and the activity-position views look at the source of competitive advantage through different lenses, and each of them reveals only a part of the story. It is necessary to move beyond these individual views in order to explain the source of competitive advantage better. The integrative approach of the theoretical framework proposed in Chapter 3 of this study was supported by the empirical findings of this chapter. This paved the way to suggest a stakeholder approach to competitive advantage in the next chapter, because there are critical stakeholders involved in a firm's source of competitive advantage including both the resource capacity and the competitive context.

Chapter 5: Stakeholder management influences on sources of competitive advantage

5.1 Introduction

This chapter addresses the first research question: How does stakeholder management influence the source of competitive advantage? As stated in Chapter 2, stakeholder management refers to managing stakeholders in a systematic way, which is a stakeholder approach to strategic management (Freeman, 1984; Freeman & McVea, 2001). There are several scholars who maintain that stakeholder management contributes to value creation and organisational wealth. For example, Post et al. (2002) argue that a positive relationship exists between stakeholder management and organisational wealth. Freeman and his colleagues emphasise that the essence of stakeholder management is to view the relationships between a firm and its stakeholders as a network for creating value (Wheeler et al., 2003). The notion of stakeholder management involves two important issues: first, the purpose of a firm's existence is to create wealth for benefiting all of its stakeholders; second, managers should perform their role so as to offer the greatest benefit to each stakeholder involved (Boatright, 2006; Freeman, Wicks & Parmar, 2004). In line with this thinking, stakeholder management is compatible with the concept of gaining competitive advantage, and addressing the issue of how to maximise value creation. However, the literature rarely discusses how stakeholder management contributes to competitive advantage in the process of value creation.

In Chapter 4, the source of competitive advantage was analysed in terms of two important aspects: resource advantages and positional advantages. This chapter goes

further in examining how stakeholder management influences a firm's source of competitive advantage in terms of those two aspects. Regarding resource advantages, a range of stakeholders can be resource providers as well as catalysts that facilitate generation of resources (Harrison & St John, 1997; Post et al., 2002). In this respect, stakeholder management is crucial for a firm to build an effective resource portfolio, as stakeholders closely related to the multiple sources of resources. Besides, a firm's strategic activities involve critical stakeholders as well. The competitive context in which a firm operates is composed of various stakeholders (Harrison & St John, 1997; Post et al., 2002), which can shape the competitive advantage of the firm (Porter, 1991; Post et al., 2002) and be influenced by the firm (Porter & Kramer, 2002; 2006). Hence, this chapter examines how a firm may gain competitive advantage if it could respond to or improve its competitive context by appropriately managing its stakeholders. It is appropriate to assert that for competitive advantage to occur, stakeholder management needs to be an integral part of business strategy for the firm.

The objectives of the chapter

This chapter examines how stakeholder management may influence the source of competitive advantage. There are two questions that will be addressed:

- How may stakeholder management affect a firm's resource advantages?
- How may stakeholder management affect a firm's positional advantages?

Theoretical framework

This chapter uses the analysing framework suggested in Chapter 3 (Figure 3.1), which is the stakeholder view linking three perspectives of competitive advantage—the

resource-based, the relational, and the activity-position views. Following a similar approach to Chapter 4, competitive advantage is analysed in terms of resource advantages and positional advantages, and the sources of competitive advantage originate both within the firm and in the competitive context.

This chapter is organised as follows. First of all, the possible roles which stakeholders may play in influencing resource advantages are analysed. Next, how stakeholder management influences a firm's positional advantages is discussed. Finally, a discussion of the stakeholder view of competitive advantage and the conclusion of this chapter are presented.

5.2 Stakeholder management influences on resource advantages

This section addresses the question of how stakeholder management affects a firm's resource advantages. Before answering this question, there is a need to understand the roles that stakeholders may play in the process of value creation, especially, regarding how to build an effective resource portfolio. In this study, the attention is focused on critical stakeholders that were defined in this study—*‘those who have resources, vested interest, power or other influential factors that are critical to a firm's competitive strategy or strategic decisions.’* This notion is expounded by Kochan and Rubinstein's (2000) study on the Saturn Corporation, which views stakeholders as those who (1) provide the firm with valued resources, (2) have some interests that may be influenced by the success or failure of the firm or by their relationship with the firm, and (3) are able to exert influence on the firm by power or other means. As stakeholders include different groups with various interests, scholars tend to classify

them into several different categories. For example, as stated in Chapter 2, Post et al. (2002) used three dimensions to classify stakeholders—resource-base, industry-market, and social-political terrain.

Findings from the interviews in this study reveal that firms are mainly concerned with the specific stakeholders. Among all stakeholders, it showed that the most important stakeholders reported by case companies were managers and employees, shareholders and investors, banks, customers, suppliers, strategic partners, media, local communities and civil society. Considering Kochan & Rubinstein's (2000) definition and Post et al.'s (2002) categorisation, stakeholders play two roles in influencing a firm's resource advantages. First, stakeholders are resource providers who supply valued resources to the firm. Second, stakeholders are catalysts that may facilitate generation of valued resources. Corresponding to the resource portfolio discussed in Chapter 4, stakeholders who provide the firm with resources can be classified according to Lado et al.'s (1997) typology of resources: acquired from the markets, built within the organisation, or generated by inter-firm relationships. For the resources acquired or generated from other channels, stakeholders are catalysts rather than resource providers. The empirical results (see Table 5.1) that confirm the above categorisations are discussed as follows.

Resources acquired from the markets

In this study, valued resources acquired from the markets include human resources and financial capital. Stakeholders in this category include managers, employees, shareholders or investors, and banks. For example, firms regard employees as one of their valued resources and they should devote much effort to acquire them from the

Table 5.1: Empirical findings: Stakeholder management and resource advantages

Case company	Stakeholders as resource providers/e influencers			
	Market: employees and shareholders	Internal: employees and managers	Relational: strategic partners	Symbolic/ idiosyncratic: local communities, civil society and others
Alpha	<ul style="list-style-type: none"> • providing good working condition • establishing and maintaining a good corporate governance system 	<ul style="list-style-type: none"> • promoting a continuous improvement culture and encouraging learning 	<ul style="list-style-type: none"> • providing comprehensive customer services • integrating customers into new product development and product improvement 	<ul style="list-style-type: none"> • promoting a culture of integrity and commitment
Beta	<ul style="list-style-type: none"> • taking care of employees in a long-term base (e.g., training, development and promotion); • establishing and maintaining a good corporate governance system 	<ul style="list-style-type: none"> • providing training and development programs for employees such as supporting tertiary education • employing an HR software for training and management through encouraging learning 	<ul style="list-style-type: none"> • involving strategic partners in innovation, new product development and marketing 	<ul style="list-style-type: none"> • commitment to CSR • promoting a culture of 'CARE'
Gamma	<ul style="list-style-type: none"> • providing good working condition and training, development and promotion 	<ul style="list-style-type: none"> • encouraging staff participating in various sport activities which strengthen staff's capabilities. • providing training and development programs including tertiary (MBA) education 	<ul style="list-style-type: none"> • involving customers in new product development and providing them with training programs • cooperating with strategic partners in exploring the Chinese market 	<ul style="list-style-type: none"> • commitment to CSR
Delta	<ul style="list-style-type: none"> • providing good compensation and working condition • establishing and maintaining a good corporate governance system 	<ul style="list-style-type: none"> • providing employees with training and development programs including supporting tertiary education (MBA) programs 	<ul style="list-style-type: none"> • involving strategic partners in innovation, new product development and marketing 	<ul style="list-style-type: none"> • commitment to environmental protection • promoting a culture of integrity and commitment

Epsilon	<ul style="list-style-type: none"> • communicating with institutional investors periodically, e.g., press conference & release, and seminars. • providing wages above the industry level; offering training and development, job rotation and promotion from within • establishing and maintaining a good corporate governance system 	<ul style="list-style-type: none"> • providing employees with training and development programs • providing staff with a healthy environment that allows internal competition • commitment to green products and green supply chains 	<ul style="list-style-type: none"> • involving strategic partners in innovation, new product development and marketing 	<ul style="list-style-type: none"> • commitment to CSR, sustainability and being a green company
Zeta	<ul style="list-style-type: none"> • offering a reasonable profit sharing scheme and providing good working conditions • communicating with investors through various channels and offering quick responses. • establishing and maintaining a good corporate governance system 	<ul style="list-style-type: none"> • providing comprehensive training and development programs for employees • linking incentive system to the concept of value-added per employee to promote productivity 	<ul style="list-style-type: none"> • involving strategic partners in innovation, new product development and marketing 	<ul style="list-style-type: none"> • commitment to CSR • respecting stakeholders and promoting a good reputation for integrity and transparency
Eta	<ul style="list-style-type: none"> • providing good working condition, e.g., good hygiene system and work-life balance • establishing and maintaining a good corporate governance system 	<ul style="list-style-type: none"> • providing new visions to the employees and encouraging staff to learn new business opportunities 	<ul style="list-style-type: none"> • sharing information and developing new products with strategic partners, and working together for specific overseas orders in a systematic way 	<ul style="list-style-type: none"> • commitment to CSR
Theta	<ul style="list-style-type: none"> • providing good working conditions 	<ul style="list-style-type: none"> • providing staff with various training and development programs to support their learning 	<ul style="list-style-type: none"> • involving strategic partners in innovation, new product development and marketing 	<ul style="list-style-type: none"> • commitment to CSR

Iota	<ul style="list-style-type: none"> ● offering a fair employee incentive system ● establishing and maintaining a good corporate governance system 	<ul style="list-style-type: none"> ● sponsoring staff to participate in programs offered by professional institutions including technical innovation, new product development and marketing 	<ul style="list-style-type: none"> ● involving strategic partners in innovation, new product development and niche markets 	<ul style="list-style-type: none"> ● commitment to environmental protection ● promoting a culture of integrity and commitment
Kappa	<ul style="list-style-type: none"> ● providing good working condition and training, development ● offering stock options, technical shares to employees 	<ul style="list-style-type: none"> ● providing employees with various training and development programs to support their learning 	<ul style="list-style-type: none"> ● cooperating with upper stream and lower stream partners for joint development of new products and services for niche markets 	<ul style="list-style-type: none"> ● commitment to CSR

labour markets. The empirical results support this argument, as the CEO of Delta stated: *“To our employees, our tradition is treatment with respect and promotion from within; moreover, we also support tuition fees of our staff for post-graduate studies on a case- by-case basis.”* In addition, the senior manager of Epsilon offered similar evidence by pointing out that: *“Our wage level is always above the industry level in order to attract good employees; in addition, ... career development and opportunities of promotion are very important to retain our staff.”* Similarly, the senior manager of Zeta argue: *“To retain our employees, our company offers a reasonable profit sharing scheme to reward those who contribute to the success of the organisation ... It is also important to provide our staff with good working conditions.”* These examples illustrate that they recognised employees as critical stakeholders and support Ackers’s (2002) suggestion that considers the interests of multiple stakeholders in human resource management policy.

Furthermore, the CEOs and senior managers who participated in this study acknowledged that there was a trend in involving employees as critical stakeholders

for consultation and bargaining, due to the emerging power of trade unions.²³ Nevertheless, they emphasised employees were valued resources and were vital to the firm's success or failure, which reflected an instrumental approach to the stakeholder perspective (Jones, 1995). This view is also somewhat in line with the studies on strategic human resource management (Wright et al., 1994; 2001).

This thesis does not discuss the debate over shareholders' versus stakeholders' interests in detail. However, it is worthwhile to note that shareholders are providers of financial capital, which is an important resource for all firms. Although the shareholders versus stakeholders debate is a hot topic in the corporate governance literature (e.g., Letza, Sun & Kirkbride, 2004; Licht, 2004; Smith, 2003; Vinten, 2001), the importance of financial capital as a valued resource seems to be disregarded in studies on competitive advantage. Financial capital is not heterogeneous in nature, but it is an indispensable ingredient of the resource portfolio. In particular, from the interviews of the senior managers of Epsilon and Zeta, it appeared they treated shareholders as investors, rather than owners. In other words, they were relatively more stakeholder-oriented than shareholder-oriented. Moreover, the strategy of the firm would determine what resource should be acquired and what advantage will be generated (Porter, 1991). As stated in Chapter 4, both Epsilon and Zeta relied on huge financial capital, together with necessary human resources, to expand their production capacities in order to create economies of scale. Hence, both companies actively engaged their shareholders/investors and successfully raised financial capital they needed. The senior manager of Epsilon asserted: *“We communicate with our institutional investors periodically, such as press conference, press release, investor seminars, direct dialogue and so on, to let them know our*

strategic plan and current operation; transparency is a very important policy of our organisation and we continuously provide current and future investors with relevant information.” Similarly, the senior manager of Zeta stated that: *“As a listed company, shareholders are crucial to us because we need to raise new capital from the public frequently ... We communicate with our investors through different channels and we respect their opinions or comments on our business by quick responses and transparent information.”*

Although a firm’s investor relation strategies could be a response to stakeholder pressure (Rao & Sivakumar, 1999), the empirical results support the argument that a systematic investor relations scheme as an integral part of a firm’s strategy would help gain competitive advantage (Dolphin, 2004b). They are also in line with the argument that firms gain competitive advantage from better financial reputations (Rindova & Fombrun, 1999).

The above examples demonstrate that actively managing stakeholders, such as employees and shareholders, helps firms acquire valued resources from the markets or preserve the resources acquired. The stakeholder management approach indicates that firms tend to build long-term relationships with their resource providers. Moreover, non-price factors play an important role in these relationships (Mahon, Heugens & Lamertz, 2004).

Resources built or accumulated internally

Another source of resource advantage comes from resources or capabilities developed internally (Amit & Schoemaker, 1993; Dierickx & Cool, 1989; Mahoney, 1995),

including unique technology, sound production processes, superior organisation culture, or innovative ability. Capabilities embedded in human capital are more likely viewed as a source of competitive advantage due to their social complexity (Barney, 1991; Carpenter, Sanders & Gregersen, 2001). Stakeholders in this category include managers and employees.

The empirical findings of this study show that case firms treated their managers and employees as important stakeholders and stakeholder management facilitated capability building. For example, this view was supported by the CEO of Beta who stated: *“We promote our company as a learning organisation; training and development is crucial for our company to accumulate our capabilities and face a changing environment and I believe that is why we can perform better than our competitors.”* It was also confirmed by the senior manager of Epsilon and he said: *“We provide our staff a healthy environment in which everyone can grow through constructive internal competition ... Through training and development, job rotation ... our staff can strengthen their capabilities and become the important assets of the company ...”* This view was further supported by the senior manager of Theta: *“As a learning organisation in a changing environment, continuous improvement is our objective all the time and we provided our employees with all kinds of training and programmes to support them, which not only enhanced our productivity but also increased our employee satisfaction ... It can be reflected by our success of ISO 9001 and 9002 certifications achieved.”*

The above examples demonstrate that, with appropriate stakeholder management activities, firms can develop superior capabilities that enhance their competitiveness. Additionally, Beta and Theta both highlighted the fact that they regarded themselves

as learning organisations, addressing the importance of adaptation to change. This is also consistent with the dynamic capabilities perspective (Eisenhardt & Martin 2000; Teece et al., 1997). However, employees may increase their bargaining power and weaken the firm's competitive advantage owing to their information asymmetry, high costs related to replacing them, and the social capital associated with them (Blyler & Coff, 2003; Coff, 1999). This creates an issue of how to balance the multiple stakeholder interests of an organisation.

Resources acquired or generated by inter-firm partnerships

Another source of resource advantage stems from resources acquired or generated by inter-firm partnerships (Dyer & Singh, 1998; Ireland et al., 2002; Lavie, 2006). Stakeholders related to this category include strategic partners (including suppliers, customers, and other organisations) who have established partnerships with the focal firm. The empirical results of this study show that inter-firm partners are important stakeholders, and stakeholder management helps with acquiring or generating valued resources. For instance, Alpha and Gamma vigorously involved their customers in the development and introduction of new products, based on the strategic partnerships with the customers. As the CEO of Alpha confirmed this argument by stating that:

We provide the best services and training programmes to our customers, we have continuously improved and upgraded our products according to customers' feedback and involved them in our product development along with their growth; we even extended our products and services as our customers moved their operations from Taiwan to overseas markets such as China ... We aim to building strategic partnerships with our customers.

This was further supported by the CEO of Gamma who maintained: “*We endeavoured to establish a close relationship with our customer ... We involved them in new product development and pilot use of new products; we also provided them with a wide range of training and development programmes and got very good feedback.*”

In addition, Eta, Iota and Kappa successfully leveraged their complementary resources and capabilities with their strategic partners to support each other in order to create competitive edges and explore international markets. The collaborative relations not only reduce the uncertainty of the environment (Kraatz, 1998; Barringer & Harrison, 2000), but also enhance competitiveness by generating relational assets or leveraging capabilities. For example, the CEO of Eta stated: “*The strategic partnership between us was formed by a long-term relationship: we shared our information, we worked together for specific overseas orders in a systematic way, and we developed new products collectively; together with cheaper transportation costs within the island (Taiwan), we have created and run a strong business model for many years.*” This was also confirmed by the CEO of Iota as he put it: “*The supply network is based on a long-term relationship and it needs mutual trust among ourselves ... We share our information regarding market price, product design, production, capacity and quality control system.*” Similarly, the CEO of Kappa pointed out that: “*We co-operate with our upper stream and lower stream partners in joint development of new products and services for a niche market, which has experienced a great competitive success.*”

The above examples demonstrated that active stakeholder management support firms in acquiring or generating resources through alliance partnerships. The essence

of stakeholder management regarding inter-firm partnerships is to pursue common goals by way of partnering activities, which may be the source of competitive advantage (Ireland et al., 2002). A stakeholder approach to inter-firm partnership exhibits a strong collaborative relationship between alliances (Harrison & St. John, 1996).

Resources built or generated through other channels

Apart from the resources discussed in the previous subsection, stakeholders also have influences on symbolic or idiosyncratic resources. A firm's stakeholders comprise different internal and external constituents. Although some stakeholders may not provide resources directly, they are catalysts or hindrances that may facilitate or impede the generation of valued resource. For instance, capability building is not limited to activities within an organisation. Apart from relational capabilities which can be generated by inter-firm partnerships (Dyer & Singh, 1998; Ireland et al., 2002), as discussed earlier on, engaging multiple stakeholders may enhance a firm's capabilities (Rodriguez et al., 2002; Svendsen & Laberge, 2005). For example, the CEO of Gamma argued: "... we also sponsored and participated in many sport events, such as triathlon, swimming and cycling ... these activities not only increased our reputations and corporate awareness but also strengthened our staff's capabilities, such as problem-solving and perseverance, in a highly competitive environment." This was confirmed by the senior manager of Epsilon:

Green product and green supply chain has become an important subject in this industry and we have committed to change our mindsets and focus more on green competitiveness by integrating environmental protection into our strategy and

operations ... The 'Green Solutions' initiative would enhance our capabilities and lead to improved productivity, better supply chain performance, and higher level of customer satisfaction.

Both Gamma and Epsilon demonstrated that stakeholder inclusion could be a factor strengthening their capabilities and competitiveness. This is also consistent with Ayuso et al.'s (2006) argument that stakeholder engagement encourages the obtaining of knowledge and innovation capabilities.

Moreover, interviewees of this study illustrated how firms benefited from stakeholder management as it could help establish reputations through co-operation with multiple stakeholders, including local communities and civil society. Corporate reputations can be regarded as a kind of organisational identity, which signifies external stakeholders' overall interpretations of the organisation (Illia & Lurati, 2006). Reputations facilitate the firm in acquiring resources from the factor markets. The CEO of Beta stated: *"We established a foundation holding a variety of charity events, covering education, the disabled, humanity, and so on ... We believe we should give something back to the community and our employees and shareholders must be proud of us and work together with us."* Moreover, reputations help generate brand awareness for marketing. As the CEO of Gamma put it: *"We have funded many sports activities and we have encouraged our staff to participate in various sport events. Our company has frequently been the largest participating group ... It improved our brand awareness."* Furthermore, a good image would benefit a firm's development of its strategic partnerships or other relationships. The senior manager of Zeta supported this argument by saying that: *"Following the philosophy of our parent company, we respect our stakeholders and have a good reputation for integrity and transparency ...*

It helped us to establish relationships or strategic partnerships with other companies ... it also helped us recruit good people.” On the other hand, failure to manage stakeholders well may impede resource advantage as resource providers unwillingly develop relationships with the firm. Creating reputations is an indispensable part of strategic management because firms need symbolic assets to enhance their competitive advantages (Ravasi, & Rindova, 2007; Rindova & Fombrun, 1999).

In short, each of the case companies interviewed in this study required a resource portfolio to support its resource advantages. All revealed that their resource portfolios comprised market, internalised, relational, and symbolic and idiosyncratic resources as (Lado et al., 1997) suggested. For the purpose of developing an effective set of resources from multiple channels, they need to engage all stakeholders who are resource providers or facilitators. This is consistent with the argument that advocates building stakeholder partnerships to ensure the supply of resources (Andriof & Waddock, 2002; Harrison & St. John, 1997; Kochan & Rubinstein, 2000). In particular, the stakeholder view emphasises relationships, which could effectively achieve organisational wealth (Leana & Rousseau, 2000; Post et al., 2002), instead of transactions. A transaction generally means a short run or even one-time deal; whereas a relationship suggests a long-term, continuous, and collaborative connection. In other words, no matter what kind of channel the resources are from, the concept of relationship applies. The long-term nature of the relations between the firm and its stakeholders was clearly indicated by all CEOs and senior managers who participated in this study.

The resource channels include different modes: market, hierarchies, networks and others. Transaction costs could be an important factor that determines a firm's

decisions in choosing the appropriate mode to acquire its resources (Pitelis, 1998). However, Pitelis and Wahl (1998) argue that following Penrose's (1995) view, some valued resources are "tacit, socially complex and specific knowledge developed within the firm" (p. 256), which are not available to be acquired in a market setting, regardless of cost issue. Besides, as discussed earlier, some resources can only be acquired from inter-firm relationships. In other words, firms need to acquire their resources from multiple channels, rather than a single one.

Moreover, Post et al. (2002) argue that all stakeholder linkages in a firm should be treated as part of a single network. They further suggest that a positive-sum game between the firm and its stakeholders is achievable and competence in stakeholder relations can be considered as a source of competitive advantage. Following the tacit, socially complex logic, it could be assumed that this competence is a unique intangible resource that meets the VRIN/O criteria of the resource-based view. Moreover, from the examples provided above, it could be concluded that stakeholder management supports a firm's capacity regarding development and deployment of its resource profile. Furthermore, an effective resource portfolio enhances a firm's strategic flexibility to cope with challenges in a dynamic environment (Sanchez, 1995; 1997). Thus, stakeholder management affects a firm's source of competitive advantage through supporting its development of resource capacity.

The above discussion generates the following proposition:

Proposition 5.1: *Stakeholder management contributes to a firm's resource advantages through supporting its development of resource capacity including market, internalised, relational and symbolic and idiosyncratic resources.*

5.3 Stakeholder management influences on positional advantages

This section addresses the question of how stakeholder management influences a firm's positional advantages. It refers to two issues, a firm's activities and its competitive context. According to the empirical findings presented in Chapter 4, strategic activities and drivers significantly influence positional advantages. There were six drivers presented by the case companies of this study: economies of scale, cumulative organisational learning, the timing to market entry, linkage between activities, geographic location, and degree of vertical integration. Based on the analysis in Chapter 4, the empirical results also revealed that the activities and related drivers reflected a firm's response to the competitive context, including factor conditions, demand conditions, related and supporting industries, and context for strategy and rivalry.

Porter (1991) emphasises that competitive advantage may be determined by the competitive context in which the firm needs to identify and respond to the opportunities properly. Moreover, Porter and Kramer (2002; 2006) maintain that firms can strengthen their competitive advantages by improving their competitive context, in terms of their corporate social responsibility or philanthropy. Collectively, it can be argued that to gain competitive advantage, firms should not merely depend upon strategies that respond to the environments as given constraints; they could also try to influence their environments or create new ones.

There are many stakeholders who are key players in the competitive context and have the potential to impact on the competitive advantages of firms. Therefore, firms may compete against their rivals if they advance the competitive context by managing

their stakeholders appropriately. As indicated by Porter and Kramer (2002; 2006), firms need to respond to the environment in a unique way and fit their own strategy. This suggests that firms may improve the competitive context by stakeholder engagement and thus achieve competitive advantage. Thus, Porter's (1990; 1991) four-determinant framework of competitive context can be used to analyse how case firms in this study respond to and affect their competitive contexts through stakeholder management (see Table 5.2).

Factor conditions

In Chapter 4, economies of scale and geographic location were the drivers of the case companies that responded to factor conditions. The relevant stakeholders included shareholder and employees. For example, Alpha, Epsilon and Zeta had good track records for meeting the expectations of their shareholders and took advantage of economies of scale supported by financial capital. On the other hand, Eta successfully re-located its manufacturing activities but had an unsuccessful experience due to their failure to manage employees appropriately. As the CEO of Eta put it:

We had an unpleasant experience when we established a factory in Latin America ... We did not deal with the local unions well and they used their influence on the union organisation in the US (AFL-CIO) and forced our US customers to suspend their orders ... It was an important lesson learned by us that we must be careful not to ignore some critical stakeholders.

In addition, the case companies in this study also illustrate how they improved the supply of specialised inputs by stakeholder management. For instance, Epsilon

Table 5.2: Empirical findings: Stakeholder management and positional advantages

Case company	<i>Stakeholders as driver/context influencers</i> (Shareholders, employees, customers, suppliers, government agencies, and other stakeholders)
Alpha	<ul style="list-style-type: none"> ● meeting expectations of shareholders ● offering good customer services and engaging with customers ● offering various forms of IT training & education programs to the public
Beta	<ul style="list-style-type: none"> ● taking the opportunity of market potentials and encouraging competition ● offering good customer services based on geographic proximity
Gamma	<ul style="list-style-type: none"> ● taking the opportunity of market potentials and encouraging competition ● offering good customer services and engaging with customers ● conducting an extensive approach to training development for teachers
Delta	<ul style="list-style-type: none"> ● meeting expectations of shareholders ● improving related and supporting industries
Epsilon	<ul style="list-style-type: none"> ● meeting expectations of shareholders ● donating instruments and equipment to local universities for research ● providing university students with internship opportunities to gain work experience ● integrating R&D into marketing and sales activities to meet sophisticated demand ● coordinating suppliers to improve efficiency and to facilitate new product development
Zeta	<ul style="list-style-type: none"> ● meeting expectations of shareholders ● donating instruments and equipment to local universities for research ● providing university students with internship opportunities to gain work experience ● coordinating suppliers to improve efficiency and to facilitate new product development
Eta	<ul style="list-style-type: none"> ● providing university students with internship opportunities to gain work experience ● forming efficient supply networks with related and supporting industries to serve a niche market
Theta	<ul style="list-style-type: none"> ● offering good customer services based on geographic proximity ● supporting related and supporting industries – the Firefly Fund
Iota	<ul style="list-style-type: none"> ● taking the opportunity of market potentials and encouraging competition ● providing university students with opportunities for gaining work experience ● forming efficient supply networks with related and supporting industries to serve niche markets
Kappa	<ul style="list-style-type: none"> ● integrating R&D into marketing and sales activities ● improving the context for competition: cooperating with academia that had great influence on its security specification and standards

and Zeta required high quality and specialised human resources; both of them collaborated with local universities in R&D by donating instruments and equipment

for research. Moreover, some firms provided opportunities to university students for gaining work experience before their graduation. This was supported by the senior manager of Epsilon who stated:

We have established university-business collaboration. We offered scholarships and sponsored research equipment for two top universities ... We have also offered about two hundred studentships for two months on each summer vacation for the past four years. According to the students' specialisation and interest, we assigned them to different departments and they could gain practical work experience in our company. The benefit is twofold. On the one hand, the students would get to know us; on the other hand, we may access to some good candidates of employees.

The CEO of Eta offered a similar view and said: “*We have frequently communicated and collaborated with fashion and textile departments of universities. For instance, each year, we have held design contests for university fashion students to encourage them to participate in this industry ... these youngsters could be our future employees.*” The CEO of Iota further confirmed this view and pointed out that:

We have frequently provided opportunities for relevant parties such as universities and the government as a demonstration firm ... We joined with other firms to offer education and training programmes for university textile engineering students. For instance, in last year, we offered sixty students a series of training programmes for two months. They lived in our factory and learned the practice ... The purpose of these programmes is to provide a good environment for demonstration teaching and

cultivate the competitiveness of the Taiwanese textile industry ... the industry and ourselves can benefit from these programmes as the candidates are more experienced and knowledgeable.

The above examples illustrate that stakeholder management could improve the supply of specialised inputs. This is because local markets could not provide enough of such inputs. According to Porter and Kramer (2002; 2006), firms may strengthen their competitiveness by improving their factor conditions. Epsilon, Eta and Iota reported that they gained advantages of recruiting high-quality staff through such programmes, which were an important part of their human resource management.

Demand conditions

Three drivers related to demand factions were cumulative organisational learning, linkage between activities, and geographic location. Customers are the main stakeholders related to demand conditions. For example, Alpha and Gamma accumulated their skills and knowledge by offering good customer services and engaging their customers well. Epsilon and Kappa integrated R&D into their marketing and sales activities in order to provide more advanced new products. Beta and Theta served their customers through the advantages of geographic proximity. All of them knew and respected their customer needs and wants.

Moreover, firms are able to improve demand conditions, including both existing and potential customers, through stakeholder management. For example, according to the CEO of Alpha, the company conducted many forms of IT training & education to the public, including speeches, seminars, and e-learning programmes. As the participants involved both existing and potential customers, it helped advance the IT

capabilities of local manufacturers, rather than only its customers. Another example is Gamma, which conducted a series of seminars for school teachers. Such activities enhanced local teachers' capabilities, which lead to more sophisticated demands. As the CEO of Gamma put it:

The current and potential customers are certainly the most important. They are the ones that would use our textbooks, especially the teachers ... We have also assisted training development for teachers. We created many free classes and seminars for teachers ... Over the past few years, we have held seminars that involved 120,000 people, and there are only 150,000 teachers in Taiwan. Some of them have attended the seminars more than once ... For example, we invited a president of a museum, instructing the teachers how to guide students to visit a museum. Another example was we invited an authority on Chinese painting, giving teachers the ideas about how to teach children to appreciate the masters' paintings.

In fact, involving customers in product improvement and new product development can create value and benefit each other, and this approach has been adopted by various firms (McPhee & Wheeler, 2006; Prahalad & Ramaswamy, 2004). According to the CEOs of Alpha and Gamma, both companies faced strong competition in the local market. They went further to engage with existing and future customers well and continuously introduced new products. To involve stakeholders in their new product development, not only made their customers more sophisticated and demanding, but also sharpened their own competitiveness, compared to their rivals. Both of them have enjoyed great competitive success in the Chinese market by leveraging their capabilities developed in the local market. The two examples support Porter and Kramer's (2002; 2006) contention that firms are able to influence their

demand conditions and, thus, gain competitive advantage. Case companies in this study did not demonstrate the feature of industry cluster or local institutional systems proposed by Porter (1990; 1991). However, they are still consistent with Porter's argument that the presence of strong and challenging local customers could stimulate firms' international competitiveness.

Related and supporting industries

The driver related to supporting industries was the degree of vertical integration. The relevant stakeholders in question are suppliers (and/or strategic partners). As stated in Chapter 4, the case companies in this study responded to their suppliers' conditions with different approaches. For example, Delta and Theta responded to inefficiencies in the supply network and increased the degree of vertical integration in their operations. Alternatively, Eta and Iota formed efficient supply networks with local strategic alliances and created significant competitive successes. In addition, firms could improve their suppliers in related fields, including both existing and potential suppliers, through stakeholder management. For example, Epsilon and Zeta promoted co-ordination among their suppliers, including electronic integration, information sharing, harmonisation of specifications, and co-operation in new product development. Such efforts have dramatically improved the productivity of the related upstream industries and, thus, enhanced the competitiveness of both. As the senior manager of Zeta stated:

We have endeavoured to integrate the information system among our suppliers ... We have also promoted harmonisation of designs and specifications of components and parts produced by upstream firms in this industry. This effort has

reduced production costs of the whole supply chain of the industry dramatically. Moreover, it also enhanced healthy competition and thus stimulated continuous improvement among our suppliers, including our local rivals.

Theta illustrated a similar situation and supports that improving related industries is not just a kind of corporate social responsibility, but also can be a vehicle for gaining competitive advantage. The senior manager of Theta pointed out that:

We sponsored the government to set up a credit guarantee fund for subcontractors in this industry. This programme has effectively supported those small and medium sized subcontractors to get loans for their operations if they could meet the credit criteria ... This is a part of our activities to give something back to the community ... We also benefit from this programme as we have more options—more solid subcontractor—to choose and reinforce the quality of our products.

The CEOs of Eta and Iota described their successful stories of incorporating efficient supplier networks. They illustrate the potential advantages of partnerships between firms and their suppliers; thus, the task of managing supplier relationships is a crucial factor that determines a firm's success or failure (Li, Ragu-Nathan, Ragu-Nathan & Rao, 2006; Saccani & Perona, 2007). Moreover, the above quotations demonstrate that improvement in supplier conditions could be a source of competitive advantage (Porter & Kramer, 2002; 2006). These case companies somewhat supported Porter's (1990; 1991) propositions that emphasise that the competent local suppliers should be clustered. One reason could be that Taiwan is a relatively small island and an efficient transportation infrastructure exists; thus, transportation costs are not so significant.

Context for strategy and rivalry

The driver related to context for strategy and rivalry was the timing to market entry. The main relevant stakeholders are the governments. For example, Gamma identified the opportunity in the deregulation of the textbook market and responded to it effectively. In addition, improving the context for strategy and rivalry may be another channel to gain competitive advantage. For instance, the textbook in Taiwan is an oligopoly market and is highly regulated by the government. Similarly, the operations of the IT security industry are significantly affected by the security specifications set by the government. Gamma and Kappa endeavoured to influence the government in order to create and maintain a fair competitive environment. The CEO of Gamma pointed out that:

When the government reviewed the relevant regulations of textbooks, it always asked our opinions. Since we are the leading brand in the industry, we have put a lot of effort in studying the related policies and regulations and we had significant influence on them. We tried our best to give some suggestions to the government, making the rules fair and just to all players in this industry. We hoped to remove any impediment to fair competition in this industry.

Similarly, the CEO of Kappa expressed his comments about competition and the role of the government in the local IT security market, and he stated:

In this industry, the government's role is vital. On the one hand, it is the institution that sets up the standards that all enterprises of this industry should follow; on the other hand, it is also the biggest client in the local market ... We co-operated

with academia that had great influence on IT security specifications and standards, so we could have equal opportunities to compete with foreign rivals in government projects.

The two examples above illustrate that both companies welcomed healthy competition in their industries, rather than government protection. According to the CEOs of both companies, their competitiveness was enhanced and thus helped them enter international markets. They supported the argument that competitive advantage may be enhanced by policies that encourage competition (Porter & Kramer, 2002; 2006). Both Gamma and Kappa were in the industries that were highly regulated by the government. This is somewhat different from the situation, with open and vigorous competition, described by Porter (1990; 1991). Nevertheless, they support Porter and colleague's argument that a healthy local competitive environment could strengthen a firm's international competitiveness (Porter & Kramer, 2002; 2006).

This section examines how stakeholder management affects a firm's positional advantages. According to Porter (1985, 1991), activities and drivers determine competitive advantages. Moreover, as discussed in Chapter 4, activities and drivers can be regarded as a firm's effective responses to the competitive context and thus shape its competitive advantage (Porter, 1991; Porter & Kramer, 2002; 2006). From the discussion above, it is clear that stakeholder management has considerable influence on positional advantages through its impacts on activities and drivers. Since stakeholders are key players in the competitive context, on the one hand, stakeholder management is an approach to adapting to the environment; on the other hand, it may shape a firm's competitiveness by improving the competitive context.

It is evident that the concept of stakeholder management (Freeman, 1984; Freeman & McVea, 2001) is consistent with the aim of achieving competitive

advantage. Although Porter and colleague's explanations of competitive context do not explicitly incorporate the notion of stakeholder management (e.g., Porter, 1991; Porter & Kramer 2002), in fact, this model is quite compatible with stakeholder theory and comprises a range of stakeholders. Factor conditions include existing and potential employees and shareholders; demand conditions refer to existing and potential customers; related and supporting industries involve suppliers and strategic alliances; context for strategy and rivalry concern the government and other related stakeholders. A firm could improve its competitive context by appropriately managing stakeholders in order to take advantage of cost or differentiation drivers, and thus achieve positional advantages.

The above discussion generates the following proposition:

Proposition 5.2: *Stakeholder management contributes to a firm's positional advantages through supporting its activities and responding to or improving its competitive context.*

5.4 Discussion

From the narratives and discussions presented above, it can be argued that stakeholder management significantly influences the sources of competitive advantage in terms of both resource advantages and positional advantages. Moreover, the theoretical framework proposed in Chapter 3 (Figure 3.1), the stakeholder view that links the resource-based, the relational, and the activity-position views, fits well with the empirical findings. First of all, stakeholders are providers who supply valued resources to a firm. In addition, stakeholders are a catalyst or hindrance that may facilitate or impede the generation of valued resources. Unique or symbolic resources

are created or co-created by interactions between the firm and its multiple stakeholders. Stakeholder management helps to acquire or build valued resources. In this respect, the stakeholder view links both the resource-based view (Barney, 1991; 2001b; Peteraf & Barney, 2003) and the relational view (Dyer & Singh, 1998; Lavie, 2006) in terms of a firm's resource capacity development, including shared and nonshared resources. On the other hand, as discussed in Chapter 4, this thesis argues that the activities and related drivers reflected a firm's response to the competitive context. As stakeholders are key players in the competitive context, appropriately managing stakeholders, through responding to or improving the competitive context, could strengthen the competitive advantage of the firm. Thus, the stakeholder view is in line with the activity-position view (Porter, 1991; Porter & Kramer, 2002; 2006). Accordingly, stakeholder management is quite compatible with the concept of gaining competitive advantage, and addressing the issue of value creation.

The literature reviewed in Chapter 2 indicated that the source of competitive advantage is related to the issue of how value is created. As stated, Post et al. (2002) hold that a firm's relationships with its critical stakeholders are crucial to generating the wealth of the corporation. This argument is consistent with the view that treats a firm and its stakeholders as value-based networks (Wheeler et al., 2003). The concept of value-based networks emphasises that value creation tends to be beyond the boundaries of an organisation. Wheeler et al. (2003) argue that value creation is manifold and repetitive in nature, which is socially constructed by the firm and its multiple stakeholders. In other words, it is stakeholders who define creating or destroying value. They suggest that for long-run prosperity, firms need competencies that take multiple stakeholders into account to prevent damage to value and maximise

potential for value creation. As Kay (1993) notes, “Success in business derives from adding values of your own, not diminishing that of your competitors, and it is based on distinctive capability, not destructive capacity” (p. 364). This also can be explained by Brandenburger and Stuart’s (1996) ‘added value’ argument that value created equals the total difference between the buyer’s willingness-to-pay²⁴ and the supplier’s opportunity cost. Competitive advantage comes from increasing the perceived use value (of the customers)²⁵ or decreasing the costs of the product or service (Lippman & Rumelt, 2003a). In particular, perceived use value, which is subjectively determined by the prospective customers, may involve different stakeholders at different levels including individual, group, organisation and society (Lepak et al., 2007). Thus, the concept of stakeholder management is in line with the essence of competitive advantage that addresses the ability of a firm to add more value for its customers than its competitors can in a competitive environment.

Since managing different stakeholders needs different strategies, as stated in Chapter 2, Freeman and colleagues suggest a classification of generic stakeholder strategies. According to relatively co-operative potential and relatively competitive threat, the strategies are divided into four categories: swing, defensive, offensive, and hold. Using the same two-dimension criteria for diagnosing the stakeholder’s potential for threat and co-operation (Freeman, 1984; Freeman et al., 2007; Freeman & Liedtka, 1997), the four-strategy-framework of managing stakeholders can be linked to the concept of value creation. Considering stakeholder management as strategies for maximising co-operative potential and minimising competitive threat, it could be viewed as an instrument that maximises the largest possible gap between the buyer’s willingness-to-pay and the supplier’s opportunity cost.

From the discussion above, it could be argued that stakeholder management contributes to the source of competitive advantage by maximising co-operative potential and minimising competitive threat. The case companies of this study demonstrate that some activities of stakeholder management did affect competitive advantage, although they seemed not to be significant in the first place. As the CEO of Delta put it:

One of our products involved a kind of toxic organic solvent and hazardous waste, which is high polluting; however, we made a tremendous investment to protect the environment ... The cost disadvantage in the earlier years turned out to be our competitive advantage as the government increasingly tightened the environmental laws and regulations ... that means many of our competitors could not survive, for they were not affordable ... Moreover, as we have established our reputations regarding corporate social responsibility, our customers are more comfortable dealing with us.

The senior manager of Zeta gave another example by saying that:

While we were building our plants, we needed to conduct environmental impact assessment and endeavoured to minimise the negative effects on local communities ... through dialogues with our neighbours, we ensured that we are good citizens by controlling our production processes...without appropriate actions regarding environmental or social issues, a company would be in a disastrous situation.

In addition, the CEO of Iota confirmed this view by stating that:

We are a demonstrated factory, appointed by the government, of environmental protection ... This includes energy saving, waste reduction, and water saving ... In

our industry, wastewater treatment was a critical issue and we had made a lot of effort to improve it ... We have enjoyed some advantage over our competitors since the government implemented strict environmental protection measures and the pressure from stakeholders increased.

The above examples illustrate that stakeholder management sometimes requires significant financial and human resources to deal with critical stakeholders. It might affect a firm's cost advantage negatively in the short run, but positively in the long run. Failure to manage critical stakeholders might result in a disastrous outcome.²⁶ As stakeholder management in these cases seemingly did not directly relate to competitive advantage at the very beginning, managers might ignore its strategic importance. However, they support the argument that there are intersections between competitive advantage and social issues (Porter & Kramer, 2002; 2006). Moreover, the result of this study is consistent with Porter and van der Linde's (1995) research, which indicated that an enterprise's efforts to reduce environmental impacts could result in "lower costs, better product quality, and enhanced global competitiveness" (p. 121). Thus, the conception of maximising co-operative potential and minimising competitive threat is a more comprehensive explanation of how stakeholder management influences the source of competitive advantage.

Thus, the above discussion generates the following proposition:

Proposition of 5.3: *Stakeholder management contributes to the source of competitive advantage, including both resource advantages and positional advantages, by maximising co-operative potential and minimising competitive threat.*

5.5 Conclusion

This chapter attempted to answer the first research question, “How does stakeholder management influence the source of competitive advantage?” From a stakeholder perspective, the firm is viewed as a value-based network, working together with its multiple stakeholders to achieve the goal of value creation. According to the analysis proposed in Chapter 4, a firm’s competitive advantages can be divided into two components: resource advantages and positional advantages. Stakeholder management may affect the source of competitive advantage through both of these. Stakeholder management has significant influence on resource advantages as stakeholders play important roles in influencing a firm’s resource capacity. First, stakeholders are providers who supply valued resources to the firm. Second, stakeholders are catalysts (or hindrances) that may facilitate (or impede) the generation of valued resources. Successful stakeholder management strengthens a firm’s resource profile and thus enhances its resource advantages. Stakeholder management also has considerable influence on positional advantages, as stakeholders are relevant to activities and drivers that determine cost and differentiation. Moreover, stakeholders are key players in the competitive context, which may shape the competitiveness of the firm. Appropriately managing stakeholders could improve the efficiency and effectiveness of activities as well as the competitive context, and thus enhance the competitive advantage of the firm.

The essence of a firm’s competitive advantage is its ability to add more value for its customers than its rivals can in a competitive environment. It endeavours to drive the largest gap between the buyer’s willingness-to-pay and the supplier’s opportunity

cost. In this regard, stakeholder management influences the source of competitive advantage through two routes: co-operative potential and potential threat of stakeholders. Strategies for managing stakeholders are used to maximise co-operative potential and to minimise the potential threat of stakeholders so as to capitalise on value creation opportunities. Stakeholder management is a set of strategic activities to mobilise resources and respond to the opportunities of the competitive context by managing both the internal attributes and external attributes of the firm.

Chapter 6: Sustaining competitive advantage through stakeholder management

6.1 Introduction

This chapter examines how competitive advantage can be sustained through stakeholder management. As discussed in Chapter 2, the concept of ‘sustainable competitive advantage’ or ‘sustained competitive advantage’ is always a major concern in the strategic management literature. For instance, Porter suggests that “the fundamental basis of above-average performance in the long run is *sustainable competitive advantage*” (1985, p. 11). He also discusses how drivers are related to sustainability of competitive advantage, in terms of cost advantage, differentiation, and focus. Similarly, Barney’s (1991) seminal work of the resource-based view emphasises the firm-specific resources as the sources of a firm’s sustained competitive advantage. The notable VRIN/O criteria of resources set the conditions for sustained competitive advantage. Other studies, such as Ghemawat (2001), Oliver (1997), and Porter (1996), also lay emphasis on the notion of sustainable competitive advantage, which competitors find difficult to imitate, drawing attention to an advantage that enables the firm to maintain superior economic performance over a substantial period of time. According to Wiggins and Ruefli (2002), the concept of sustainable competitive advantage is important to both business and academia. If a competitive advantage can be sustained, managers would be more willing to make strategic investments in search of such advantage from a long-term perspective. By contrast, if persistent superior performance is difficult to achieve from a competitive advantage, managers will be reluctant to commit to any substantial investment for generating such advantage (Gilbert & Harris, 1984) and, thus, be continuously in pursuit of temporary advantages (D’Aveni 1994; Eisenhardt & Martin, 2000) instead.

Studies on sustained competitive advantage focus on barriers to imitation or isolating mechanisms that can protect the value created by an advantage. Isolating mechanisms include several categories: (1) barriers to imitation related to firm-specific resources, such as resource scarcity, causal ambiguity, time compression diseconomies, and asset stock interconnectedness (Cool, et al., 2002; Dierickx & Cool, 1989); (2) barriers to imitation related to relational resources, such as inter-organisational asset interconnectedness, partner scarcity, and resource indivisibility (Dyer & Singh, 1998; Lavie, 2006); and (3) drivers of activities that are difficult for rivals to replicate, such as scale, sharing across activities, and optimal degree of integration, which configures a firm's resources (Porter, 1985; 1991; Sheehan & Foss, 2007). However, these mechanisms do not come from a vacuum but from the activities of the firm. Generally, they can be developed intentionally or unintentionally. Consequently, in this study, it is argued that activities that sustain competitive advantage are interrelated with those that create it.

In Chapter 5, the discussion concentrated on how stakeholder management influences the sources of competitive advantage and the stakeholder view was employed to emphasise firms as webs of relations among stakeholders. In particular, stakeholder management was portrayed as 'value-based networks' in which firms work together with their stakeholders to create value (Wheeler et al., 2003). Competitive advantage is the result of a complex process of multiple activities rather than a single one. This view was also supported by the empirical findings in Chapter 4. The sources of competitive advantage are multiple, comprising several main origins—superior resources, unique capabilities, and solid relationships, together with drivers responding to the competitive context—reflecting the integration of three main

research streams of competitive advantage, the resource-based, the relational, and the activity-position views. Nonetheless, this analysis did not fully take the variable of time into account, limiting itself somewhat to being a static rather than a dynamic view. As the main theme of this chapter is how stakeholder management impacts on sustaining competitive advantage, it is necessary to examine the dynamic perspective of value-based networks, which concerns the process of value creation over time.

The objectives of the chapter

This chapter will examine how stakeholder management can help a firm sustain its competitive advantage. Accordingly, two questions will be addressed:

- How does stakeholder management help sustain a firm's competitive advantage in the process of value creation?
- How does stakeholder management help sustain a firm's competitive advantage through isolating mechanisms?

Theoretical framework

The analytical theoretical framework proposed in Chapter 3 (Figure 3.1)—the stakeholder view that links three research streams of competitive advantage—is used to analyse and explain the empirical data in this chapter. As the key issue of this chapter is durability of competitive advantage, Ghemawat and Pisano's (2001) dynamic view of the firm is included, and attention is focused on the impacts of stakeholder management on isolating mechanisms. By integrating the resource-based and the activity-position views, Ghemawat and Pisano (2001, p. 119) argue that “both management and history matter” and suggest that there are two kinds of activities

related to the creation of a sustainable competitive advantage: resource commitments and developing capabilities. According to this logic, a firm's resource stock is determined by its initial resource endowments and subsequent resource commitments, together with activities that continuously develop its capabilities. In this regard, strategic dynamics involve both long-range, resource-based decisions and short-range, activity-based decisions. Thus, the resources that a firm can employ at any time depend upon its stock of resources accumulated by previous resource flows, and the capabilities it has built that can reconfigure or integrate its resources.

As Ghemawat and Pisano's (2001) framework only integrates the resource-based and the activity-position views, it doesn't cover shared resources and capabilities generated by the mechanisms of inter-firm relations, such as relation-specific investments, knowledge sharing, complementary resources, and informal safeguards, which are emphasised by the relational view (Dyer & Singh, 1998; Lavie, 2006; Gulati, et al., 2009). In Chapters 4 and 5, the case companies have supported the stakeholder perspective and demonstrated that their resource advantages included relational resources—shared resources and capabilities generated by inter-organisational partnerships or other relationships between the focal firm and its stakeholders. To develop a stakeholder perspective that embraces the major types of resources, it is quite compatible to incorporate the relational view into Ghemawat and Pisano's (2001) dynamic model. The revised model comprises resources and capabilities generated by inter-firm interactions as well as the relationships between the firm and other stakeholders.

This chapter is organised as follows. Firstly, activities that generate and sustain competitive advantage will be examined first, based on a dynamic perspective of the

firm. Secondly, the impacts of stakeholder management on isolating mechanisms that may sustain competitive advantage will be discussed. Finally, the conclusion of this chapter will be presented.

6.2 The dynamic perspective of the firm and activities related to sustained competitive advantage

In order to answer the question of how stakeholder management help sustain a firm's competitive advantage in the process of value creation, this section discusses the dynamic view of the firm by examining activities related to sustaining competitive advantage. The activities related to sustaining competitive advantage include: resource commitments, developing capabilities, and building relationships. According to this dynamic perspective, a firm's competitive advantage is based on both strategic stocks and flows. Strategic stocks refer to the resource capacity, in terms of resources, capabilities and relationships, and will be enhanced by or accumulate through the ongoing strategic flow of the activities to fit the competitive strategy.

6.2.1 Resource commitments

Rindova and Fombrun (1999) argue that firms consistently make strategic investments in order to construct their competitive advantages, including new product development, distribution channel expansion and existing product or service improvement. In contrast, Ghemawat and Pisano (2001) argue that a given firm's competitive advantage can successfully be generated only by critical and irreversible strategic decisions—commitments, rather than ordinary investments. These decisions influence a firm's resource allocation dramatically and need to be made very carefully.

These two views on resource commitments mainly differ in their size, frequency and irreversibility. Nonetheless, both of them suggest that firms compete based on their resource endowments together with accumulation of resource stocks through which firms seek to achieve a better position than their rivals.

Empirical data in this study revealed that all the case companies supported the concepts of flows and stocks in terms of resources (see Table 6.1). Sustained competitive advantages rely on firms' significant resource commitments. The data illustrated that companies made either 'large but infrequent' or 'incremental and small' investments that accumulate their resource stocks over time. As a result, resource commitments are important for firms to gain competitive advantage. Compared to their competitors, the case companies involved in this study demonstrated resource commitments in various areas, such as R&D, production capacities, distribution channels, IT systems, supporting operations, and customer services. As stated, it could be argued that resource commitments generate and sustain competitive advantage when they contribute to positional advantages—cost advantage, differentiation, or focus. In particular, several themes emerged among these case companies which exemplified sustained competitive advantages as a result of resource commitments: unique resources or specialised assets, first-mover advantage, economies of scale and economies of scope.

First, resource commitments support accumulation of resources that generate unique resources or specialised assets. For example, Alpha continuously invested in customer services, including training courses, call centre services, and e-learning programmes. These efforts supported its products and services differentiation and

Table 6.1: Empirical findings: Stakeholder management and advancing resource capacity

Case company	Advancing resource capacity			Drivers/The competitive context
	Resource commitment	Capability development	Relationship building	
Alpha	<ul style="list-style-type: none"> ● investments in customer services and R&D ● investment in human capital 	<ul style="list-style-type: none"> ● team-embodied capabilities in ERP products 	<ul style="list-style-type: none"> ● joint ventures and strategic partnerships through resource leveraging and capability enhancement ● culture of commitment and integrity ● reputation 	<ul style="list-style-type: none"> ● meeting sophisticated customer demands through economies of scale/scope and cumulative learning
Beta	<ul style="list-style-type: none"> ● investments R&D and distribution centres ● investment in human capital 	<ul style="list-style-type: none"> ● team-embodied capabilities of new product design and development in industrial computer Peripherals 	<ul style="list-style-type: none"> ● core capabilities of R & D, technology, capacities and marketing through its strategic alliances ● culture of commitment, assurance, reliability, and execution ● reputation 	<ul style="list-style-type: none"> ● meeting sophisticated customer demands through economies of scope, access to specialised inputs , and international operations networks
Gamma	<ul style="list-style-type: none"> ● investments in R&D, a distribution centre and a comprehensive website to support teachers ● investment in IT systems to improve operations efficiency ● investment in human capital 	<ul style="list-style-type: none"> ● unique capabilities in textbook industry 	<ul style="list-style-type: none"> ● joint ventures and strategic partnerships through resource leveraging and capability enhancement ● culture of learning and problem solving ● reputation 	<ul style="list-style-type: none"> ● meeting sophisticated customer demands through first-mover advantage and cumulative learning
Delta	<ul style="list-style-type: none"> ● investments in international manufacturing and distribution networks ● investment in human capital ● investment in equipment for environmental protection 	<ul style="list-style-type: none"> ● unique capability of production, management, and R&D in adhesive tapes 	<ul style="list-style-type: none"> ● joint ventures and strategic alliances for manufacturing and distributing through resource leveraging and capability enhancement ● reputation 	<ul style="list-style-type: none"> ● responding to insufficiency of supporting industries by increasing degree of vertical integration and taking advantage of economies of scale in production

Epsilon	<ul style="list-style-type: none"> • investments in R&D, patents, and production capacities • investment in human capital 	<ul style="list-style-type: none"> • unique capability of innovation and production in TFT-LCD panels 	<ul style="list-style-type: none"> • technological transfer in R&D, capacities and marketing through strategic alliances • undertaking environmental protection policies by working together with suppliers and subcontractors • a culture of commitment, integrity, and sustainability • reputation 	<ul style="list-style-type: none"> • meeting sophisticated customer demands through economies of scale, first-mover advantage, cumulative learning, and linkage between activities
Zeta	<ul style="list-style-type: none"> • investments in R&D, patents, and production capacities • investment in human capital 	<ul style="list-style-type: none"> • unique capability of innovation and production in colour CRT and TFT-LCD panels 	<ul style="list-style-type: none"> • technological transfer in R&D, capacities and marketing through strategic alliances • meeting environmental protection and developing green products • a culture of honesty, integrity, industriousness, frugality • reputation 	<ul style="list-style-type: none"> • meeting sophisticated customer demands through economies of scale, first-mover advantage, and cumulative learning
Eta	<ul style="list-style-type: none"> • investments in an international production network and branding strategies 	<ul style="list-style-type: none"> • knowledge, experience, and management capabilities of apparel production and branding in fashion markets 	<ul style="list-style-type: none"> • relational investment in new product introduction, human resource, and production capacity • supply chain with its suppliers and distributors • reputation 	<ul style="list-style-type: none"> • responding to increasing labour cost through developing a international production network • meeting sophisticated customer demands through related and supporting industries
Theta	<ul style="list-style-type: none"> • investments in R&D and quality management systems • investment in human capital 	<ul style="list-style-type: none"> • team-embodied capabilities of property development 	<ul style="list-style-type: none"> • strategic alliances for complementary resources and capability • a culture of learning • reputation 	<ul style="list-style-type: none"> • meeting customer demands through geographic location, high degree of vertical integration, and cumulative learning

Iota	<ul style="list-style-type: none"> ● investments in R&D and equipment for environmental protection 	<ul style="list-style-type: none"> ● unique capability of capabilities of quality management and advanced finishing and dyeing 	<ul style="list-style-type: none"> ● technological transfer from strategic partner–advanced product development ● reputation 	<ul style="list-style-type: none"> ● meeting sophisticated customer demands through-first mover advantage and integrated supply net work
Kappa	<ul style="list-style-type: none"> ● investment R&D ● investment in human capital 	<ul style="list-style-type: none"> ● team-embodied capabilities of E-security solutions 	<ul style="list-style-type: none"> ● resource leveraging with international strategic partners ● reputation 	<ul style="list-style-type: none"> ● meeting sophisticated customer demands through linkage between activities: R&D and marketing

increased value for its customers, which provided it with a strong competitive edge. Moreover, the customer services were innovative, and improved and upgraded over time by their ongoing investment in equipment and facilities. Furthermore, due to its success in strategic investment in 2000 and 2002, Alpha successfully promoted its products and services as well as achieved exposure to the Chinese market.²⁷ The CEO of Alpha argued that: *“Continuous and substantial investment in customer services is our competitive edge, ... we have built an automatic and multiple service system in order to meet our customers’ various needs ... the investment accumulated has become our strength to sustain competitive advantage and to explore the Chinese market.”*

A similar example is Beta which established its local R&D centre in 1998, and its US R&D centre and Technical Consulting Centre (TCC) in China in 2002. Between 1999 and 2006, Beta set up distribution and service centres in Singapore, the USA, China, Germany, India, and South Korea. These commitments helped Beta achieve its focus strategy of differentiation aiming at a specific segment of the industrial computer industry.²⁸ The CEO of Beta pointed out that: *“... the most important thing is to maintain competitiveness, ... Most customers are in overseas*

such as Europe, USA, and China ... resource commitments in our international operations network is a very important point that we can maintain our growth."

Another example is Gamma which established a comprehensive website to assist teachers to prepare for their teaching, students to review learning, and parents to communicate with teachers, which offered a superior service that its competitors were unable to catch up with for a considerable period of time.²⁹ The CEO of Gamma asserted that: *"Our investment in customer service has been huge and it is important for us to differentiate our products and sustain our competitiveness."* Similarly, Delta made significant investment in international networks, such as three manufacturing plants in China and two distribution channels in the USA. Since 2003, Delta has become the largest adhesive tape manufacturer in China and has gained substantial cost advantages.³⁰ The CEO of Delta maintained: *"To sustain our competitive advantage, it is important to take advantage of the trend of globalisation ... By our significant worldwide investment in distribution channels, we have been able to maintain the market shares in overseas markets ... "*

Moreover, in the case of Epsilon and Zeta, both of them invested in R&D and acquired patents for their products to preserve their competitive advantage against their rivals.³¹ Eta was the pioneer that established an international production network in 1991, including China, Indonesia, Cambodia, and the USA. These strategic investments helped it achieve and sustain cost advantages in the international textile markets.³²

Resource commitments enhance cost advantage or differentiation by development and accumulation of unique resources or specialised assets. Interestingly,

the above discussion suggests that cost advantage and differentiation are not contradictory. They can be enhanced simultaneously by resource commitments in different strategic investments (Ghemawat & Rivkin, 2001). These cases also confirmed Barney's (1991) and Rumelt's (1997) arguments that competitive advantage can be sustained by unique resources and specialised assets.

Second, resource commitments may generate first-mover advantage that sustains competitive advantage. First-mover advantage may occur while firms take advantage of the timing to market entry. For example, Gamma was the first private company that entered into the deregulated primary textbook market, and since 1995 has made substantial investments in R&D, which include teaching materials, textbooks, workbooks, teachers' manuals, and course preparation materials. Moreover, it invested substantially in China, including an education publishing and consulting business in 2004 and 2005. These investments allowed Gamma to differentiate itself from its rivals and be the market leader in the local textbook industry, as well as in the Chinese market, because of commitments made much earlier than its rivals.³³

Another example, as stated in Chapter 5, is Delta which invested in its first solvent recovery equipment for pollution control in 1977, and made several investments for ensuring environmental protection and industrial safety. This company is a pioneer in investing in environmentally friendly products in its industry category in Taiwan.³⁴ Similarly, Iota made strategic investment in reducing wastewater and other pollutants.³⁵ Both Delta and Iota sustained their competitive advantages by taking the lead in response to local communities' and the government's calls for commitments to environmental protection. These companies enjoyed first-mover advantages and sustained their competitive advantages due to such

strategic investments. They support the argument of Porter (1985) that first-mover advantages, being a driver of activities, sustain their competitive advantages.

Third, resource commitments can create the effect of economies of scale to sustain competitive advantage. Some resource commitments require significant capital investment and result in considerable changes in resource endowment. Ghemawat and Pisano (2001) argue that such commitments are crucial to generating the barriers to imitation by competitors. They emphasise that these barriers are related to opportunity costs and the source of irreversibility. One of the most evident barriers to imitation refers to economies of scale. For instance, the data collected from both Epsilon and Zeta supported this argument, for the TFT-LCD panel industry needs huge investments in production capacities. Both Epsilon and Zeta had cost advantages in manufacturing TFT-LCD panels since they made enormous commitments in 1997. They expanded their manufacturing capacities through capital investments and mergers and reduced their production costs dramatically. For example, Epsilon's launch cost of TFT- LCD in 1997 was 46.2 million USD with subsequent investments 184.6 million USD in 1998, 92.3 million USD in 1999, and 46.2 million USD in 2001. Between 2002 and 2005, tremendous investments were made for building and purchasing equipment and machinery for its production facilities: 611.1 million USD in 2002, 2.15 billion USD in 2004, and 418.4 million USD in 2005.³⁶ Apart from the total investments of 3.55 billion USD, Epsilon's two successful mergers in 2000 and 2006 also contributed to its becoming the market leader in the local industry by expanding its capacity and reducing production costs dramatically.³⁷ Similarly, since Zeta's first investment of 492.3 million USD in manufacturing TFT-LCD panels in 1997, it has made several continuing and significant resource commitments: 637.4

million USD in 2001, 735.4 million USD in 2003, 2.85 billion USD in 2005, and 426.1 million USD in 2006. The total investments amount to 5.14 billion USD.³⁸

Both Epsilon and Zeta enjoyed being large in the TFT-LCD panel market, and ranked within the world's top five in terms of production. Specifically, the senior manager of Zeta argued that: *“Our competitive advantage is to make capital expenditure and expand the production capacity continuously ... To sustain this advantage by economies of scale, we need to increase our output in order to increase or maintain the market share.”* Both cases are also consistent with Porter's (1985) and Ghemawat's (2001) arguments that scale could be an effective barrier to imitation while it is cost advantageous.

Fourth, resource commitments may generate economies of scope to sustain competitive advantage. Economies of scope occur when the total cost of multiple products by joint production is less than the sum of cost for producing each product individually (Teece, 1980; Bloch, Madden & Savage, 2001). In this regard, Alpha used a strategy of mass customisation, which took advantage of its economies of scope, depending on its considerable resource commitment in R&D and comprehensive customer services. Moreover, because there were many existing resources used for local ERP products that could be used in the production of new products or the exploration of new markets, economies of scope also contributed to Alpha's successful promotion of ERP-I in the Chinese market in 2000 and ERP-II in 2002.³⁹ It enjoyed both cost advantage and differentiation by leveraging its past strategic investments. The CEO of Alpha stated that: *“Our significant R&D investment supports our product development and improvement that can tailor specific customer needs ... Moreover, together with our continuous investment in*

customer service system, we are able to do mass customisation ... which is our sustainable competitive advantage.” Similarly, Beta benefited from economies of scope. From 1999 to 2006, it continuously made substantial resource commitments in R&D each year, which totalled 29.3 million USD. Based on its product development and innovation as well as leveraging its experience from one market to another, Beta successfully competed in international markets such as China, Singapore, the USA, and the European Union (EU) by cost advantage and differentiation.⁴⁰ The above two cases demonstrate that economies of scope also rely on significant resource commitments. This viewpoint is supported by Ghemawat and Pisano (2001), who argue that economies of scope create another type of barrier to imitation by means of resource commitments.

In Chapter 5, it was argued that stakeholders could be resource providers to a firm. In addition, they also might be a catalyst that facilitates generation of valued resources. Thus, stakeholder management is significant while the firm is making resource commitments. From the above discussion, sustained competitive advantage relies on the resource endowments changing or accumulating over time, as substantial or incremental investment is made by the firm. This means that resource flows are as important as stocks. Thus, both existing and future stakeholders are involved along with the process of change. Stakeholder management needs to identify critical stakeholders and appropriate strategies in order to match the firm’s competitive strategy. As Harrison and St. John (1996) argue, the importance of different stakeholders is based on a firm’s strategic decisions. Therefore, in terms of resource commitments, different firms have different critical stakeholders based on their strategic orientations.

For example, in the case of Alpha and Beta, both companies put the customers' wants and needs as number one priorities. In other words, they focused on customer value. As discussed in Chapter 5 and earlier on, they deeply involved their customers in their R&D and development of customer service. In addition to financial investment, both R&D and superior customer service require sufficient and appropriate human resources. According to the CEO of Alpha, it was keen to develop a culture of integrity and diligence and to recruit and maintain those who would uphold it. On the other hand, Beta provided good training and development to attract and retain their staff. In particular, both companies emphasised that a good CSR reputation was not only important to the companies themselves but also to their staff. This is consistent with Eweje and Bentley's (2006) hypothesis that there exist associations between CSR and staff retention in a firm.

In the case of Epsilon and Zeta, both companies were in pursuit of cost advantages and needed large amount of capital for their continuing investments in equipment, machinery and plants for the purpose of economies of scale. They considered not only existing shareholders but also future investors to ensure future cash flows. As discussed in Chapter 5, both companies preferred institutional investors to private investors. They needed to communicate with existing and potential shareholders actively by providing financial information and strategic plans. They also offered comprehensive information regarding environmental impacts in order to meet the requirements of the professional investors. Moreover, they respected the feedback from existing shareholders as well as future investors. Furthermore, they built good relationships with local communities by being a good citizen in order to get the 'license' to operate. Similar to dealing with shareholders or equity investors, both

of them also needed to handle other fund providers carefully, such as banks and convertible bond investors. Both companies emphasised their recruitment and retention of talented staff such as senior managers, R&D staff and engineers. Along with their expansion, their needs for large pools of human resources also grew correspondingly. This confirmed why they continuously improved their reward systems including bonus and fringe benefits.

In brief, following Harrison and St. John's (1997) suggestion, stakeholder management is important for the source of competitive advantage as stakeholders are major resource providers or facilitators. From the above discussion, it could be further argued that stakeholder management is crucial to sustaining competitive advantage as resource commitments rely on support from critical stakeholders. In this thesis, resource commitments refer to a substantial investment, or ongoing investments in resources in specific areas, which could result in a significant (accumulated) change in resource stock. As stakeholders are resource providers or facilitators, successful resource commitments require managing stakeholders appropriately. Moreover, sustained competitive advantage relies on accumulation of resources; thus, stakeholder management should be an ongoing activity aiming at long-term value rather than on a project base (Post et al., 2002; Wheeler et al., 2003).

6.2.2 Developing capabilities

Capabilities play an important role in the resource-based view of competitive advantage. Amit and Schoemaker (1993, p. 35) define capabilities as “a firm's capacity to deploy *Resources*” and they are “firm-specific and are developed over time through complex interactions among the firm's *Resources*”. As Teece et al.

(1997, p. 529) have emphasised, “capabilities cannot easily be bought; they must be built.” In contrast to resource commitments, firm-specific capabilities are developed progressively through discrete and moderate managerial decisions over a long timeframe (Ghemawat & Pisano, 2001). According to the dynamic capabilities approach, performance differences across firms are due to differential capacities of firms to integrate, utilise, renew, and reconfigure resources in response to the changing environment over time (Eisenhardt & Martin, 2000; Teece et al., 1997). The features of capabilities include firm-specific, internally built and timing issues (Makadok, 2001).

Firm-specific capabilities are not only the source of a firm’s competitive advantages but also a crucial factor for sustaining them. As capabilities concern appropriate integration and deployment of resource bundles, they are more difficult for competitors to replicate (Sirmon & Hitt, 2003). Moreover, capabilities development involves ongoing learning, developing and improving, which might cause considerable uncertainty and complexity (Ghemawat & Pisano, 2001). Thus, developing capabilities is an important part of the activities required to sustain a firm’s competitive advantage.

Similar to resources, the concepts of flows and stocks can also be applied to capabilities. For example, Deeds, Decarolis and Coombs (2000) use a model of flows and stocks to examine the capabilities of new product development of new biotechnology firms. Kyriakopoulos and de Ruyter (2004) highlight that both knowledge stocks and information flows influence firms’ development of new products. Teece and Pisano (1994) define distinctive capabilities in terms of processes and positions. The two notions are compatible with the concepts of flows and stocks

discussed in this chapter. Teece and Pisano describe position as a firm's "current endowment of technology and intellectual property, as well as its customer base and upstream relations with suppliers" (1994, p. 541) (which corresponds to the concept of stock), and the process as "the way things are done in the firm, or what might be referred to as its 'routines,' or patterns of current practice and learning" (1994, p. 541) (which corresponds to the concept of flow). In order to differentiate capabilities which are accumulated or developed within the firm from those that are generated through interactions between organisations, the relations between the firm and its customers or suppliers can be categorised into an independent category—"relationships." This classification is compatible to the distinction between the resource-based view and the relational view. The subject of relationships will be discussed later on in the next section.

The data collected from this study demonstrate that all firms interviewed developed superior capabilities over time which contributed to sustaining their competitive advantages (see Table 6.1). Firms strengthened their competitive advantages by accumulation of capabilities. The themes that sustained competitive advantages related to capability development are divided into three categories: special information or knowledge, team-embodied skills, and cumulative organisational learning. They have impacts on both capability flows and stocks.

First, capabilities come from creating special information or knowledge. For example, based on its ongoing investment in R&D, Delta developed several kinds of adhesive tapes that meet special requirements in industry, such as exceptional transparency, durability in high or low temperatures, UV ray protective, and unleaded tapes.⁴¹ The capabilities of new product development supported Delta successfully in

exploring the international markets. More importantly, Delta's superior capabilities are rooted in its special knowledge of adhesive tape manufacturing. As its CEO indicated, "*We depend on some formula and advanced knowledge of adhesive tapes to preserve our competitiveness.*" Similarly, in the case of Epsilon, special knowledge protects their competitive edges against intense competition. As stated in Chapter 4, the senior manager of Epsilon emphasised that, based on the effort in strong R&D activities for many years, his company had acquired several patents of core products in order to preserve its competitiveness.⁴² According to Rumelt (1997) and Ghemawat (2001), special information or knowledge is one of the barriers to imitation that sustain a firm's competitive advantage. The above-mentioned two cases demonstrate that their knowledge is difficult for competitors to access due to it being tacit, collectively held or protected by the law.

Second, capabilities come from establishing team-embodied skills. For example, through promoting a continuous improvement culture and encouraging learning, Alpha built up its unique capabilities in ERP products. By offering good customer products and services, and by engaging its customers, the company provided employees as well as the public with IT training & education programs. It also developed a well-organised task force in charge of its customer services, at early stage, which later became an individual department. The unique capabilities were not only because its investments in R&D were much more significant than its rivals, but also its organising a strong team to carry on continuous product improvement and innovation.⁴³ The CEO of Alpha said: "*I think company vision should play the role to lead the company, which needs a team to realise the company's goals ... the major*

difference between our company and our competitors is that we have a strong management team, which is the main factor that we can sustain our advantage.”

In the case of Beta, based on its R&D team, the company successfully developed several new products between 2002 and 2004, including industrial computer platforms for telecommunications, and for military and industrial automation.⁴⁴ In order to meet the sophisticated demands of international customers, it continuously introduced new products and offered good customer services based on geographic proximity. The introduction of these new products demonstrated its unique capabilities of new product design and development, in the industrial computer market. Specifically, Beta’s superior capabilities involved its team-embodied skills and strategy of internationalisation. The CEO of Beta stated that:

We regard ourselves as a technological innovation company and we have built up a strong team that included many talented professional people ... We leverage our successful infrastructure from one market to another and accumulate our capabilities over time ... We believe superior skills of our team contribute to our sustainable competitive advantage that our competitors have difficulty catching up with.

In the case of Kappa, the company had employed a strong technological team since its establishment. It continuously engaged in R&D, which successfully improved and upgraded its products and made itself the leading designer and manufacturer of network security products in the Taiwanese market. As the CEO of Kappa argued, *“The core competence of our company is our technology of E-security solution, which is embedded in our management team ... We believe it’s our sustainable competitive edge.”*

From the case companies discussed above, it could be argued that capabilities originate and are continuously developed from team-embodied skills, and that they are difficult for rivals to imitate due to their complexity and ambiguity. This supports Rumelt's (1997) suggestion that firms with team-embodied skills can sustain their competitive advantage.

Third, capabilities come from fostering cumulative organisational learning. Andreu and Sieber (2000) conceive organisational learning as "a knowledge change or accumulation that results in an increased collective problem-solving capacity" (p. 70). Therefore, organisational learning could be viewed as a process that may result in changes in a firm's capabilities. Cumulative organisational learning is an activity driver that can sustain competitive advantage (Porter, 1985; Sheehan & Foss, 2007). For example, Gamma first entered the local non-mainstream textbook market in 1989 and has developed its unique capabilities in this area. The company enjoyed both advantages of first-mover advantage and cumulative organisational learning. In particular, it built its superior capabilities in this field by organisational learning. As the CEO of Gamma emphasises:

We had entered this market earlier than our rivals when there is only very limited part of the market released and we constantly developed and accumulated superior capabilities through learning and experience. This is the reason that we could have successfully become the market leader since the government's further deregulation and allowed us to publish more mainstream textbooks in 1996 ... Our sales grew at a rate of 30-40% per year until 2000.

In the case of Epsilon, apart from its substantial resource commitments, the company effectively built up its capabilities of TFT-LCD panel manufacturing through organisational learning. These capabilities included ability to reduce production cost, improve product quality, provide customer service, and introduce new products in a timely manner.⁴⁵ With these capabilities, Epsilon gained a strong competitive edge in the TFT-LCD panel industry. It is worthwhile noting that these developed capabilities can be transferred from one product generation to the next, which is a long-term process and needs considerable efforts devoted to it. Like Epsilon, Zeta made considerable resource commitments in TFT-LCD panels in 1997. Zeta differed to Epsilon, however, in that Zeta was established in 1971 and has been producing CRT monitors since then. In the 1990s, it started to manufacture LCD monitors and still makes both types of monitor today.⁴⁶ Consequently, it possessed more core capabilities or rigidities than Epsilon and other rivals. Specifically, it was always competition that pushed the advancement of its capabilities. As the senior manager of Zeta indicated, *“The driver of our learning comes from the pressure of competition; our manufacturing capabilities accumulated including continuous improving and upgrading products for many years is an important barrier to entry.”*

Another example is Eta which established its first international production site in China in 1991. The main purpose of its internationalisation was to achieve lower production cost by extending the resource commitments into other markets.⁴⁷ Teece et al. (1997) term this mode, replication. Eta successfully leveraged its existing resources and capabilities to gain the cost advantage by building production sites in other developing countries. Based on its capabilities of original export manufacturing (OEM), the company developed its first own brand and sells its menswear under this

brand to the Chinese market since 1993. It also purchased a second brand for the local womenswear market in 2003. In 2004, Eta developed a third own brand and has sold its womenswear under this brand in the Chinese market.⁴⁸ Along with its resource commitments, Eta continuously developed its capabilities through cumulative organisational learning, while successfully managing its own brands as well as creating its value by differentiating itself from rivals.

Iota was in pursuit of a differentiation strategy, focusing on quality and flexibility. The company introduced a quality management system in 1986 and a management information system for coordinating production and marketing in 1987. Its objective was to achieve product leadership in its industry and it actively introduced new services to meet the customers' demands, including flame retardant finishing, breathable down-proof, UV-cut finishing, wicking finishing, and anti-bacteria finishing.⁴⁹ These functional processes provided by Iota demonstrated its core capabilities, which were advanced and improved over time. Like Zeta, its capability development through organisational learning was based on its previous knowledge and the pressure from competitors.⁵⁰ The above cases demonstrate that capability development is a typical learning process "by which repetition and experimentation enable tasks to be performed better and quicker" (Teece et al., 1997, p. 520). They also support Porter's (1985) argument that proprietary learning could be the driver of sustainability of competitive advantage. Moreover, these cases are in line with Bontis, Crossan and Hulland's (2002) suggestion that organisation learning flows help accumulation of organisation learning stocks—knowledge, capability and institutional factors.

From the above discussion, it is apparent that firms develop capabilities through creating special information or knowledge, establishing team-embodied skills, and fostering cumulative organisational learning. The related stakeholders in this respect involve customers, suppliers, and employees. Freeman and Liedtka (1997) argue that the traditional supplier-firm-customer concepts need to be broadened by deeply involving employees and communities. They further advocate that employees are the lead characters of the value creation process. According to this logic, inclusion of employees is an indispensable ingredient in capability development and sustaining competitive advantage. Wright et al. (2001) address the strategic role of people in competitive advantage and argue that ‘managing people’ is crucial. As mentioned in Chapter 5, the case companies of this study demonstrated that they value their employee stakeholders by providing good working conditions, reward recognitions, and reasonable incentive systems. Moreover, they provided employees with training and development opportunities, and supported learning, which benefited both individuals and organisations as a result of capability development and accumulation of human capital. The case companies discussed above demonstrate that employees play a crucial role in capability development and they are also a vital part in sustaining competitive advantage. Moreover, capability development involves human capital, skills and knowledge and teamwork, which are not easy to imitate (Barney & Wright, 1998; Wright et al., 2001).

In brief, if capability development is as important as resource commitment in sustaining competitive advantage, firms need to “identify and develop the hard-to-imitate organisational capabilities that distinguish a company from its competitors in the eyes of customers” (Stalk, Evans & Shulman, 1992, p. 62).

However, capability development is not limited to activities within the organisation. Apart from employees, capability development always involves other stakeholders. Thus, in the next subsection how firms build relationships with external stakeholders to sustain competitive advantage is discussed.

6.2.3 Building relationships

The relational view (e.g., Dyer & Singh, 1998; Lavie, 2006) advocates that collaboration between firms can generate competitive advantage due to relation-specific assets, knowledge-sharing routines, complementary resources and effective governance. Moreover, according to Dyer and Singh (1998), competitive advantages can be preserved by the relational isolating mechanisms including inter-organisational asset connectedness, partner scarcity, co-evolution of capabilities and institutional environment. Some scholars go further and argue that sustained competitive advantage may come from active interactions with other critical stakeholders (e.g., Andriof & Waddock, 2002; Rodriguez et al., 2002). According to Andriof and Waddock (2002), stakeholder engagement is a strategic approach to supporting a firm to meet stakeholder wants and needs. It also develops a web of continuing relationships between the firm and its stakeholders. These arguments concentrate on the intangible value of relationships, which is what the concept of social capital is concerned with (Wheeler et al., 2003). Most research on social capital tends to focus on an individual-level definition which means the advantage that an individual can seize through their social networks (Coleman, 1990; Nahapiet & Ghoshal, 1998; Portes, 1998). On the other hand, an organisation-level definition of social capital is concerned with both firms and their players in an organisational setting (Gabbay & Leenders, 1999; Leana & van Buren, 1999; Leana & Rousseau,

2000). According to Gabbay & Leenders' (1999, p. 2), 'corporate social capital' is regard as "*the set of resources, tangible or virtual, that accrue to an actor through the actor's social relationships, facilitating the attainment of goals.*" Using the metaphor of corporate social capital, the concepts of flows and stocks apply too. Hence, based on creation and maintenance of corporate social capital, building relationships has similar dynamics to those between stocks and flows that are demonstrated by resources accumulation or capabilities development.

In this study, all the case companies revealed the importance of building relationships with their strategic partners and other stakeholders to generate and sustain their competitive advantages (see Table 6.1). In other words, apart from resource commitments and capabilities development, sustained competitive advantages also rely on firms' relationship building. Furthermore, the empirical results reinforce the concepts of flows and stocks. The themes that sustained competitive advantages related to relationship buildings can be categorised into three types: resource leveraging, capability enhancement and reputation generation.

First, relationship building facilitates resource leveraging and thereby helps accumulation of resource stocks. The resource-based view asserts that unique resources or specialised assets can sustain competitive advantage (e.g., Rumelt, 1997). However, in addition to individual firms acting alone, unique resources or specialised assets may also be created from the relationships between the firm and its strategic partners or other stakeholders. Resource leveraging here means a firm leverages the value of its own resources through integrating its complementary resources with those of its strategic partners (Dyer & Singh, 1998). For example, in 2002, Alpha formed a joint venture with the largest Chinese IT distributor and system integrator to provide

ERP solutions to the Chinese market, which has become China's fastest-growing ERP provider since then. In this case, both Alpha and its Chinese partner made substantial commitments to this venture, which has created a unique resource to leverage human resource, knowledge, technology and facilities from both parties.⁵¹

In a similar case, Gamma established several strategic alliances with local education publishing companies in Beijing and Nanjing, China. In 2002, it set up the Beijing office in co-operation with local companies to conduct market research and analysis. In 2003, it established a joint venture with a Nanjing local education group working in market research, distribution, and R&D. Gamma successfully began selling kindergarten materials and supplementary textbooks for junior and senior high schools in China in 2005 and 2007. Similar to Alpha, Gamma benefited from strategic alliances with Chinese partners through sharing resources such as customer base, know-how and reputation.⁵²

Another case is Delta; the company formed a joint venture with a local plastic material group, in 1990, for manufacturing BOPP (biaxially oriented polypropylene) tapes and successfully built up distribution channels around the Chinese market. It also co-operated with US partners to establish distribution channels in the US market in 2005.⁵³ These international production or distribution networks were not only dependent on its own resource commitments but also on complementary resources contributed from its strategic partners. Without the help of strategic partners, it would have been difficult or impossible for Delta to achieve its strategic goals.

The cases discussed above demonstrate that firms co-operated with their strategic partners and leveraged each other's resources, which successfully developed unique

resources or related assets and thus generated their competitive edges. This is somewhat similar to the argument that relation-specific investments made by alliance partners create sustainable competitive advantages (Dyer & Singh, 1998; Lavie, 2006). In particular, by developing relationships that accumulate social capital, firms are able to mobilise and deploy more resources. Additionally, resource leveraging involves several issues such as inter-firm resource complementarities, relative bargaining power, and effective governance (Dyer & Singh, 1998; Khanna, Gulati & Nohria, 1998). It could be argued that this kind of resource leveraging would make an advantage sustained because it requires sophisticated relationships, which are difficult and time-consuming for rivals to accumulate and imitate.

Second, relationship building facilitates capability enhancement and thus helps accumulation of capability stocks. As discussed earlier, capabilities originating from team-embodied skills and specialised information or technology can create sustainable competitive advantage. A few cases in this study demonstrate that the relationships between the firm and its strategic partners or other stakeholders also facilitate capability building and thus generate sustained competitive advantage. For example, the CEO of Alpha described its relations with its key customers as strategic partnerships. The competitiveness of Alpha was rooted in its long-term relationships with its customers. Through the collaboration of strategic partners in new product development and service review, these relationships helped it advance its products and services by ongoing innovation, improvement and upgrade. This is a typical case of co-evolution of capabilities (Dyer & Singh, 1998; Helfat & Raubitschek, 2000), which is difficult for competitors to imitate.

In the case of Eta, as discussed in Chapter 4, it developed very solid relationships with its suppliers and distributors, which displayed a highly efficient network to focus on a niche market that required innovation, flexibility, high quality and fast delivery. This created and built up advantageous capabilities by network externalities that the rivals found hard to compete with for a period of time (Ghemawat, 2001). Beta is another example. The company acquired and accumulated its core capabilities on R&D, technology, operations and marketing through technological transfer from cooperating with its strategic alliances, such as Motorola and Mitsubishi in 2001, and the Fujitsu group and Sun Microsystem in 2003. It also teamed up with Kontron and Toshiba Teli in 2006 for new product development, and vision platform solutions. Beta strengthened its capabilities by absorbing cutting-edge knowledge from these international partners and sharpened its competitiveness dramatically.⁵⁴

Epsilon and Zeta are two similar examples. Epsilon established strategic alliances with foreign partners, including IBM in 1999, and Fujitsu and Universal Display Corporation in 2000. The areas of co-operation covered TFT-LCD panel technological transfer in R&D, capacities and marketing, which enhanced Epsilon's capabilities significantly.⁵⁵ Zeta had an established long-term strategic partnership with Toshiba since 1980, for producing colour CRT. This relationship also initiated subsequent technological transfer in its manufacturing of TFT-LCD panels, which considerably advanced Zeta's capabilities.⁵⁶ In addition to their huge resource commitments, both Epsilon and Zeta relied on their strategic partners to strengthen their capabilities for achieving cost advantages in the international markets.⁵⁷ Another example is Iota, which established a strategic alliance with Nano-Tex for

Nano-related product development. This relationship enhanced its capabilities of new product development and helped to upgrade its existing products dramatically.⁵⁸

The evidence provided in the above discussion has shown that core capabilities development also rely on inter-firm relationships, rather than being solely internally built. There are several reasons why inter-firm relationships would be barriers to imitation. Firstly, technology or knowledge transfer between firms is not only time consuming but also cannot be purchased from the ordinary markets (Teece et al., 1997). Secondly, partner scarcity creates a difficulty as suggested by Dyer and Singh (1998). Thirdly, successful technological transfer mainly depends on the recipient's absorptive capacity (Cohen & Levinthal, 1990; Mathews, 2003), which its rivals may not have. Therefore, competitors find it hard to imitate the focal firm's capability development through inter-firm relationships if they cannot find an appropriate partner or don't have enough absorptive capacity.

Third, relationship building facilitates reputation creation and maintenance. Caves and Porter (1977) describe reputation as a kind of intangible strategic resource that can preserve competitive advantage because it is hard to imitate. Therefore, like other strategic assets, firms enjoy competitive advantages if they can obtain favourable reputations (Hall, 1992; Rindova & Fombrun, 1999). The data collected from this study revealed that, in addition to shareholders, employees and strategic partners, firms actively engage with other multiple stakeholders, and their main purposes were just the same—to gain and maintain their reputations.

Most case companies in this study demonstrate their continuous commitments to environmental protection to gain good reputations. For example, Beta, Epsilon and

Zeta implemented green supply chain purchasing and green production to avoid toxic and hazardous materials or components in their products.⁵⁹ This not only fulfilled the requirements of customers from members of the EU, but also enhanced their reputations for environmental concern. In addition, Epsilon endeavoured to be a good corporate citizen, undertaking environmental protection policies and working together with its suppliers and subcontractors to achieve corporate social responsibility and sustainable development through its subcontractor/supplier management systems including quality, green products, manufacturing, labour and ethics. In 2006, the company received a local Corporate Social Responsibility Award from Common Wealth, Taiwan's leading business magazine, in recognition of its efforts in environmental protection, social responsibility, and corporate governance.⁶⁰ Zeta, was also committed to supporting environmental protection and developing green products.⁶¹

Another example is Delta. As a chemical related manufacturer, it was committed to minimising its environmental impacts from toxic and hazardous wastes. It also worked hard to ensure employee health and safety. Since 1994, Delta has received many Taiwan government awards in recognition of its environmental protection and industrial safety performance, such as Industrial Waste Reduction Awards in 2000 and 2002, and an Energy Conservation Award in 2001.⁶² Similarly, Iota also paid attention to controlling its environmental impacts, as the company had great potential to generate much toxic and hazardous waste. It has been a role model in the industry since 1996 and invited other manufacturers in the industry to inspect and learn from its work on environmental protection and waste reduction. It received ISO 14001

certification in 1998, demonstrating its continuing effort in minimising environmental impacts. This includes energy saving, waste water reduction, and air pollution control.

Moreover, a good number of cases revealed that firms aggressively participate in various social activities in order to enhance their reputations. For example, through its foundation for philanthropy, Beta established a solid relationship with the civil society, which provides it with a good reputation for fund raising and recruiting employees.⁶³ In addition, in the case of Gamma, the company regarded itself as an education-related business and actively engaged in public service and philanthropy. It had agreed with the idea of corporate social responsibility since its establishment. For instance, Gamma has actively participated and hosted various sporting activities and charity events, such as book donations and monetary donations. Another case is Zeta, which had a tradition of respecting multiple stakeholders and actively engaged with them. This includes participation in charity events and public or social service, protection of labour rights and ensuring employee safety and health. By offering scholarships and monetary donations in building research laboratories, Zeta formed a strategic partnership with a prestigious local university for co-operation in R&D and human capital development.⁶⁴ Another example is Theta's participation in 'the Firefly Fund' for helping small and medium local enterprises acquire loans, by providing credit guarantees to them. The company also set up a charity foundation in 2003, which has held many cultural, art, and public service events. It believes that it needs to give something back to the community and, in turn, a healthy community will benefit the firm as well.⁶⁵

According to Porter (1985), the relations between a firm and its suppliers, distributors or customers could be a vehicle of sustained competitive advantage

because they involve cross-organisational co-ordination, being difficult to distinguish. Similarly, in terms of reputation building, the relationships between a firm and its multiple stakeholders also help sustain its competitiveness. From the aforementioned case companies, they demonstrated that meeting the expectations of multiple stakeholders strengthens a firm's reputation and thereby has a positive impact on its competitive advantage (Margolis & Walsh, 2003; Van der Laan et al., 2008). Particularly, reputation is a result of long-term relationships between the focal firm and its stakeholders or the stakeholders' overall assessment of its ability to meet their specific criteria (Bendixen & Abratt, 2007; Bick, Jacobson, & Abratt, 2003).

From the aforementioned cases, it could be argued that managing external stakeholders helps preserve competitive advantage by facilitating three factors: resource leveraging, capability enhancement, and reputation creation and maintenance. In other words, the relationships between the firm and its multiple stakeholders help it mobilise resources, strengthen capabilities and build up intangible assets such as reputations. The positive impacts of stakeholder management are in supportive of the argument that engaging stakeholders facilitates the formation of social capital (Andriof & Waddock, 2002; Wheeler et al., 2003) and enhances the firm's capability to manipulate resources (Blyler & Coff, 2003). Moreover, it could be further argued that managing multiple stakeholders helps the accumulation of 'stakeholder capital', which is a broadly-defined notion of social capital (Ayuso et al., 2006).

6.2.4 A comprehensive version of the dynamic perspective of the firm

According to the discussion above, the empirical results support the argument that stakeholder management helps firms advance their resource capacity by accumulating

resources, developing capabilities, and strengthening relationships. Stakeholder management also helps firms use activity drivers, such as economies of scale or scope, cumulative organisational learning, and first-mover advantage, to improve the efficiency and effectiveness. The three dimensions of resource capacity discussed in Chapter 5, and in this chapter, are all the same—resource, capability, and relationship. However, in this chapter, the emphasis is on time and thus each dimension was examined by both flows and stocks. Hence, we can use the stakeholder view to reformulate a more comprehensive version of the dynamic perspective of the firm proposed by Ghemawat and Pisano (2001). This approach views the firm as a value-based network with a collection of resources, capabilities and relationships.

Value creation is determined by interactions between resources, capabilities and relationships, together with drivers responding to the competitive context. Correspondingly, activities related to value preservation—sustaining competitive advantage—include resource commitments, developing capabilities, and building relationships. Moreover, the three types of activities are not independent; they are intertwined. The empirical results of this study also confirm that sustaining competitive advantage requires multiple activities. For example, in the case of Epsilon and Zeta, the competitive advantage of economies of scale was not only dependent on resource commitments; it also relied upon inter-firm relationships for technological transfer. Moreover, such competitiveness was also enhanced by their continuously developed capabilities. Hence, sustained competitive advantage could be shielded from imitation by multiple factors: economies of scale, special knowledge and cumulative organisational learning. A similar phenomenon occurred in other cases such as Alpha, Beta, Gamma and Delta.

Consistent with the main argument in this thesis regarding the source of competitive advantage, the above discussions support the view that sustaining competitive advantage also requires linking three research streams: the activity-position, the resource-based and the relational views. Adopting the concepts of flows and stocks, it could be argued that the best way for a firm to sustain competitive advantage is to enhance its resource capacity that fits its competitive strategy (as discussed in Chapter 4), by accumulating stocks of resources, capabilities, or relationships, in order to create more value than its competitors. In addition, flows and stocks influence each other. On the one hand, accumulation and depletion of flows of resource, capability, and relationship cause changes in their stocks. On the other hand, the stocks would affect their subsequent flows (e.g., Bontis et al., 2002). The interrelations between a firm's resources, capabilities, and relationships and the interplays between flows and stocks refer to a complex social process. Thus, taking the view of a firm as a value-based network, stakeholder management helps sustain competitive advantage through advancing the capacity, that is, shaping the flows and stocks of resources, capabilities, and relationships.

The following proposition is generated based on the above discussion:

Proposition 6.1: *Stakeholder management helps a firm sustain competitive advantage by advancing its resource capacity—through resource commitment, developing capabilities and building relationships—in order to fit the competitive strategy.*

6.3 Isolating mechanisms created by stakeholder management

This section addresses the issue of how stakeholder management help sustain a firm's competitive advantage through isolating mechanisms. Based on the discussion in the previous section, competitive advantage can be preserved through three types of activities: resource commitments, capability development, and relationship building. It could be emphasised, however, that these factors only described how rather than why an advantage can be preserved by stakeholder management. Based on the empirical findings of this study, there are several isolating mechanisms generated in the process of value creation, which are attributed to stakeholder management (see Table 6.2). It could help explain why stakeholder management is able to sustain competitive advantage. The isolating mechanisms that will be discussed in this section are: (1) time compression diseconomies, (2) causal ambiguity, (3) social complexity, and (4) transaction costs.

6.3.1 Time compression diseconomies

For many resources, the time required for resource development is extensive (Ghemawat & Pisano, 2001). Time compression diseconomies denote a general phenomenon that acceleration of costs is faster than that of resource development. Dierickx and Cool (1989, p. 1507) describe it as “the “law of diminishing returns” when one input, viz. time, is held constant.” In other words, unless rivals could find other lower cost means, they need to pay higher costs for imitating and catching up with the focal firm's strategy. Consequently, a competitive advantage created by a firm's substantial or continuous resource commitments would generally be difficult

Table 6.2: Empirical findings: Stakeholder management and isolating mechanisms

Case company	Isolating mechanisms			
	Time compression diseconomies	Causal ambiguity	Social complexity	Transaction costs
Alpha	<ul style="list-style-type: none"> • technological and manufacturing capacities • investment in internationalisation 	<ul style="list-style-type: none"> • tacit knowledge or capabilities 	<ul style="list-style-type: none"> • human capital • unique culture • reputation 	<ul style="list-style-type: none"> • acquiring and preserving valued resources • generating switching costs • mitigating the risks of social incident
Beta	<ul style="list-style-type: none"> • technological and manufacturing capacities 	<ul style="list-style-type: none"> • tacit knowledge or capabilities • relational capabilities of green supply chain 	<ul style="list-style-type: none"> • human capital • unique culture • reputation 	<ul style="list-style-type: none"> • acquiring and preserving valued resources • mitigating the risks of social incident
Gamma	<ul style="list-style-type: none"> • investment in internationalisation 	<ul style="list-style-type: none"> • tacit knowledge or capabilities 	<ul style="list-style-type: none"> • human capital • unique culture • reputation 	<ul style="list-style-type: none"> • generating switching costs • mitigating the risks of social incident
Delta	<ul style="list-style-type: none"> • investment in environmental protection • investment in internationalisation and integration 	<ul style="list-style-type: none"> • tacit knowledge or capabilities 	<ul style="list-style-type: none"> • human capital • unique culture • reputation 	<ul style="list-style-type: none"> • acquiring and preserving valued resources • mitigating the risks of social incident
Epsilon	<ul style="list-style-type: none"> • technological and manufacturing capacities 	<ul style="list-style-type: none"> • tacit knowledge or capabilities • relational capabilities of green supply chain 	<ul style="list-style-type: none"> • human capital • unique culture • reputation 	<ul style="list-style-type: none"> • acquiring and preserving valued resources • mitigating the risks of social incident
Zeta	<ul style="list-style-type: none"> • technological and manufacturing capacities 	<ul style="list-style-type: none"> • tacit knowledge or capabilities • relational capabilities of green supply chain 	<ul style="list-style-type: none"> • unique culture • reputation 	<ul style="list-style-type: none"> • acquiring and preserving valued resources • reducing of transaction costs of the supply chain • mitigating the risks of social incident
Eta	<ul style="list-style-type: none"> • investment in internationalisation 	<ul style="list-style-type: none"> • tacit knowledge or capabilities 	<ul style="list-style-type: none"> • reputation 	<ul style="list-style-type: none"> • reducing of transaction costs of the supply chain • mitigating the risks of social incident
Theta	<ul style="list-style-type: none"> • investment in integration 	<ul style="list-style-type: none"> • tacit knowledge or capabilities 	<ul style="list-style-type: none"> • human capital • unique culture • reputation 	<ul style="list-style-type: none"> • reducing of transaction costs of the supply chain • mitigating the risks of social incident
Iota	<ul style="list-style-type: none"> • investment in environmental protection 	<ul style="list-style-type: none"> • tacit knowledge or capabilities 	<ul style="list-style-type: none"> • reputation 	<ul style="list-style-type: none"> • mitigating the risks of social incident
Kappa	<ul style="list-style-type: none"> • investment in R&D 	<ul style="list-style-type: none"> • tacit knowledge or capabilities 	<ul style="list-style-type: none"> • human capital • reputation 	<ul style="list-style-type: none"> • generating switching costs • mitigating the risks of social incident

for its rivals to imitate due to the result of time compression diseconomies which could be an effective isolating mechanism for sustaining such advantage.

To apply the concepts of stocks and flows, the flows of resource commitments contributed to the stocks of firm resources. According to the case companies in this study, due to stakeholder management, time compression diseconomies play an important role in sustaining competitive advantage, while accumulating resources. For example, as discussed in Chapter 5, Delta and Iota were two pioneers in response to two stakeholders—local communities and the government—and had improved environmental protection. As a result, their resource commitments in equipment for pollution prevention became the source of sustained competitive advantage in terms of cost. Rivals failed to catch up with these two companies because they had to disburse much more expenditure as the government imposed more stringent laws and regulations to prohibit the discharge of wastewater and other toxic pollutants. They belong to a typical case of time compression diseconomies and are in line with the argument that managers' environmental responsiveness will result in the firm's long run success through enhancing its sustainable competitive advantage (López-Gamero, Claver- Cortés & Molina-Azorín, 2008).

As stated in the previous section, Alpha, Beta, Epsilon and Zeta developed their technological and manufacturing capacities by significant investments in R&D, equipment, machinery and plants. These companies had successfully raised the funds they needed for their resource commitments in the past few years, which relied on good track records and reputations recognised by the shareholders and other investors. For a publicly-listed company, if the shareholders or investors are not comfortable with their investments, including both economic and ethical concerns, they would sell

their shares in the market and terminate their relationships with the company (Ryan & Buchholtz, 2001). Moreover, there is a trend that investors are increasingly interested in how corporate profits are made and take both financial and ethical risks into account (Ryan & Buchholtz, 2001; Beal, Goyen & Philips, 2005). Consequently, companies need to be concerned with the interests of multiple stakeholders. It could be argued that track records, trust, and relationships with multiple stakeholders cannot be created over night and take time to build up. Due to time compression diseconomies, competitors pay much higher costs for imitation and thus the focal firms' competitive advantages, with respect to resource commitments enhanced by stakeholder management, can be preserved.

As for internationalisation of operations, companies may be confronted by different stakeholders. Alpha, Gamma, Delta and Eta enjoyed successful production and marketing in China through collaboration with their strategic partners. They also built good relationships with local governments in order to do their business smoothly. Alternatively, Eta's experience of failure in dealing with the local union forced it to close the plant established in Latin America. Indeed, it reflects Eta's failure to engage with the local employees which caused a disaster. Moreover, the strategic partnerships are long-term relationships as emphasised by the CEOs of Alpha and Eta,⁶⁶ which are based on trust, commitment, and co-operation (Morgan & Hunt, 1994; Das & Teng, 2000). Owing to time compression diseconomies, rivals who imitate a similar strategy need to commit greater costs if they try to establish corresponding relationships afterwards.

Furthermore, while making resource commitment, firms are confronted with a trade-off between the potential costs from time compression diseconomies and the

opportunity costs from deferral of the resource commitments (Pacheco-de-Almeida & Zemsky, 2007). Firms may also face another trade-off between irreversible commitment and flexibility while making decisions regarding deployment of resources (Pacheco-de-Almeida, Henderson & Cool, 2008). These two characteristics of trade-offs could make imitation strategies more difficult for competitors.

The following proposition is generated from the above discussion:

Proposition 6.3a: *Stakeholder management helps the firm sustain its competitive advantages by time compression diseconomies.*

6.3.2 Causal ambiguity

Causal ambiguity is proposed by the resource-based view (Barney, 1991; Lippman & Rumelt, 1982; Reed & Defillippi, 1990; Peteraf & Barney, 2003), as an effective isolating mechanism against imitation, as rivals cannot measure how the firm's resources or capabilities result in its competitive advantage. Due to causal ambiguity, a competitor may fail to identify the value of specific resources or capabilities and thus imitation activity would be absent (Lippman & Rumelt, 1982; King, 2007). Besides, even where the value of imitation is recognised, rivals may be reluctant to imitate because the relevant capabilities involved for providing similar products or services are difficult to unravel (Javidan, 1998). Although causal ambiguity may create barriers to imitation, it also generates some agency issues, including managers' self-serving motivation, misleading information, and ignorance of a competitor's threat (Cennamo et al., 2009; Powell et al., 2006). In the literature, scholars argue that causal ambiguity is generally rooted in tacitness, complexity, and specificity in a

firm's capabilities and resources (e.g., McEvily, Das, & McCabe, 2000; Reed & Defillippi, 1990). As social complexity regarding stakeholder management will be dealt with afterwards, this subsection only discusses tacitness and specificity.

According to Hall and Vredenburg (2005), managing stakeholders is difficult “because it is idiosyncratic and context-specific” (p. 11). Similar to resources, the flows of capability development contribute to the stocks of a firm's capabilities. The case companies in this study indicated that owing to stakeholder management, causal ambiguity helped firms sustain competitive advantage, while developing capabilities. First, stakeholder management may generate tacit knowledge or capabilities which are difficult for competitors to imitate. As stated, for example, Alpha actively involved its customers in new product development and ongoing product improvement. Engaging customers not only helped the company build up a very powerful database for its product innovation, improvement and upgrades but also facilitated its development of team-embodied skills and accumulation of human capital. In a similar example, Gamma integrated a good number of teachers into its new product development, pilot testing, and ongoing feedback regarding the use of textbooks and other teaching materials. Another example is Delta, which developed its capabilities in new product development, such as several kinds of adhesive tapes to meet the special requirements of industrial users. Based on its existing capabilities, the special knowledge was internally built through the interactions between its staff and the customers in order to meet new market demand. Kappa also developed its technology of E-security solutions by integrating its management team's expertise with government regulations and specifications, needs of customers and the resource and knowledge of some local universities. All the above-mentioned cases emphasised tacit understandings between

themselves and their customers, suppliers or other stakeholders due to long-term relationships, including intense personal interactions and institutional communications.

Moreover, Eta and Iota co-operated with their suppliers and other strategic partners by exchanging technology, knowledge and market information for specific market segments. They formed very successful strategic alliances and continuously received orders from overseas buyers because of their unique capabilities, superior quality, fast delivery and high flexibility. Again, as emphasised by the CEO of Eta, the co-operation among firms came from their trust and mutual understanding, due to causal ambiguity, which are difficult for their rivals to identify and duplicate. These cases are somewhat similar to Dyer and Singh's (1998) argument that the co-evolution of capabilities generated by close relations between suppliers and customers can be protected by isolating mechanism such as causal ambiguity. In particular, they are similar to Lavie's (2006) assertion that the durability of an advantage created by inter-firm partnership relies less on the nature of resources per se but more on the relations between the focal firm and its alliances.

Another example refers to Beta, Epsilon and Zeta's policies regarding green supply chains in response to governments', customers' and civil society's demands, which require integration of different stakeholders along the supply chains. Each member of the supply chain, according to its background, has its specific method of pollution control or prevention. Although the three firms had different ways to achieve their goals of being environmentally friendly, they shared the same feature in establishment of green supply chains. This allowed them to generate networks of interactions between suppliers and customers that facilitated sharing information and

knowledge for environmental protection. These companies also confirm Hart's (1995) and Vachon and Klassen's (2008) arguments that green management strengthens tacit and firm-specific capabilities.

The above examples illustrate that tacitness and specificity of capabilities create causal ambiguity that sustains competitive advantage. Rivals are thwarted as it is difficult to unravel the value of the source of an advantage or how to re-create it, as well as how to imitate the actions and strategies of the companies with sustained competitive advantages (April, 2002). In particular, each firm has its specific interactions with stakeholders that are not easy for competitors to duplicate, which makes competitive advantage sustained (Cennamo et al., 2009; Harrison et al., 2010; Rodriguez et al., 2002).

The following proposition is generated from the above discussion:

Proposition 6.3b: *Stakeholder management helps the firm sustain its competitive advantages by causal ambiguity.*

6.3.3 Social complexity

Similar to causal ambiguity, social complexity is one of the isolating mechanisms against imitation suggested by the resource-based view (Barney, 1991; Reed & DeFillippi, 1990). According to this logic, socially complex resources or capabilities refer to organisational assets, tangible or intangible, generated by collectively co-ordinated group activities, such as a firm's culture or reputation (Rowe & Barnes, 1998). Social complexity can be an isolating mechanism by itself or it may result in causal ambiguity (McEvily et al., 2000; Reed & DeFillippi, 1990). Even if rivals

understand the relationships between socially complex resources or capabilities and competitive advantages; they may be incapable of engaging in imitation due to the fact that the generation of underlying resources or capabilities are “beyond the ability of firms to systematically manage and influence” (Barney, 1991, p. 110).

In line with resources and capabilities, the flows of relationship building contributed to the stocks of firm relationships. The data collected for this study suggested that stakeholder management, while strengthening the relationship capacity of a firm, would generate social complexity because human capital, culture, and reputations are difficult for rivals to imitate. Firstly, the companies interviewed in this study suggested that they all valued the importance of human capital by offering different kinds of training and development programmes and engaging their employees. Culture is another example that displays a feature of social complexity that can sustain competitive advantage (Barney, 1991; Martin-de-Castro, Navas-Lopez, Lopez-Saez & Alama-Salazar, 2006). For instance, Alpha promoted its culture as ‘effectiveness, responsibility and passion’. Beta emphasised its culture as ‘CARE’, which stands for commitment, assurance, reliability, and execution. Organisational culture related to multiple stakeholders is a broad concept (e.g., Jones, Felps & Bigley, 2007). Although this thesis does not discuss it in detail, it is worthwhile to mention the culture related to human capital here and discuss them together.

For example, Alpha, Epsilon, and Zeta promoted continuous improvement cultures in their organisations and used job orientation and on-the-job training to upgrade their managers’ capabilities. Beta, Gamma, and Delta provided employees with sponsorship for tertiary education courses, which encouraged their employees to

make investments in developing their skills, knowledge or capabilities. Beta, Gamma and Theta promoted themselves as learning organisations and used different programmes to support employee's training and development. According to the CEOs and senior managers of these companies, the human capital accumulated was not only a source of competitive advantage, but also an important factor that sustains such advantage. Human capital is not only characterised by time compression diseconomies (Wright et al., 2001), it also involves team-embodied skills and knowledge resulting from interpersonal relations and interactions among colleagues within an organisation that are socially complex and difficult for rivals to imitate (Amit & Schoemaker, 1993; Reed & DeFillippi, 1990). Moreover, the positive relationship between human capital and the culture of respecting both internal and external stakeholders was emphasised by the interviewees. This finding is somewhat consistent with Simmons's (2008) argument that human capital, in terms of the contribution and commitment of employee stakeholders, plays a crucial role in value creation of modern organisations and could be elicited by a system aligning internal and external stakeholders.

Another example is reputation. The reason why reputation is difficult to reproduce is two-fold. Firstly, it internally represents the unique image and identity of a firm that its members believe it to be, and through which their behaviours are shaped (Dutton & Dukerich, 1991). Moreover, according to Vergin and Qoronfleh (1998, p. 22), "reputation reflects behaviour exhibited day in and day out through hundreds of small decisions." Secondly, it is also externally perceived by the firm's stakeholders and is mainly beyond managers' manipulation (Fombrun & Shanley, 1990). Besides, it takes time for reputation building; it requires a shared reflection of a

firm from its different stakeholders (Fombrun & van Riel, 1997). Hence, reputation is not only intangible, but also demonstrates a high degree of social complexity.

According to the data analysis earlier, the companies interviewed in this study suggest that reputation is a multifaceted concept, which involves a socially complex process. First, firms need to achieve their financial performance objectives and financial soundness. This was emphasised by all companies interviewed. Among them, Alpha, Beta, Epsilon and Zeta stressed transparent and timely financial information as well as face-to-face interactions, which are extremely important to institutional investors. Second, firms need to provide good conditions and compensation for their employees. In this respect, Beta, Delta, Epsilon and Zeta are good examples of organisations which have established good reputations in their industries to attract good employees. Third, firms need to develop a product or service reputation. The long-term relationships of Alpha and Gamma with their customers exemplify that they built very good reputations among customers, which helped them in improving their products continuously through close customer interactions. Fourth, firms need to be credible to their suppliers. Delta, Eta and Iota had good reputations among their suppliers and enhanced their capabilities in terms of new product development or for serving niche markets. Fifth, firms need to be good corporate citizens in various fields—ethical behaviour, environmental protection and philanthropy. In this regard, Beta, Delta, Epsilon, and Zeta had good reputations for being environmentally friendly. Alpha, Beta, Gamma, Zeta, and Eta established independent foundations to carry on charity activities or philanthropy.

It should be noted that, as the above examples demonstrated, a firm cannot rely on a single dimension to formulate its reputation. The reputation of a firm is an

abstract figuration about itself, resulting from dealing with multiple stakeholders and influencing their responses (Teece et al., 1997; Mahon & Wartick, 2003). Corporate reputation requires careful stakeholder management so as not to generate negative impacts (Hall & Vredenburg, 2005; Martinez & Norman, 2004). In, summary, reputations generated by stakeholder management are socially embedded, idiosyncratic and long-term in nature; therefore, they can potentially be isolating mechanisms which help to preserve competitive advantage.

The following proposition is generated from the above discussion:

Proposition 6.3c: *Stakeholder management helps the firm sustain its competitive advantages through social complexity.*

6.3.4 Transaction costs

As discussed in Chapter 2, Dyer and Singh (1998) argue that effective governance is a source of competitive advantage, which can lower transaction costs. In particular, they suggest that self-enforcing safeguards such as trust and reputation among strategic partners are more effective than third-party enforcement arrangements. This concept can be extended by involving other stakeholders of the firm (Andriof & Waddock, 2002; Rodriguez et al., 2002). According to Jones (1995), stakeholder management can help firms efficiently reduce transaction costs and generate competitive advantage over their rivals.

According to the empirical findings of this study, through constructive relationship building, stakeholder management can reduce transaction costs by trust and thereby generate barriers to imitation. Firstly, stakeholder management helps

firms acquire and preserve valued resources by minimising transaction costs. For instance, Alpha, Beta, Delta, Epsilon and Zeta had good reputations for taking care of their employees, including training and development, superior working conditions and profit sharing schemes. Due to the trust between these companies and their employees, they could have recruited and maintained good staff at lower transaction costs, such as searching, negotiating, renegotiating and enforcing the contracts (Grossman & Hart, 1986; Hart, 1988; Holmström & Milgrom, 1994; Williamson, 1975; 1985). Moreover, as emphasised by Dyer and Singh (1988) and Williamson (1985), long-term relationships not only encourage employees' commitments to the firm, but also contribute to the accumulation of organisational human capital.

As for financial capital, companies can lower transaction costs as a result of the trust between the companies and their investors. For example, Epsilon and Zeta demonstrated that stakeholder management, including their environment protection schemes, facilitates stakeholders' intentions to establish transaction relations with the focal companies (Puncheva, 2008). As noted above, both of them smoothly raised funds for their strategic investments on several occasions. The senior manager of Epsilon also asserted that: *“Environmental protection and green policy are very important to us ... investors are more concerned with environment issues than ever before ...”* It is consistent with Sharfman and Fernando's (2008) argument that firms undertaking environmental risk management could reduce their cost of capital. This case highlights the importance of interactions with external stakeholders such as potential and existing investors, rather than internal efficiency. It is somewhat similar to Porter and Kramer's (2006) argument that competitive advantage can be generated by integrating social impacts into a firm's generic strategy.

Secondly, stakeholder management generates the switching costs to consumers. For example, when customers get accustomed to the features or services of a given supplier, it could be difficult for them, or they could be reluctant, to switch to other suppliers. As the CEO of Alpha indicated:

As our products are involved in the area of management, we cannot build up long-term relationships with our customers without service. I think a product might be replaced by your competitor at any time; however, if your service is good, the partnership between you and your customer will persist ... Take ABC Corporation as an example, it used our small ERP when that company just started up. It further used our large ERP when it went IPO and it is still our customer.

Gamma is a similar case. As stated, the company actively carried on customer engagement by holding intensive seminars and involved its customers in new product development including suggestions for the contents of new textbooks, pilot testing and after sales service. As customers participated in product development, they were reluctant to switch to other providers as they had devoted time as well as other resources, both tangible and intangible. Besides, owing to stakeholder engagement, Kappa's customers also had significant switching costs because they were accustomed to its specifications of IC chips and supporting software. These examples are in line with the argument that switching costs occur as a result of supplier-specific learning by the customers and, thereby, create barriers to rivals (Porter, 1980; Wernerfelt, 1985; Mata, Fuerst & Barney, 1995).

Thirdly, stakeholder management fosters reduction of transaction costs along the supply chain. Stakeholder management supports trust building, long-term relationship development and information sharing among organisations. For instance, Zeta accumulated strong relationships with its supply networks and strategic partners. Through improved information sharing and co-ordination of supply and demand, as indicated by the senior manager of Zeta, it had successfully dealt with the negative impacts of the ‘bullwhip effect’ and further sustained its competitive advantage. Similarly, Eta has built a responsive supply chain with its suppliers, which can respond rapidly to changes in the demands of fashion apparel from international markets and preserve such an advantage for a period of time. According to the CEO of Eta, these kinds of relations require mutual trust and long-term co-operation among members of the supply chain, which are not easy to develop in that industry. The close relationships have become its sustainable competitive edge in terms of cost advantage in a niche market. Moreover, resource leveraging benefits all alliance partners. The above examples demonstrate that stakeholder management facilitates information sharing and trust building among the supply chain partners. It is argued that such relationship management is vital to a successful supply chain by effectively reducing transaction costs (Dyer & Chu, 2003; Handfield, Krause, Scannell & Monczka, 2000; Kwon & Suh, 2005).

Fourthly, stakeholder management mitigates the risks of undesirable social incidents by embracing corporate social responsibility. Most companies interviewed in this study displayed their commitments to corporate social responsibility. Among them, Beta, Gamma, Epsilon, Eta and Theta established independent foundations to carry on social, charitable and philanthropic activities. Using the foundations, they not

only developed notable reputations for themselves but also built networks with other not-for-profit organisations. As discussed earlier, both Delta and Iota made significant investments in environmental protection and gained first-mover advantages. They also developed strong trusts between themselves and their local communities, which resisted potential threats from environmental activists and local residents. Similarly, the senior manager of Zeta indicated that its long-term relationships with local communities in different production situations have successfully prevented it from causing significant social pressures and concerns during its planning and construction of new manufacturing plants.

To sum up, the above examples demonstrated that stakeholder management lowers transaction costs and thereby enhances the stakeholders' willingness to develop transaction or other relations with a firm (Puncheva, 2008). The case companies in this study exemplified that through building relations with stakeholders, firms can acquire and preserve valued resources at lower cost, create switching costs for their customers, reduce costs along the supply chain, and minimise the risk of social incidents. They support the argument that stakeholder engagement can lower transaction costs and create sustained competitive advantage by reputation- and trust-based connections (Tencati & Zsolnai, 2009; Freeman, Martin & Pramar, 2007).

The following proposition is generated from the above discussion:

Proposition 6.3d: *Stakeholder management helps the firm sustain its competitive advantages through transaction costs.*

6.3.5 A stakeholder perspective of isolating mechanisms

In Chapter 5, it was argued that the concept of stakeholder management is in line with the essence of competitive advantage that addresses the capacity of the firm to offer more added value to customers than its competitors can in a competitive environment. Accordingly, stakeholder management aims to cultivate such capacity through the three activities: resource commitment, capability development, and relationship building. As discussed in Section 6.2, these activities explain how stakeholder management sustains competitive advantage through enhancing resource capacity. In this section, the question of how stakeholder management help sustain a firm's competitive advantage through isolating mechanisms is examined. Based on the empirical findings of this study, and as discussed above, managing stakeholders is a long-term, complex and firm-specific endeavour. A competitive advantage generated or strengthened by stakeholder management would be difficult to imitate. Consequently, it is argued that stakeholder management sustains competitive advantage by means of several isolating mechanisms: (1) time compression diseconomies, (2) causal ambiguity, (3) social complexity, and (4) transaction costs.

According to Porter (1985; 1991), a firm gains its competitive advantage by positioning itself into a favourable industry-specific situation. He stresses that performing required activities is the key to its success, which determines configuration of supporting resources and capabilities. From an instrumental view, stakeholder management refers to the activities of managing stakeholders in order to achieve the strategic goal of the firm (Freeman, 1984; Jones, 1995; Wheeler et al., 2003). Moreover, these activities need to fit with each other and to fit the overall

strategy of the firm (Porter, 1991). As Porter (1996, p. 70) put it, “fit drives both competitive advantage and sustainability.” To create effective isolating mechanisms, the focal firm needs to achieve both external fit and internal fit, as emphasised by Porter (1996). In other words, activities require cross-functional co-ordination within the firm, and active interactions between the firm and its multiple stakeholders. As Freeman (1984) highlights, managing stakeholders is a stakeholder approach to strategic management. It is a systematic approach to integrate both internal attributes and external attributes of the firm to achieve its strategic goals.

The empirical findings discussed in this section demonstrate an interesting point. Although isolating mechanisms include four different types, they intertwine with each other and one can reinforce another. For instance, causal ambiguity, by its nature, creates barriers to imitation and discourages rivals from duplicating a similar strategy for managing stakeholders (Cennamo et al., 2009; Rodriguez et al., 2002). In addition, causal ambiguity may also cause social complexity, which makes it difficult for competitors to imitate. This is because each firm needs to manage its distinctive, firm-specific, multiple stakeholders carefully (Hart, 1995). Due to the complexity of the task, managing stakeholders is long-term and time-consuming; it may also cause time compression diseconomies since rivals are unable to duplicate rapidly. On the other hand, causal ambiguity would disturb the appropriate identification of the source of an advantage, which would cause competitors to delay their imitation strategy and may, thus, also generate time compression diseconomies. Moreover, time compression diseconomies could be a factor of transaction costs. Relationship building takes time and can generate high switching costs for customers and for suppliers if they are trying to change business partners.

6.4 Conclusion

This chapter attempted to answer the second research question, “How may stakeholder management help a firm sustain its competitive advantage?” The key idea of this chapter is based on the argument of Chapter 5 that stakeholder management contributes to the source of competitive advantage. Considering the firm as a value-based network, which is a collection of resources, capabilities and relationships, this chapter went further and argued that stakeholder management could influence the durability of competitive advantage. Based on the empirical results of this study, it is argued that stakeholder management helps sustain competitive advantages through advancing its resource capacity in three ways: resource commitments, developing capabilities, and building relationships. Stakeholder management also helps firms use activity drivers, such as economies of scale or scope and cumulative organisational learning.

It is evident that the theoretical framework proposed in Chapter 3 (Figure 3.1), the stakeholder view that links the resource-based, the relational, and the activity-position view, fits well with the empirical findings. Stakeholder management help sustain a firm’s competitive advantage through its impacts on a firm’s resource capacity. The concept of resource capacity is consistent with the resource-based view, and the dynamic aspect of a firm proposed by Ghemawat and Pisano (2001) who maintains that durability of an advantage relies on both resource endowments and capability development. It also supports the relational view proposed by Dyer and Singh (1998) that both resources and capabilities could be generated by inter-firm relationships. Moreover, the influences of stakeholder management on activity drivers

are compatible with the activity-position view. In other words, the empirical findings supported the stakeholder view that links the resource-based, the relational, and the activity-position view.

It is clear that a firm creates and sustains competitive advantage, as its resource capacity continuously improves, innovates and upgrades its competitive advantages over time (Porter, 1991). This capacity is shaped by the flows and stocks of the firm's resources, capabilities and relationships. Firms sustain their competitive advantage by continuously advancing customer value well ahead of their rivals as their capacities change. The empirical results of this study have shown that stakeholder management generates several isolating mechanisms that preserve competitive advantages, including time compression diseconomies, causal ambiguity, social complexity, and transaction costs. It was also concluded that the four isolating mechanisms intertwine with each other and one can reinforce another.

Chapter 7: The manager's role in developing competitive advantage in a multiple stakeholder context

7.1 Introduction

This chapter examines value capture among different stakeholders and thus how to balance their demands along with the process of value creation and preservation. The previous two chapters examined how stakeholder management influences the source and durability of competitive advantage. The issue that follows from this concerns how a stakeholder approach to competitive advantage can be translated into strategic decision making by managers. Accordingly, in this chapter, the third research question is asked: “How do managers perform their roles in developing and maintaining competitive advantage by balancing different stakeholder demands?” In the literature, balancing different stakeholder interests has been frequently discussed by scholars (e.g., Donaldson & Preston, 1995; Freeman, 1984; Freeman & McVea, 2001; Frooman, 1999). From the empirical findings of this study, all case companies confirmed that balancing different stakeholder demands is a crucial task for managers to achieve competitive advantage for their companies. As stated, this thesis emphasises that firms can be regarded as value-based networks and stakeholder management is an approach through which firms collaborate with their stakeholders to achieve the goal of value creation for the networks. Consequently, it could be argued that balancing stakeholder demands is an important issue if a firm wants to attain its competitive advantage by maximising the value of the stakeholder system.

It is surprising, however, that the relationship between balancing stakeholder demands and value creation in terms of competitive advantage has rarely been

explicitly discussed in the literature. Nevertheless, some studies contribute insights into balancing stakeholder demands by managers. For example, Windsor (1999) regards managerial discretion as one of the popular approaches to balancing various stakeholder demands, which require bargaining and arbitration. Schwarzkopf (2006) suggests that to help balance stakeholder interests, the management should acknowledge how stakeholders recognise their risks caused by their decisions. In particular, Reynolds, Shultz, and Hekman (2006) argue that managers are the leading characters who perform the task of balancing interests of different stakeholders. As they put it, “Balancing stakeholder interests is arguably the most critical of stakeholder principles as it represents the principal mechanism by which managers “pay attention to,” elicit, and maintain the support of stakeholder groups with disparate needs and wants” (pp. 285–286). Thus, balancing different stakeholder demands or interests could be argued as the most important task for managers performing stakeholder management.

Furthermore, how to balance stakeholder demands in a changing context has rarely been studied. In a dynamic environment, a firm's critical stakeholders might emerge and change over time, and the relationships between the firm and its multiple stakeholders could differ accordingly. Therefore, managers would be confronted with the problems of ambiguity and complexity when they pursue a competitive strategy targeting a shifting or an unclear strategic position. Similarly, while developing or sustaining a competitive advantage, it is necessary for managers to consider their changing stakeholder relationships and adopt distinctive strategies. This subject will be explored in this chapter as well.

The objectives of the chapter

This chapter examines the manager's role in developing and maintaining the firm's capacity to achieve sustained competitive advantage through managing its multiple stakeholders. In order to understand this role of managers in the decision making, two questions will be addressed:

- How do managers balance different stakeholder demands in order to achieve competitive advantage?
- How do managers achieve sustained competitive advantage by managing multiple stakeholders in a changing environment?

Theoretical framework

In this chapter, the theoretical framework proposed in Chapter 3 (Figure 3.1), which is the stakeholder view linking three perspectives of competitive advantage—the resource-based, the relational, and the activity-position views—is used to analyse and explain the empirical data. Following the stakeholder view as discussed in the previous two chapters, a firm is portrayed as a value-based network. This network achieves sustainable competitive advantage, being in pursuit of a unique position in an industry structure, by means of an integrated resource capacity, built up through resource commitments, capability development, and relationship building. However, the positioning logic implicitly assumes that the static or predictive stakeholder relationships are confronted by managers. To capture a dynamic environment, an analytical framework inspired by Wiltbank et al., (2006) is used. This framework considers the types of stakeholder relations based on two dimensions:

predictability—high or low level; and stakeholders—existing or new. Distinctive strategies are suggested according to different types of stakeholder relations. Thus, the analysis will be extended to a more dynamic and comprehensive view than the traditional positioning logic.

This chapter is organised as follows. Firstly, the concept of balancing different stakeholder demands will be discussed. Secondly, the relationship between balancing stakeholder interests and competitive advantage will be analysed. Thirdly, the dynamic stakeholder relations and strategies for managing stakeholders will be addressed. Finally, the chapter concludes by considering the appropriate roles of managers in achieving sustained competitive advantage.

7.2 The concept of balancing different stakeholder demands

Stakeholder theory advocates that managers should consider all stakeholders' wants and needs in their strategic decision making (Freeman, 1984; Freeman & McVea, 2001). In particular, Donaldson and Preston (1995) advocate that corporate managers are self-directed and motivated to balance different stakeholder interests. Reynolds et al. (2006) follow the same assumption and argue that resource divisibility and relative stakeholder saliency are two major factors that constrain a manager's effort to balance stakeholder interests. In other words, it is difficult, if not impossible, to treat all stakeholders equally due to limited conditions generated from the context in which a firm operates. In this section, there are two important issues related to the concept of balancing different interests. One issue refers to the dimensions of balancing stakeholder demands, the question of what to balance (Jensen, 2002; Windsor, 2002).

Another issue refers to the question of how to balance different stakeholder demands—what criteria should be taken into consideration (Venkataraman, 2002; Windsor, 1999).

7.2.1 Dimensions of balancing different stakeholder demands

As discussed in Chapter 2, Jensen (2002) argues that the objective of value maximisation is not feasible if using more than one dimension. Therefore, he advocates that, due to conflicts among various stakeholders, it is an unworkable strategy in pursuit of balancing different stakeholder interests. Another related problem, as indicated by Jensen, is that stakeholder theory does not provide a clear guideline regarding how to prioritise or balance different stakeholder interests. Although Jensen (2002) criticises the feasibility of matching multiple stakeholder demands and advocates 'a single-valued objective function', he presents two arguments that are not contradictory to the logic of stakeholder theory. First, managers should make their best efforts to increase the long-run market value of the firm. This is in line with Phillips et al.'s (2003) argument that stakeholder theory supports the perspective of value maximisation. In other words, Jensen and stakeholder scholars share the same view that managers are responsible for long-term value creation in terms of their strategic decision making. Second, managers need to deal with the trade-offs between the competing demands resulting from different stakeholders. This is consistent with Phillips et al.'s (2003) major concern of how to distribute financial outputs generated by the firm. Both traded-off and distribution refer to allocation of resources, which involves principles such as efficiency and fairness. However, Jensen accentuates that it is a single-value objective function—value maximisation, not multiple objectives, that can lead to long-term value creation.

According to Windsor (2002), Jensen's assertion is not an alternative to a triple-bottom-line approach; rather, it is one dimension of that approach. Based on Jensen's (2002) work, Windsor proposes a three-dimensional approach, including financial value, stakeholder interests and stakeholder power. He argues that financial value growth can be achieved through balancing multiple dimensions, including stakeholders' interests and their power. In particular, his approach suggests that an integrative balancing approach is feasible to deal with synergy and contradiction among stakeholder demands. Reynolds et al. (2006) also discuss this issue but treat balancing different stakeholder demands as a typical constrained maximisation problem. However, Windsor (2002) argues that stakeholder demands could be treated as either the constraint or the objective.

From the empirical findings of this study, in addition to financial value, stakeholder interests and stakeholder power are two of the important dimensions of balancing stakeholder demands. In the respect of stakeholder interests, the case companies demonstrated that they consider multiple stakeholder interests in their strategic decisions. For example, Alpha, Beta, Epsilon, Zeta, and Theta emphasised CSR in line with their corporate policies.⁶⁷ As the CEO of Beta stated:

In addition to the staff, the most important reason why a business can be successful and grow is the grand environment. If a good environment does not exist, no business can be prosperous. Hence, if a small firm wants itself to be better, it should contribute to making the society better ... we need to consider stakeholders' interests and give something back to the society, while the company is growing ...

Similarly, the senior manager of Zeta pointed out that: *“Business ethics and corporate social responsibility are important ingredients of our company's policies ... the company should be a good citizen of the society.”*

In addition, Gamma and Eta emphasised how they recognised the interests of critical stakeholders and how they benefited from interactions with stakeholders.⁶⁸

The CEO of Gamma said that:

Interaction with any stakeholder group is kind of learning. For example, for the rules that regulate our industry, we assigned some staff to communicate with the Fair Trade Commission, the Ministry of Education, and the Parliament. The staff learnt how the government agencies operated and knew how to deal with them by identifying common goals. In other words, we need to consider other people's interests, rather than our own interest only ... When we invited many potential Chinese partners to visit our business, we were able to solve some legal issues for their visa to Taiwan ... we have successfully developed capable staff that can solve tough issues from these interactions with the government agencies.

The CEO of Eta also supported this view by stating that:

In the past few years, running a factory was quite straightforward, but now we must take human right and local communities into account ... we need to acknowledge many issues that have become very complex ... we need to consider different requirements from customers, working conditions and benefits of employees, ... the scope covered by stakeholders is so huge ... Nevertheless, I think it's an indication of improvement.

Moreover, Delta, Iota, and Kappa demonstrated that their respect for employees is rooted in corporate philosophy.⁶⁹ For instance, the CEO of Delta said:

We understand that staff is the most important asset in the company. We fully realise that a happy staff can always maintain high productivity that is good for the company. In our Chinese plants, many employees are from provinces that are far away from the company. While employing them, we also take care of their basic needs including accommodation, diet, and travelling ... Moreover, we provide them with opportunities for further study, especially the younger ones. They can then improve themselves, hopefully growing with the company.

Furthermore, with regard to stakeholder power, the case companies of this study reflected a variety of different powerful stakeholders. For example, in the case of Alpha, Gamma and Eta⁷⁰, customers were the most powerful stakeholder groups. The wants and needs of their customers continued to be their first priorities. The CEO of Alpha stated that:

Basically, the competition of this industry is very intense since there is not any barrier to entry into this market ... it's not only your products can meet the customer needs. The key factor is your service, ... you need to improve your service continuously in order to survive in this market ... customers are the most powerful stakeholders among the critical stakeholders.

The CEO of Eta also confirmed this view by saying that: *"We need to meet the customer requirements. I think customers should be the top of the stakeholder priority*

list. For some customers, as they are very powerful, there is no room for compromise and you must meet their requirements. Otherwise, you would not be in their list of providers.”

In the case of Epsilon and Zeta,⁷¹ as stated earlier, shareholders, particularly the institutional investors, were one of the most influential stakeholder groups, which were the major source of funding for their capital investments in equipment and plants.

Besides, like Beta and Kappa⁷², these two companies needed to treat employees as powerful stakeholder group since they determined the core capabilities of the organisation. For example, the CEO of Beta asserted that: *“In my view, employees are the most important and powerful among our company’s stakeholders ... it is employees who can create the value of the product or service that customers want ... apart from the reward system, a crucial factor is if the employees are happy in this organisation ...”* This view was confirmed by the CEO of Kappa, who asserted that: *“As an R&D-oriented firm, the most precious assets are our staff ... it is difficult to get the same qualified people from outside the organization and it takes at least two or three years to cultivate them with specialised capabilities ... It is challenging for us to retain them and they are very powerful stakeholders of our company ... ”*

In the case of Gamma and Kappa⁷³, as discussed earlier, they acknowledged governments as more powerful stakeholders than other case companies in this study, because both of them are in industries highly regulated by the government.

The above examples echo the argument emphasised by Windsor (2002) and other scholars (e.g., Coff, 1999; Mitchell et al., 1997). The critical stakeholders exhibited their power that shaped the focal firms' stakeholder orientations. Moreover, it is worth noting that stakeholders influence value creation and value capture mainly based on their bargaining power (Coff, 1999). The origin of stakeholder power may be attributed to their possessing scarce resources, applicable knowledge, or suitable social skills (Lawrence, Mauws, Dyck & Kleysen, 2005). However, stakeholder power is more abstract and complicated than financial value and stakeholder interests.

From the above discussion, Windsor's (2002) argument is supported by the empirical results of this study. However, as stakeholder interest and power might contribute to the increasing financial value of the firm as well, this study treats them as two other dimensions, rather than only constraints, in the process of value creation. In the remainder of this thesis, stakeholder demands include the three dimensions suggested by Windsor (2002).

7.2.2 How to balance stakeholder demands

In the literature, studies on the concept of balancing stakeholder interests or demands tend to focus on issues of equity or trade-off. For example, Phillips et al. (2003) clarify the meaning of balancing stakeholder interests by suggesting the concept of meritocracy. They further point out that "benefits are distributed based on relative contribution to the organisation" (2003, p. 488) by quoting the Sloan Colloquy: "Corporations should attempt to distribute the benefits of their activities as equitably as possible among stakeholders, *in light of their respective contributions, costs, and risks*" (2003, p. 488). The notion of 'respective contributions, costs, and risks'

corresponds quite well with 'the weak equilibrating process' suggested by Venkataraman (2002). According to Venkataraman, this process occurs when an entrepreneur notices the inefficient utilisation of some resources and proposes an alternative usage or deployment of them. Following this logic, if a stakeholder, such as a resource provider, is not fairly treated by the focal firm, its competitors or firms in other industries have the opportunity to offer a better deal for that resource provider. Venkataraman suggests that the weak equilibrating process has three roles:

First, it provides important information about the competitive value of alternative resources ... Second, the competition for resources from opportunity-seeking entrepreneurs potentially forces managers to act as if each stakeholder is an end unto himself or herself not a means to others' ends. Third, the entrepreneurial process can provide a viable exit route for victimised stakeholders (2002, p. 51).

Campbell and Alexander (1997) dispute the possibility of satisfying multiple stakeholder groups simultaneously, and argue that the prescription of a universal objective does not provide managers with any useful guidance. However, this argument is based on a one-size-fits-all strategy. Alternatively, Windsor (1999) proposes three different approaches regarding how to satisfy various or even competing stakeholder demands. First, *accommodation* refers to providing enough resources to match demands. As a result, suppliers may be saddled with excess capacity. Second, *alignment* brings different stakeholder interests moving onto the same direction towards a win-win situation. Third, *balancing* suggests the necessity of making trade-offs among stakeholders for competing interests. Without enough resources to fulfil all demands, the reconciliation of interest needs to be achieved. In contrast to a narrow conception that focuses only on trade-offs, in this study a broad

conception of how to balance is used, which integrates the above three approaches—accommodation, alignment, and trade-off, based on Windsor's suggestion.

According to the above discussion, the concept of balancing stakeholder demands is derived, as shown in Figure 7.1, which could further our understanding of stakeholder management regarding competitive advantage. Thus, balancing stakeholder demands comprises two components. The first (on the right) refers to what to balance, including financial value, stakeholder interests and stakeholder power. The second (on the left) refers to how to balance, including accommodation, alignment and trade-off.

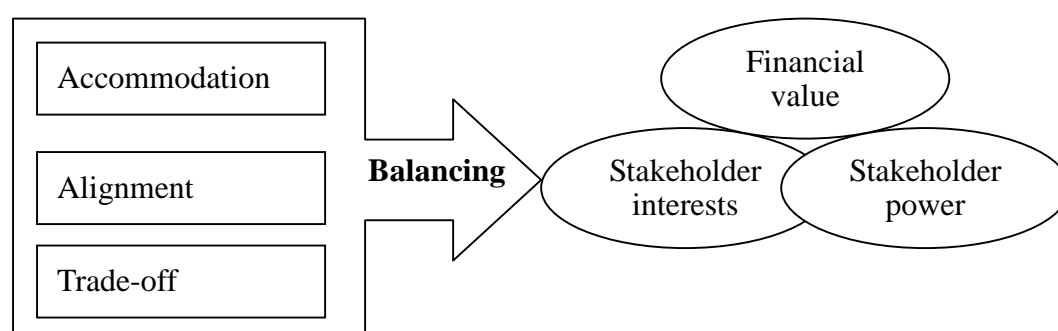


Figure 7.1: The concept of balancing stakeholder demands

The empirical findings of this study confirmed that a broad conception of how to balance multiple stakeholder demands was adopted by case companies. The first concept is trade-off. For example, the senior manager of Epsilon indicated: *“We believe balancing interests needs a fair principle, so we reward our employees based on the level of other companies in the same industry.”* The CEO of Iota revealed a similar view: *“Both shareholders and employees understand they are interdependent and employees have never complained about their ‘wage freeze’ when the company*

has not made much money in recent years.” Regarding the trade-off between the firm and its suppliers, it depends on the bargaining power between the buyer and the supplier and the types of relationship between them. To maintain a long-term relationship, the weaker are more willing to accept the trade-off required by their counterparts; for example, the senior managers of Zeta pointed out: *“When our customers cancel their orders, we need to transfer our loss to our suppliers; it depends on the bargaining power of both sides ... there is a natural balance among players in this industry.”* The concept of trade-off usually conveys itself as a zero-sum game between the focal firm and its stakeholders.

The second is alignment. According to this concept, the relationship between the focal firm and its stakeholders is a positive-sum game. A typical example refers to the profit sharing schemes for employees adopted by most of the case companies of this research. For example, the senior manager of Zeta put it like this:

We need to get a balance between the shareholders and the employees, the issue is how to use limited resource to create a maximised value ... Many people regard employees as costs; however, they can create more value added. It depends on how you inspire your employees. If you can design a good system for employees to create more value, it is good for everybody, including shareholders, suppliers, and so forth.

Another example is the training and development employed by case companies. All CEOs and senior managers interviewed in this study suggested that training and development programmes could enhance the capabilities of both employees and the firms. It is a win-win situation that firms benefit from their investments in their employees. The CEO of Beta emphasised: *“We established a good system that*

continuously trains our staff; this system not only retains good staff but also make the firm become a learning organisation in order to adapt to the environmental change."

The CEO of Gamma also noted, "*Our training and development focus on sport activities, which not only raised the image of the company, but also strengthened the staff's ambition and capabilities ...*" Another similar example refers to the strategic partnerships between firms. This is related to the discussion in Chapters 5 and 6 regarding the partnerships of the case companies which included technological transfer, market exploration, capacity expansion or diversion by leveraging resources, capabilities and reputations.

The third is accommodation. This requires the focal firm to provide more resources to satisfy stakeholder demands. One typical example is found in several of the case companies in this study—Beta, Gamma, Delta, Epsilon, Eta, Theta—which established independent charity foundations committed to corporate social responsibility to carry out various activities such as environmental protection, sport and social events.⁷⁴ For instance, Gamma's foundation engaged in a variety of activities for public good, as the CEO put it, "*We provided the poor students with free textbooks each year; we also carry out many kinds of activities for public welfare such as helping the society look for missing children ... and supporting many sport activities.*" Epsilon's foundation primarily promoted environmental protection education. Eta's foundation mainly supported cultural events and fashion shows. These companies support their foundations by donating money and contributing other resources such as human resources and business relationships. Philanthropy and charity activities are typical behaviours whereby a corporation accommodates its local community or other stakeholders. The foundations play the role of catalysts to build

stakeholder relationships for the companies supporting them. As the foundations are not-for-profit organisations, it is more appropriate for them to deal with social issues and establish extensive stakeholder relationships. The CEO of Eta stated, “*We set up a foundation to perform social and cultural activities ... It requires professionals who have skills that are different from those required by the for-profit business.*”

In particular, as discussed in Chapter 5, the activities chosen by the foundations demonstrated the intersections of social issues and the value chains of the supporting companies, by improving supply of specialised human resource (Epsilon and Eta), demand condition (Alpha and Gamma), and competition condition (Gamma and Kappa). This is in line with Porter and Kramer's (2006) argument that firms can strengthen their competitive advantages by improving the competitive context. Nevertheless, the precondition of accommodating stakeholders is that the firm makes money first and foremost. As the CEO of Delta stated that:

Every business should bear the social responsibility ... However, I believe, for the person who is in charge of the firm, the most important thing is to make sure the firm can make money. If you cannot make money, other things, to me, are a little bit pointless.

7.3 Balancing stakeholder demands and competitive advantage

In this section, the dynamic stakeholder relations are not yet addressed. Hence, stakeholder management refers to developing stakeholder relations and maintaining them after they have been established. In other words, managers can distinguish the best strategic positions and organise the most supporting stakeholder relationships through balancing stakeholder demands. Balancing stakeholder demands certainly has

both costs and benefits. One important question would be: “How do managers balance different stakeholder demands in order to achieve competitive advantage?” As discussed in Chapter 4, because there are multiple sources of resource advantage, firms rarely gain competitive advantage by only one or two resources so as to match a specific strategic position. Rather, they need to rely upon a portfolio of market, internalised, relational, and symbolic/idiosyncratic resources (Lado et al., 1997). As stated in Chapter 5, stakeholders are the major resource providers and facilitators of generating resources; stakeholder management is important for firms to acquire relevant resources. Thus, for the purpose of achieving resource advantages, firms need to formulate a set of good and reliable relationships with their multiple stakeholders through balancing stakeholder demands.

According to the empirical findings of this study, all the case companies indicated that they arranged and sustained a set of stakeholder relations by balancing stakeholder demands, including accommodation, alignment and trade-off. From this, two themes emerged, suggesting how balancing stakeholder demands helped firms gain competitive advantage: the first is to build an effective mix of resources; the second is to strengthen the resource capacity that helps sustaining the advantage.

7.3.1 Supporting an effective mix of resources

Based on Phillips's (1997) principle of stakeholder fairness, Phillips (2003b) uses a normative/derivative distinction and argues that managers should focus more attention on normative stakeholders than on derivative stakeholders while making strategic decisions. He argues that the firm owes a direct moral obligation to normative stakeholders, such as shareholders, employees, customers, suppliers and local

communities. A feature of these stakeholders refers to the mutual benefits between the focal firm and themselves. On the other hand, derivative stakeholders are those who have the ability to influence the firm but to whom the firm has no direct moral obligation, including competitors, activists, terrorists, and the media.

The resource provider/facilitator distinction in this study corresponds to a normative/derivative distinction between stakeholders. In other words, normative stakeholders are those who directly provide resources to firms. They could exemplify the answer to the question: "In whose interest and for whose benefit should the firm be managed?" (Freeman, 1997, p. 68). Alternatively, derivative stakeholders can influence normative stakeholders and make indirect impacts on both tangible and intangibles resources of the focal firm. According to the empirical results discussed in Chapter 5, firms that exhibited competitive advantage had aimed to develop an effective mix of market, internalised, relational, and symbolic/ idiosyncratic resources through stakeholder management that involved balancing different stakeholder demands. As discussed earlier, balancing stakeholder demands includes accommodation, alignment and trade-off. This study argues that stakeholder management is dealing with a positive-sum game, rather than a zero-sum game. Accordingly, balancing stakeholder demands is not just about trade-off or compromise between different stakeholder interests; rather, it is an inevitable part of the process of value creation. Consequently, it could be argued that the purpose of balancing stakeholder interests is to form an effective mix of resources for maximising value creation. Effectiveness here means having a set of resources that can fit the strategic position of the focal company (Porter, 1991; 1996).

In Chapter 4, this study reported the case companies were categorised into four groups according to their generic competitive strategies (Porter, 1985). The first group included Alpha and Gamma and was characterised by its differentiation strategy. The most powerful stakeholders of the organisations in this group were customers, and the mix of resources of this group displayed a customer-oriented resource advantage. The second group, featured with the strategy of cost advantage, included Epsilon and Zeta. The most powerful stakeholders were investors and shareholders as both companies relied upon huge financial capital, and the mix of resources of this group displayed a production-oriented resource advantage. The third group, included Beta and Kappa, exemplified a cost-focus strategy. The most powerful stakeholders of firms in this group were the management teams who had core technological knowledge or capabilities, and the mix of resources of this group displayed a capabilities/knowledge-oriented resource advantages. The fourth group contains Delta, Eta, Theta, and Iota and demonstrates a mixed strategy, including both cost advantage and differentiation within the same organisation. Hence, the mix of resources of this category involved both customer-oriented and production-oriented resource advantages for different strategic business units handling different orientations of resource advantages.

It is evident that powerful stakeholders shape the type of resource mix of the firm. Moreover, the CEOs and managers of the companies interviewed revealed their focus on stakeholders who were resource providers. According to Venkataraman (2002), the process of the weak stakeholder value equilibrating provides a fair opportunity for resource providers. Thus, balancing stakeholder demands helps firms to acquire the best resources because it encourages resource providers to contribute their best efforts

under fair conditions, the benefits of which are distributed based on relative contribution to the organisation. Consequently, balancing stakeholder demands helps the firm acquire the best resource mix in an environment where firms compete for resources. This argument is in line with Jones's (1995) assertion that stakeholder management can generate competitive advantage by reducing transaction costs. However, this study focuses more on balancing stakeholder demands in order to formulate an effective mix of resource for the firm.

The following proposition is generated from the above discussion:

***Proposition 7.1:** Balancing different stakeholder demands helps firms achieve competitive advantage by forming an effective mix of resources that fit their competitive strategy.*

7.3.2 Sustaining competitive advantage

As discussed in Chapter 6, most studies on competitive advantage concern 'sustained' or 'sustainable' competitive advantage. Carlson (1990) bluntly suggests competitive advantage is a kind of long-term strategic performance. The broad concept of balancing stakeholder demands used in this study, including accommodation, alignment, trade-off, is also long-term oriented. Accommodation requires firms to accumulate more resources over time to satisfy stakeholder needs. It also takes time to align multiple stakeholders to the organisational goals. Balancing may involve a trade-off between short-term and long-term interests. This is because not all stakeholder interests are long-term oriented. For instance, employees would certainly require their wages to be paid on time; local communities could not tolerate

environmental degradation and pollution over a long period of time. Nevertheless, most of the respondents interviewed in this study revealed that the relationships of the companies with major stakeholders, such as employees, shareholders, suppliers, and customers, were based on long-term rather than short-term interests. These findings are consistent with Jensen's (2002) argument of long-term value maximisation, which was discussed earlier. Consequently, it can be concluded that long-term value maximisation, achieving competitive advantage and stakeholder management are consistent across firms.

In this study, firms are viewed as value-based networks and stakeholder management aims to maximise the value of the whole stakeholder system. In order to achieve the goal of value maximisation, managers need to balance stakeholder demands carefully. Reynolds et al. (2006) suggest that the essence of balancing stakeholder interests is how managers make strategic decisions regarding resource allocation. They argue that the concept of stakeholder management emerged from open systems, which involved temporal dimensions. Hence, according to Reynolds et al., balancing stakeholder demands is more appropriately regarded as a series of inter-temporal decisions, rather than decisions based on a case-by-case view. Many respondents in this study supported this view. As the CEO of Alpha stated: *"To balance multiple demands of different stakeholders at the same time is impossible; however, it is likely to balance stakeholder interests in the long run if you can put them in different positions appropriately along the timeframe."*

Following the dynamic perspective of the firm, as discussed in Chapter 6, stakeholder management helps firms achieve their competitive advantages and accumulate their resource capacities over time. Moreover, the resource capacity of the

firm embodies the ability of the firm to meet stakeholder demands proactively. In other words, a firm's ability for accommodation, alignment and trade-off relies on its resource capacity. Therefore, a firm's resource capacity and its stakeholders' interests reinforce each other. The most important issue regarding balancing stakeholder demands is how to allocate the resources of the firm based on appropriate inter-temporal decisions. Moreover, resource allocation could be extended to those that involve resource commitments, developing capabilities, and building relationships.

In the literature, an often-cited example of discussion about the balance between short-term and long-term interplays is the concept of exploration and exploitation proposed by March (1991). Exploration suggests "search, variation, risk-taking, experimentation, play, flexibility, discovery, innovation"; while exploitation indicates "refinement, choice, production, efficiency, selection, implementation, execution" (March, 1991, p. 71). Firms that focus on exploration may contribute too many resources to innovative ideas without reaping enough rewards. Conversely, firms that hinge on exploitation may be stuck in activities with short-term returns at the expense of potential long-term opportunities. Thus, a balance between exploration and exploitation is an important issue that could determine a firm's success or failure (March, 1991; Levinthal & March, 1993). As firms need to compete with their rivals both in the short run and long run, scholars suggest an ambidextrous organisational structure as a solution that could resolve the paradoxical requirements of exploration and exploitation (Benner & Tushman, 2003; Tushman & O'Reilly, 1996).

In summary, firms exhibiting competitive advantage appear to fit with Windsor's (2002) three-dimension model, which incorporates stakeholder power, stakeholder

interests, and financial value into their strategic decisions, rather than only considering financial value. If we take the perspective that stakeholder management is enlightened self-interest in nature, balancing stakeholder demands might be viewed as a means for the firm to maximise its long-term financial value, constrained by different stakeholder interests and stakeholder power. However, this view does not take into account the dynamic perspective of the firm. The positive effects of integrating stakeholder interests and stakeholder power need to be considered.

When firms face increasing challenges from existing or potential competitors, they need to consider how to sustain their competitive advantage. Due to isolating mechanisms, firms are able to sustain their competitive advantages through stakeholder management to enhance their resource capacity. Accordingly, balancing stakeholder demands plays a key role in the process of value creation and preservation with regard to competitiveness. This thesis argues that firms could achieve sustained competitive advantage by applying the concepts of exploration and exploitation to balancing stakeholder demands. Corresponding to exploration and exploitation, in order to strengthen their resource capacity, firms need to deal with existing and new stakeholders simultaneously in terms of maintaining existing relationships and creating new ones.

7.4 Dynamic stakeholder relations and strategies for managing stakeholders

Managers may be confronted with a gradually changing or a highly volatile environment. Thus, the task of balancing stakeholder demands is challenging if it needs to be achieved during unstable conditions. Wiltbank et al. (2006) used prediction and control as two dimensions to suggest a framework of strategic

management: planning, adaptive, visionary, and transformative. According to Wiltbank et al., the planning and the adaptive approaches focus on positioning, which put less emphasis on control. The planning approach proposes that managers, through integrative planning, could envisage the future and place their firms in a favourable position in the industry structure (Ansoff, 1979; Porter, 1980; 1985). The adaptive approach argues that firms should be flexible and adaptive to the environment as it develops. Firms advance their competencies while interacting with the surroundings, as suggested by emergent perspective (Mintzberg, 1994), incrementalism (Quinn, 1980), and dynamic capabilities (Teece et al., 1997). Of the two approaches, the planning approach has a higher emphasis on prediction than the adaptive approach. On the other hand, the visionary approach and the transformative approaches centre on construction, which put more weight on control. The visionary approach, which has the features of high prediction and high control, suggests that leaders endeavour to create a new favourable position or a new market by strategic intent (Hamel & Prahalad, 1989), corporate imagination (Hamel & Prahalad, 1991), or corporate vision (Tellis & Golder, 2002). Without using prediction or envisioning, the transformative approach recommends that new products or new markets could be co-created by the firm and its customers through value innovation (Kim & Mauborgne, 1997), or effectuation logic (Sarasvathy, 2001). Of the two approaches, the visionary approach places more weight on prediction than the transformative approach.

Following a similar taxonomy, this discussion focuses on two dimensions correspondingly: to what extent managers can predict stakeholder relations; and with which stakeholders managers need to develop or maintain relations: existing stakeholders or new ones. As shown in Figure 7-2, strategies for managing dynamic

stakeholder relations can also be divided into four categories, borrowing the same terms proposed by Wiltbank et al. (2006). Using this framework, appropriate strategies for managing stakeholder relations could be suggested in accordance with the changing situations faced by firms.

	<i>Relations with existing stakeholders</i>	<i>Relations with new stakeholders</i>
<i>Predictive stakeholder relations</i>	Planning	Visionary
<i>Non-predictive stakeholder relations</i>	Adaptive	Transformative

Figure 7.2: A framework of managing dynamic stakeholder relations

7.4.1 Developing and maintaining relations with existing stakeholders

Based on the empirical data collected, it is evident that firms employ different strategies for managing stakeholder relations in order to sustain competitiveness in a dynamic environment. In this subsection, it is assumed that managers know who the stakeholders are. As indicated by Wiltbank et al. (2006), the role of prediction plays an important role in strategic management. Following this logic, strategies for

managing stakeholders could be divided into the planning and the adaptive approaches based on the extent to which managers can predict stakeholder relations.

The planning approach

In the planning approach, managers are able to identify both stakeholders and their expectations. The task of stakeholder management is to develop and maintain predictive stakeholder relations. As discussed earlier, the main purpose of managing stakeholder relations is to balance different stakeholder demands in order to form an effective resource mix that can match the competitive strategy. The efforts concentrate on meeting the already known stakeholders' expectations and fitting the identified strategic position into the existing industry structure. For example, Beta positioned itself as an innovation house in the industrial computer industry. The company understood the customer demands and recruited capable staff to build up its technological capabilities. By providing high quality products with affordable prices, it successfully achieved competitive advantage in a specific market niche. Regarding essence of balancing stakeholder demands, the CEO of Beta put it:

To balance different stakeholder interests is difficult, I believe the first responsibility of the business is to make money. Without making money, you are unable to satisfy your shareholders, customers, employees, and so on...Although customers are the most important, you should put your employees in the first priority because they could create huge value for your organisation if you treat them appropriately.

A similar case is Kappa, which positioned itself as an innovation house in the network security industry. The company focused on a special market niche in which

governments have strong influences because of national security and other sensitive issues. Like Beta, its core capabilities were embedded in its staff. It also developed a capability/knowledge-oriented resource mix. It needed to balance the demands of critical stakeholders such as governments, customers, employees and shareholders.

The above examples illustrate the planning approach to managing stakeholder relations. Both companies share very similar customer expectations—good quality and low cost. They are in line with Porter's (1996, p. 64) description of competitive strategy as “deliberately choosing a different set of activities to deliver a unique mix of value.”

The adaptive approach

In a stable environment, the planning approach to managing stakeholder relations could be effective; however, it would be problematic if the stakeholder expectations change. Harting et al. (2006) discuss the issue of shifting stakeholder expectations and indicate that a stakeholder's interest might change over a period of time. They further argue that shifting stakeholder expectations provide entrepreneurial opportunities and firms, which can manage innovative stakeholder relations, would achieve sustained competitive advantage by creating barriers to imitation. According to Mosakowski (1997), firms need to be flexible and use experimentation to respond to a dynamic environment. The adaptive approach to managing stakeholder relations shares a similar view and requires managers to monitor or anticipate changes in stakeholder interests as underlying expectations shift.

According to the data collected in this study, shifting expectations of stakeholders resulted in new product development, new production processes, or both. For instance,

Alpha developed its ERP II after its successful business in ERP I. The development of the new generation of product was as a result of the growth of its customers, which have become its strategic partners. Moreover, new product introduction has become a sustainable competitive advantage of Alpha. As its CEO emphasised:

When they (our customers) wanted to change their IT system, firstly they would consider us and take our products into consideration. They trusted us and they believed that we would monitor the change in IT ahead of them. Moreover, as we had many customers and we got many feedbacks about management practices from them, which could be integrated into our new products. When a customer wanted to upgrade its system, firstly it would try to find if our products could meet its needs ... While we upgraded our product, we overtook our competitors and it was difficult for them to catch up with us as the technology gap we created ...

Similarly, Gamma reviewed its products every three years, which is a standard practice in the textbook industry. However, it is worthwhile to note that Gamma continuously invested in resources for engaging critical stakeholders such as school teachers and especially the opinion leaders among them, which is the most important factor to maintain their competitiveness.⁷⁵

Another example was when the EU called for high environmental standards in electronic products, such as the Restriction of Hazardous Substances Directive (RoHS) adopted in 2003. The RoHS restricts the use of lead, mercury, cadmium, hexavalent chromium, polybrominated biphenyls, and polybrominated diphenyl ether by manufacturers. This was an attempt to minimise the impact caused by consumer electronics waste, which forced Alpha, Beta, Epsilon, and Zeta to introduce the

concept of a green supply chain into their operations management. Green supply chain management is a systematic solution to ensure suppliers of the whole supply chain operate in compliance with the requirements of the RoHS. Without appropriate green supply chain management to cope with shifting stakeholder expectations, it would be impossible for these firms to take orders from customers in the EU.⁷⁶

A similar example is Iota. This company has faced expectation shifts from its existing customers and needed to develop more advanced products in the dyeing and finishing industry. It formed a supply chain with its suppliers and strategic partners focusing on a specific market segment, such as Nano-Tex Resists Spills and Nano-Tex Coolest Comfort. This supply chain is featured as a product innovator that emphasises flexibility, new product development, and fast delivery.

The successful development of new products also helped Iota sustain its leading position in the local market.⁷⁷ In other words, it could fulfil continually shifting customer expectations. This case displays both new product development and new processes of production. As the CEO of Iota noted:

I can give you an example. We have a department that has performed very well for a couple of years. This business is featured with high unit price, sophisticated demands of new products, and fast delivery requirement ... We have good partners, including fabric and yarn producers, and the benefit of efficient transportation compared to our foreign competitors ... this special production model is a typical case exhibiting competitiveness of Taiwanese firms.

The above examples illustrate that monitoring stakeholder expectations are important to a firm's competitiveness. Thus, firms, which have caught up with the

shifting expectations of stakeholders, achieve a sustainable competitive advantage because managing shifting expectations enhances the trust between the focal firm and its stakeholders and generates lower transaction costs (Dyer & Chu, 2003; Jones, 1995). Moreover, it could also create the barrier to, or extra cost of, imitation by causal ambiguity or social complexity as discussed in Chapter 6.

7.4.2 Creating relations with new stakeholders

In this subsection, the tasks of managers in dealing with relations with new stakeholders are considered. According to the extent to which managers can predict stakeholder relations, managing stakeholders could be divided into the visionary and the transformative approaches.

The visionary approach

The visionary approach here refers to creating new but predictive stakeholder relations. In this instance, firms engage in relationships with new stakeholders. However, the new stakeholders and their expectations are predictive. The visionary approach is featured with predetermined goals and flexible strategies set by the firms (Hamel & Prahalad, 1989). Rindova and Fombrun (1999) depict strategic projection as a means for shaping a firm's reputations or images by resource commitments to communication with its stakeholders. Thus, strategic projection plays an important role in building corporate vision. Tellis and Golder (2002) argue that a clear vision would effectively direct the firm's resource commitments and breed success.

Most of the case companies in this study demonstrated the visionary approach to managing new stakeholder relations. There are two themes that can be illustrated from

their experiences. The first is new market exploration. In the case of Alpha, Gamma and Delta, they expanded their businesses to China after they had experienced business success in local markets. All of them had co-operated with strong local partners to explore their new markets. For example, Alpha established a joint venture with a local leading integrated IT services provider to provide ERP products in 2002, and achieved a market share of around 25% in the manufacturing market in 2007.⁷⁸ Another example is Gamma, which established a joint venture with a local textbook publisher and a subsidiary in Nanjing in 2004. It also set up a joint venture with local partners to sell kindergarten materials in Beijing in 2005. It successfully sold supplementary textbooks for junior and senior high schools in China through the distribution channels built by the joint ventures and its subsidiary since early 2007.⁷⁹ As the CEO of Gamma put it:

We accumulated our experience and expertise in this industry and effectively leveraged our past success to enter the Chinese market ... In the new market, we still preserve our corporate philosophy and culture to look after our stakeholders such as our customers, suppliers and strategic partners ... I believe it is very important for our business expansion.

The second theme is building new production sites. For instance, Delta built a tape-production plant in South Africa in 1988. In China, the company established a joint venture with a local chemical company producing PVC and OPP Tapes in Canton in 1990, a new plant in 2001, and a new plant in Shanghai in 2003. Since 2006, Delta has become the largest adhesive tape manufacturer and seller in the Chinese market.⁸⁰ In particular, the CEO of Delta emphasised the company's commitment to environmental protection as an important part of its production process by revealing:

We are a business with a high potential of pollution. Although we are not very proactive, we are always in compliance with the world industry standard ... One of our investments in China used a new method for energy, which replaced heavy oil by using mix of water and coal power, in order to reduce the level of pollution ... It not only fulfilled the corporate social responsibility, but also saved our production costs.

Another example is Zeta, which built multiple international production sites in several countries. This organisation established a plant in Malaysia in 1989, in Fuchou, China in 1994, and in UK in 1997. Since 2002, this company has established several plants in south China, including Wujiang and Shenzhen. The diversification of production sites has increased Zeta's capacity significantly and made it a major TFT-LCD panel manufacturer internationally. Another example is Eta, which also built international production sites in several countries: in Indonesia in 1993, in China (YiXing) in 1994, in Cambodia in 1998, in Jordan in 2004, and in China (Qingdao) in 2007.

Firms are able to explore new markets by leveraging their past success. It is apparent from the above examples that they need to create new stakeholder relations, which match or align to some pre-envisaged vision or opportunities. In the new market, firms can balance different stakeholder demands according to their previous experience or philosophy of success. However, stakeholder relations might be different from those previously experienced, as discussed in Chapter 5, such as the failure of Eta dealing with the union in a Latin American country.

The transformative approach

The transformative approach refers to creating non-predictive stakeholder relations with new stakeholders. This approach involves innovation and entrepreneurial

activities, through which firms may co-create new products or new markets with their stakeholders. As the new stakeholder relations are non-predictive, including both stakeholders and their expectations, this instance concerns ambiguity as well as complexity in strategic decision making. As for the transformative approach to strategic management, Wiltbank et al. (2006) point out that it requires stakeholders' motivation to participate in the construction process to co-create the vision and the opportunity, rather than to match the strategic planning proposed by the focal firm. The essence of this approach suggests strategic decisions go beyond following the previous philosophy of success (Kim & Mauborgne, 1997). It calls for innovative actions.

As the transformative approach frequently involves a new product or service that could be more non-predictive, managers need to identify and balance all possible stakeholder demands, while developing the market for such a product or service. Hart and Sharma (2004) highlight the importance of stakeholder integration in the process of product innovation and argue that firms need to identify and understand the concerns of the stakeholders, even those that are distant.

According to the data collected in this study, some companies exemplify the transformative approach to managing stakeholder relations. For instance, to enter the fashion market, Eta launched Brand A in China. This brand developed from a single product into multiple brands. The product lines contained personalised menswear, urban trending menswear, casual menswear, and sportswear. It also co-operated with strategic partners and promoted several brands in the Chinese market: German Brand B, Malaysian Brand C, and French Brand D.⁸¹ Since both stakeholders and their

expectations were uncertain, it required the company to change their existing strategies and practices and explore new approaches. As the CEO of Eta indicated:

The company transformed from traditional OEM production to establishment of our own brands. We explored new products in new markets. Therefore, the staff required were different; the culture needed to change; the scope of business had to be modified; and included new suppliers and new customers ... in the process of change and learning, there were impacts, even conflicts ... Each time, the new stakeholder relations were developed from trials and errors ...

Gamma is a similar case, which established a Bilingual School in 2002, including a kindergarten and a primary school. In 2004, the Bilingual School began to recruit students of junior high school level. The Bilingual School has been a huge success and became one of the most profitable businesses of Gamma.⁸² This case was typical of non-predictive relations with new stakeholders. As the CEO of Gamma indicated:

To establish the Bilingual School was a brand new experience of us. It was a process of continuous experimentations and the interactions between the board of trustees, teachers, students, and parents were fruitful and constructive ... It has become the most profitable unit of our business group although the initial mission was not to make money. We had a fantastic experience in this new business, new clients, new staff, and new relationships with stakeholders ...

Another example is Theta, which acquired the management company of a large recreation area, 200 hectares, which is the largest theme park in Taiwan. Apart from

its existing water park and discovery world, Theta has been transforming the recreation area into a holiday resort. Moreover, it is planning to run horse racing, car racing, or even a casino business.⁸³ In this case, Theta leveraged its resources and capabilities from past success and explored new stakeholder relations in unexplored markets. As the senior manager of Theta argued:

While we built and run a restaurant chain, it was a long run business ... we could utilise the resources and capabilities of our traditional construction business and transform them into new products and service or new markets ... to diversify our business, such as theme park or holiday resort, was a great challenge because we needed to deal with different new stakeholders ... it could have more positive effects on our business chain and integrate our customer base, including current and new customers.

Wiltbank et al. (2006) argue that the new market for a new product or service is developed by multiple stakeholders committing to the construction process. The above examples demonstrate that innovative stakeholder relations breed successful business in a dynamic environment. The focal firms collaborated with their stakeholder to co-construct new business areas.

7.4.3 Sustained competitive advantage and managing new stakeholder relations

The framework proposed in this section is a contingent approach to managing stakeholder relations in different contexts. In this regard, balancing stakeholder demands is a dynamic perspective, rather than a static one. Apart from the planning approach, the three other approaches concern new stakeholder relations emerging from two sources. One is from the shifting stakeholder expectations of existing

stakeholders. The other is from innovation activities with regard to new stakeholders. Stakeholder management is where firms develop and maintain good relations with their multiple stakeholders. Managers need to monitor for shifting stakeholder expectations. If firms fail to catch up with shifting expectations, the stakeholder relations would turn sour. Managers also need to create new stakeholder relations while developing new products or entering new markets. In particular, Hall and Martin (2005) highlight the significance of innovative uncertainty influenced by stakeholders and suggest that firms should adopt different approaches according to various situations of stakeholder ambiguity and complexity. Without carefully managing stakeholder relations, innovation may not be successful.

According to the empirical findings of this study, stakeholder expectation shifts included new product demand and new processes of production. In addition, new stakeholder relations were generated by innovation activities such as exploring new markets of existing products or creating the market for a new product. This is consistent with the process of creative destruction suggested by Schumpeter (1976). Schumpeter argues that innovation “comes from the new consumer goods, the new method of production or transportation, the new markets, the new forms of industrial organisation that capitalist enterprise creates” (1976, p. 83). Thus, it can be asserted that innovation in terms of the development of opportunities not only refers to new combinations of ideas but also concerns reformulation of stakeholder relationships.

These new stakeholder relations, which come from changes in the environment, create new competitive landscapes. Harting et al. (2006) argue that innovative stakeholder relations could generate competitive advantages due to value creation through innovation activities. Venkataraman's (2002) study portrays this phenomenon

as a result of 'strong equilibrating force', which could trigger dramatic change and reshape the competitive landscape. Thus, the main challenge confronting managers is to identify the issues early enough and adopt appropriate strategies for managing stakeholder relations. The perspective of innovative stakeholder relations is similar to the dynamic capabilities approaches that emphasise the quick pace in response to changing situations. However, the assertion of this thesis is closer to the arguments that firms need to capture the rhythms of changes by a systematic approach (Mosakowski, 1997) and develop strategic flexibility (Hitt, Keats & DeMarie, 1998) in the new competitive landscape. Moreover, the notion of managing new stakeholder relations has moved competitive advantage toward 'competitive imagination' that focuses on Schumpeter's innovation and creative destruction (Hart & Sharma, 2004). Moreover, Hall and Vredenburg (2003) argue that innovation not only can be a source of competitive advantage but also a cause of failure. From a macro view, they maintain that innovation cannot only be an engine of economic growth but also the origin of social and environmental disruption. They view innovation like a double-edged sword, as a potential source of both opportunities for and threats against competitive advantage. In other words, innovation or entrepreneurial activities involve different stakeholders and need to be carefully managed.

The following proposition is generated from the above discussion:

Proposition 7.2: *To sustain competitive advantage, firms need to use a contingent approach to managing stakeholder relations: managers should monitor stakeholder expectation shifts and create new stakeholder relations with existing stakeholders; managers may create innovative stakeholder relations with new stakeholders either by pre-conceived visions or by co-created goals.*

7.5 Conclusion

This chapter has sought to answer the third research question, “How do managers perform their roles in developing and maintaining competitive advantage by balancing different stakeholder demands?” Based on Windsor (1999) and Windsor (2002), this study proposed a broad concept of balancing stakeholder demand. First, this concept includes three dimensions regarding what to balance: financial value, stakeholder interests, and stakeholder power. Second, a broad conception of how to balance includes three approaches: accommodation, alignment and trade-off. Based on the analyses of Chapter 5, the firm is considered to be a value-based network, which is a collection of resources, capabilities and relationships. It was shown that balancing different stakeholder demands helps firms achieve competitive advantage by forming an effective mix of resources that fit their competitive strategy. As stated, distinctive perspectives of competitive advantage contribute to a better understanding of the resource mix that includes various resources from different channels. Moreover, the fit of strategy is emphasised in the activity-position view. Thus, it supported the principle that the theoretical framework proposed in Chapter 3 (Figure 3.1), the stakeholder view that links the resource-based, the relational, and the activity-position view, should fit the empirical findings.

With regard to sustaining competitive advantage, the analysis of Chapter 6 was extended to a more dynamic environment, including shifting stakeholder expectations and new stakeholder relations. It is argued that firms can sustain their competitive advantage by enhancing their resource capacity. However, facing various changing situations, managers need to employ different strategies for managing stakeholder relations. This chapter created a framework inspired by Wiltbank et al. (2006) and

suggests a new classification of strategies for managing stakeholder relations: planning, adaptive, visionary, and transformative. Accordingly, managers are able to analyse the changing situation from two dimensions: 1) to what extent managers can predict the stakeholder relations; and 2) with which stakeholders managers need to develop or maintain relations: existing stakeholders or new ones? The empirical results have shown that to achieve sustained competitive advantage, firms not only have to strengthen their capacity of resource advantage to fit the competitive strategy, but they also need to use innovative and entrepreneurial approaches for managing stakeholder relations.

Chapter 8: Conclusion, limitation and further research

8.1 Introduction

This thesis concerns the source, durability, and appropriation of competitive advantage from a stakeholder perspective. It endeavours to explore how stakeholder management affects different aspects of a firm's competitive advantage. The study is guided by a theoretical framework as well as a set of research questions. This final chapter is organised as follows. First, a brief overview of the thesis is presented. Second, the key research findings are reported and discussed. Third, contributions and managerial implications of the thesis are pointed out. Fourth, limitations of the thesis are discussed. This is followed by recommendations for future research.

8.2 Thesis overview

Chapter 1 presented the background to the study. It was noted that although both competitive advantage and stakeholder management have attracted much attention by academia and practitioners, these two subjects have developed independently and their linkage has been under-researched. The objective of this study was to contribute to the body of literature that attempted to understand how stakeholder management has an influence on competitive advantage. The research questions were presented, the research goals were set out, and the structure of the thesis was outlined.

Chapter 2 provided a review of the relevant literature of competitive advantage and stakeholder management. Three major streams of studies on competitive advantage were discussed: the activity-position view, the resource-based view, and the

relational view. Next, the major streams of studies on stakeholder theory were discussed, including the theories of the firm and several approaches—descriptive, instrumental, normative, and metaphorical. The common issues of competitive advantage and stakeholder management were identified, including value creation, value preservation, and value capture.

Chapter 3 introduced the theoretical perspective, research methods and data sources utilised for the study. Using an integrative approach, this study proposed a theoretical framework for a stakeholder view that linked the resource-based view, the relational view, and the activity-position view. This chapter outlined the research design of this study, including the choice of the general research approach, the criteria for case selection, the procedure for data collection, how the case data were analysed, and ethical considerations.

The abductive logic was applied in this research. First, the theoretical framework was developed from the literature review and improved by data collection. Second, data collection was guided by the theoretical framework and the method of the primary data collection was semi-structured interviews, which allow new ideas and information emerged from the participants. Third, while conducting data analysis, the coding list was developed according to the theoretical framework and the research questions of this study; it was continuously amended and some new codes were created if new ideas or themes were identified. Finally, the findings of each core chapters of this study were drawn by both induction (data-driven) and deduction (theory-driven) reasoning.

In Chapter 4, the source of competitive advantage from an integrative approach was examined. The empirical results of this study confirmed that the concept of competitive advantage encompasses both resource and positional advantages. The case studies provided strong evidence that resource advantages come from a collection of superior resources developed or accumulated through multiple channels, and positional advantages result from a collection of smart activities. This chapter suggested that it is necessary to integrate different perspectives in order to better explain the source of competitive advantage.

Chapter 5 examined the issue of how stakeholder management influences the source of competitive advantage. It was shown that stakeholder management could affect the source of competitive advantage through both resource advantages and positional advantages. Successful stakeholder management strengthens a firm's resource profile and, thus, enhances its resource advantages. Appropriately managing stakeholders could improve the efficiency and effectiveness of activities/drivers as well as the competitive context, and thus enhance the positional advantages of the firm. It was shown that stakeholder management is a set of strategic activities to mobilise resources and respond to the opportunities of the competitive context.

In Chapter 6, the relationship between stakeholder management and durability of competitive advantage was examined. Based on the empirical results of this study, it was argued that stakeholder management helps sustain a firm's competitive advantages through influence on its resource capacity for value creation in three ways: resource commitments, developing capabilities, and building relationships. This study showed that stakeholder management generates several isolating mechanisms that preserve competitive advantages, including time compression diseconomies, causal

ambiguity, social complexity, and transaction costs. It was also argued that the fit of strategy for managing stakeholders is crucial to sustaining competitive advantage.

Chapter 7 addressed the issues of balancing stakeholder demands and managing stakeholder relations in a dynamic context. This study showed that balancing stakeholder demands supports a firm to form an effective mix of resources for maximising value creation and to fit the strategic position. With regard to sustaining competitive advantage, the analysis moved towards a dynamic environment, including shifting stakeholder expectations and new stakeholder relations. The empirical results showed that to achieve sustained competitive advantage, firms need to use innovative and entrepreneurial approaches for managing stakeholder relations.

8.3 Research findings

The results of investigation and analysis presented in the preceding chapters have answered the research questions stated in Chapter 1:

- How does stakeholder management influence the source of competitive advantage?
- How may stakeholder management help a firm sustain its competitive advantage?
- How do managers perform their roles in developing and maintaining competitive advantage by balancing different stakeholder demands?

The main findings of this thesis are structured around the research goals set out in Chapter 1. The first research goal referred to identifying for the common themes that link competitive advantage and stakeholder management. It was found that the

common issues of competitive advantage could be summarised into three themes—value creation, value preservation, and value capture. As stated in Chapter 2, it was shown that the three themes are common across different perspectives—the resource-based view, the relational view, and the activity-position view. They are also correspondent to the three aspects of competitive advantage: source, durability, and appropriation. Moreover, it was shown that the three themes form the base for the linkage between competitive advantage and stakeholder management. Furthermore, they are interrelated, rather than isolated. The literature review identified a knowledge gap between competitive advantage and stakeholder management and three research questions were framed, based on the three themes, in order to fill this gap.

The next research goal was to examine the source of competitive advantage in an integrative approach, seeking to combine the three main perspectives of competitive advantage in the literature—the resource-based view, the relational view, and the activity-position view. It was shown that the concept of competitive advantage encompasses both resource and positional advantages. It was also shown that a firm's resource advantages are based on an effective resource portfolio consisting of strategic resources acquired or accumulated from multiple channels: markets, within the organisation, inter-firm relationships, or interactions with other stakeholders. Moreover, it was shown that a firm achieves its positional advantages, based on a collection of strategic activities responding to its competitive context. In other words, a firm achieves competitive advantage by developing a superior resource portfolio or a collection of smart activities, or both. This study confirmed that the resource-based, the activity-position, and the relational views explained the source of competitive

advantage through different lenses and each of them only told a part of the story. The integrative theoretical framework proposed in Chapter 3 of this study was supported by the empirical findings.

The next research goal was to examine how stakeholder management influences the source of competitive advantage. It was argued that the essence of a firm's competitive advantage is its ability to contribute more to customer value than its rivals, by creating the gap between the buyer's willingness-to-pay and the supplier's opportunity cost. In this regard, stakeholder management influences the source of competitive advantage through two routes: co-operative potential and potential threat of stakeholders. Hence, strategies for managing stakeholders are used to maximise co-operative potential and minimise their potential threat of stakeholders so as to capitalise on value creation opportunities. It was shown that stakeholder management affects the source of competitive advantage through its two components: resource advantage and positional advantage. Stakeholder management has a significant influence on resource advantages as stakeholders play important roles in the process of value creation. First, stakeholders are the providers who supply valued resources to the firm. Second, stakeholders are catalysts or hindrances that may facilitate or impede the generation of valued resources. Successful stakeholder management strengthens a firm's resource capacity and thus enhances its resource advantages. It was also shown that stakeholder management has a considerable influence on positional advantages, as stakeholders are relevant to activities and drivers that determine cost or differentiation. Moreover, stakeholders are key players in the competitive context, which can shape the competitiveness of the firm. It was shown

that appropriately managing stakeholders can improve the efficiency and effectiveness of activities as well as the competitive context, and thus enhance a firm's competitive advantage.

The next research goal was to examine how stakeholder management helps sustain competitive advantage. It was shown that stakeholder management makes resource advantages sustained through maximising the firm's resource capacity shaped by the flows and the stocks from activities of resource commitment, developing capabilities and building relationships. It was evident that a firm creates and sustains competitive advantage by continuously improving, innovating, and upgrading its resource capacity over time. This capacity is shaped by the flows and the stocks of the firm's resources, capabilities and relationships. Firms sustains their competitive advantage by continuously advancing customer value well ahead of their rivals as their capacities accumulate and are enhanced. It has been shown that stakeholder management helps sustain a firm's competitive advantage as it could advance its resource capacity and related activity drivers. It was also shown that stakeholder management generates several isolating mechanisms that preserve a firm's competitive advantage, including time compression diseconomies, causal ambiguity, social complexity, and transaction costs. It was concluded that the fit of the strategy for managing stakeholders is crucial to sustaining competitive advantage since the source of competitive advantage is manifold.

The last research goal was to examine how managers perform their role in developing competitive advantage by balancing different stakeholder demands. Derived from Windsor (1999) and Windsor (2002), this study proposed a broad concept of balancing stakeholder demands that comprises two components. The first

refers to what to balance, including financial value, stakeholder interests and stakeholder power. The second refers to how to balance them, which includes the methods of accommodation, alignment and trade-off. It was shown that the broad concept of balancing multiple stakeholder demands was supported by the empirical findings. It was also shown that balancing stakeholder demands helps form an effective portfolio of resources for a firm that can meet its competitive strategy.

With regard to sustaining competitive advantage, it is a challenging task for every manager to balance different stakeholder demands in a dynamic environment such as shifting stakeholder expectations or requiring development of new stakeholder relations. Inspired by Wiltbank et al. (2006), this study proposed a new framework of strategies for managing stakeholder relations: planning, adaptive, visionary, and transformative. Accordingly, managers are able analyse the changing situation from two dimensions: 1) to what extent managers can predict the stakeholder relations; and 2) with which stakeholders managers need to develop or maintain relations: existing stakeholders or new ones. It was shown that to achieve sustained competitive advantage, firms not only have to strengthen the capacity of resource advantage to fit their competitive strategy, but they also need to use innovative and entrepreneurial approaches for managing stakeholder relations. It was concluded that facing various changing situations, managers need to employ different strategies for managing stakeholder relations.

To sum up, as discussed above, this thesis posited that a firm is regarded as a value-based network. The source of competitive advantage can be better understood by incorporating both resource and positional advantages. Competitive advantage comes from a firm's resource capacity and a mix of activities/drivers that respond to

the competitive context. As previously mentioned, the resource-based view addresses firm-specific resources; the relational view emphasises shared resources generated by inter-firm relationships; and the activity-position view stresses activities/drivers. Accordingly, each view of competitive advantage covers only a portion of stakeholders and a part of the source of competitive advantage, and thus cannot completely describe the source of competitive advantage. In this study, the stakeholder view unified the three main perspectives by accounting for how a firm can achieve and maintain its competitive advantage by developing and strengthening its resource capacity, including resources from different channels: markets, within the organisation, inter-firm relationships, and interactions with other stakeholders. Specifically, this approach stresses a systematic set of entrepreneurial judgments and managerial capabilities related to stakeholder management that involves a range of stakeholders, rather than merely a particular type of resources or only some activities/drivers. Therefore, the stakeholder view complements the above-mentioned main perspectives of competitive advantage and provides additional explanatory power.

8.4 Contribution and implications of this study

This study has aimed to understand and explain the linkage between competitive advantage and stakeholder management. The literature review showed that there was a knowledge gap—how stakeholder management affects competitive advantage in terms of value creation, value preservation, and value capture (see Chapter 2). Using multiple cases, in-depth interviews, and documentary data, this study has provided literature for further understanding the three aspects of competitive advantage—

source, durability, and appropriation—from a stakeholder perspective. This thesis has contributed to both the competitive advantage literature and the stakeholder management literature, as discussed below.

8.4.1 Contributions to the competitive advantage literature

Firstly, a large volume of literature on the three main streams of competitive advantage, the resource-based, the relational, and the activity-position views, has been published, but each stream has only explained a part of the story. There have been some arguments for an integrative approach (Ray et al., 2004; Sheehan & Foss, 2007), but very few research studies have focused on this direction. This research has responded and attempted to use a stakeholder approach that links the three main research streams. It has been shown that the three perspectives of competitive advantage are complementary to each other. For example, the empirical findings of this study supported the view that the source of a firm's competitive advantage is manifold, which is exemplified by its resource portfolio including market, internal, relational, and symbolic/idiosyncratic resources. Specifically, acknowledging different types of resources has been suggested by some researchers. In their review of the resource-based view, Kraaijenbrink et al. (2010) state, "Rather than taking a single concept of resources and capabilities and a single logic in resource-based theory, we need more refined propositions on the complex and dynamic relationships between particular types of resources" (p. 365). This research has advanced our understanding of competitive advantage by going further and acknowledging different types of resources, and linking them to different perspectives of competitive advantage.

Secondly, this study examined competitive advantage in terms of source, durability, and appropriation together. Indeed, value capture or appropriation of competitive advantage has rarely been discussed in the literature. Moreover, involving this subject refers to a more dynamic aspect of competitive advantage and would help advance theory by providing a holistic approach. To achieve the aim of exploring the dynamic aspect of competitive advantage, this study has proposed a contingency framework to examine the competitive strategies in a changing context, especially referring to innovative activities. Following Schumpeter's (1976) innovation logic, innovative activities involve new consumer goods, new methods of production, new markets, and new forms of industrial organisation. These innovative activities have emerged from exploring shifting stakeholder expectations and new stakeholder relations. The empirical findings of this study supported that innovative activities require not only entrepreneurship but also strategies for managing multiple stakeholders. It also re-emphasised that firms should review critical stakeholders and assess the necessity of reframing stakeholder relationships periodically. This study has contributed to our understanding of the important role that stakeholder management plays in the strategy process, which has been under-addressed in the competitive advantage literature.

8.4.2 Contributions to stakeholder theory

Firstly, to link stakeholder management to competitive advantage, this study emphasised the strategic role of stakeholder management. This study argued that stakeholder management has positive impacts on generating and sustaining competitive advantage. This could be achieved through gaining resource advantages or positional advantages. Despite many studies in the literature based on instrumental

stakeholder theory, few have directly discussed the linkage between competitive advantage and stakeholder management. By linking stakeholder management to the main research streams of competitive advantage, this research advanced our understanding of instrumental stakeholder theory. For example, this study examined how stakeholder management affects the sources of competitive advantage. It has explored how stakeholder management could help firms to create more value than its rivals in the competitive context so as to generate outstanding firm performance.

Secondly, this study has proposed a broader concept of balancing stakeholder demands, inspired by Windsor (1999) and Windsor (2002). It highlighted that balancing different stakeholder demands is not limited to the narrow concept of the zero-sum game—trade-off. In addition, balancing stakeholder demands includes the concept of the positive-sum game—alignment, which means a firm and its multiple stakeholders can work together to create more value and thus benefit the whole group. Moreover, it also suggested the concept of accommodation, which legitimates a firm's activities of CSR and corporate philanthropy. The broader concept of balancing stakeholder demands proposed by this study has been the first attempt to incorporate what to balance and how to balance them into one concept. Moreover, it was also supported by the empirical data of this study, especially in one research setting. Balancing stakeholder demands is a challenging task faced by managers. The broader concept of balancing stakeholder demands provides different approaches for satisfying different or even conflicting stakeholder demands. It rejected one-size-fits-all suggestions for stakeholder management and helped firms to deal with tough problems in a complex and changing environment.

8.4.3 Implications for practice

As managers are confronted by more powerful stakeholders than ever before, this study has sought to provide implications for practice. First, this study suggested that stakeholder management is related to the source of a firm's competitive advantage in terms of resources and activities/drivers. This requires managers to address the importance of stakeholder interactions in the process of value creation. For instance, based on this study, firms need to integrate their customers, suppliers or even government agencies into their R&D and new product development. As Freeman and Liedtka (1997) suggested, managers can link stakeholder management to the firm's value chain (Porter, 1985). However, this study emphasised resource advantages and positional advantages that stakeholder management may generate. Managers should pay more attention to issues of creating and sustaining competitive advantage through stakeholder management, such as how to acquire or accumulate strategic resources and how to take advantage of the drivers of activities. As previously mentioned in this study, it is not feasible to implement a one-size-fits-all strategy for stakeholder management and a firm's value may be co-created by interactions between the firm and its multiple stakeholders. This also implies that in addition to dealing with stakeholders in a systematic way, for the purpose of maximising value, it is necessary for firms to create a corporate culture that can facilitate stakeholder engagement.

Second, this study has provided a new dynamic framework for a firm to create and sustain its competitiveness thorough innovative stakeholder interactions. It requires managers to monitor changes in the expectations of current stakeholders and the opportunities of creating relationships with new stakeholders. This framework can provide managers with a useful guideline to analyse the current status of the firm's

competitive advantage and the potential for making strategic change. For instance, facing the trend of globalisation, managers are confronted with more competition in the forms of imitation and substitution from their rivals. The stakeholder-oriented framework could offer two kinds of benefit to decision makers. One is the innovative potential signalled by unsatisfied stakeholder expectations, which provide firms with opportunities to explore competitive advantage through entrepreneurial activities (Venkataraman, 2002). The other is that firms can minimise the risk of innovation activities threatened by stakeholder ambiguity and complexity (Hall & Martin, 2005) through stakeholder engagement. The empirical findings of this study have supported this framework. Hence, if managers employ this framework, they will be able to create competitive advantages successfully and cope with the changing environment in a systematic way.

Third, this study emphasised the strategic perspective of stakeholder management and argued that for competitive advantage to occur, stakeholder management needs to be an integral part of the firm's business strategy. In particular, managers need to integrate CSR or philanthropy into strategic processes, rather than to treat them as a type of pure PR activity. CSR and philanthropy should be a part of the strategic decision making of an organisation. Although this view has already been supported by some research (Porter & Kramer, 2002; 2006; Eweje & Palakshappa, 2009), this study went further and argued that stakeholder management helps generate and sustain competitive advantage. In other words, stakeholder management is expected to play a more important role in the strategy process of a firm.

8.5 Limitations of the study and further research

There are a few limitations in this study and suggestions for future research. The first limitation relates to the statistical generalisability of the results. In multiple-case studies, it is possible to improve reliability and validity. However, generalisation to populations is unlikely. Further research that replicates this study could increase the confidence of the results obtained by this research. In addition, the case companies are arguably those which benefited from stakeholder management and, thus, might convey a successful bias. Nevertheless, based on these empirical data, this study is able to describe and explain how firms have successfully enhanced their competitive advantages through stakeholder management.

The second limitation is the limited geographical focus of the sample. The case companies in this study were all Taiwanese firms. In order to achieve analytic generality, the selection of the case companies involved different ages, industries, and sizes. However, Taiwan is a relatively small and open market economy and the business of most of the case companies is internationally oriented. Due to the domestic market being relatively small, many Taiwanese firms are forced to go international, and internationalisation is a popular phenomenon. The findings of this study might not apply to countries with a large home market well (e.g., Japan, the United States, or China). Future research that replicates the present study might test the propositions generated by this investigation.

The third limitation is the risk of retrospective bias. The main data was collected by interviews, which largely depended on the retrospective recollection of the participants. Retrospective bias is possible because managers tend to legitimate the

causes of organisational successes or failures through reconstruction and interpretation of the past decisions and actions (March & Sutton, 1997). Using documents data and interviews from multiple sources helped to reduce retrospective bias. The method of longitudinal investigation may be considered in future research, which would help the researcher to reduce the retrospective bias (Pettigrew, 1990; Huber & Van de Ven, 1995).

The last limitation of this study is its focus on the discussion of competitive strategy. Competitive advantage stems from competitive strategy. Apart from Porter (1987) and Bowman and Ambrosini (2003), few studies examine competitive advantage at a corporate level. However, the shareholders, for instance, normally view their investment in the company as a whole, rather than merely in one strategic business unit. Thus, their concern should be the performance of a whole corporation rather than only that of a specific strategic business unit (that concentrates on just one product or one market). For this reason, how competitive advantage may influence the profit flow of the whole organisation and strategy at the corporate level merits further study.

At the completion of this study, the researcher has gained much knowledge and experience from his PhD journey. As such, his next journey is to pursue a career in academia; he will bring the theoretical framework and arguments developed in this study into future research. For example, he will modify the core chapters of this thesis and convert them to individual papers for possible publications in academic journals. Another area of research that would be of interest is to investigate the relationship between sustainable development, stakeholder management, and competitive advantage. Presently, the researcher is contributing a chapter entitled 'Business

sustainability as stakeholder management' to a book entitled *Business and sustainability: Concepts, controversies and cases*, to be published in 2011. In search of creating sustainable value, it would be useful to link corporate sustainability and stakeholder management by incorporating competitive advantage. Another area for future research could be to incorporate organisational culture as an independent variable for examining the linkage between stakeholder management and competitive advantage. As stakeholder management is always linked to social issues, organisational culture provides a fertile ground for understanding how firms respond to their multiple stakeholders differently in the competitive context.

Notes

¹ Last search on 24th of November 2009.

² Researchers such as Sheehan & Foss (2007) and Rodriguez et al. (2002) termed this view as ‘the activity-based view’. However, in order to differentiate this view from the similar term used by other researchers, such as Jarzabkowski (2005) and Johnson et al. (2003), for examining strategy and strategising, ‘the activity-position view’ is used in this study. Other researchers use ‘the industry structure view’ (ISV) (e.g., Dyer & Singh, 1998; Post et al., 2002); it emphasises the firm’s strategic position in the industry structure but fails to explicitly acknowledge the importance of activities which are highlighted by Porter (1985; 1991; 1996).

³ Ibid.

⁴ Social capital means the advantage that an individual can seize through their social networks; see Section 6.2.3 in Chapter 6 for details.

⁵ According to United Nations General Assembly Resolution 2758 of 25 October 1971.

⁶ See IMF (2008). World Economic and Financial Surveys, World Economic Outlook Database, April 2008 Edition. Available on-line:
<http://www.imf.org/external/pubs/ft/weo/2008/01/weodata/index.aspx>

⁷ See trade statistics of Ministry of Economic Affairs, ROC; available on-line
<http://www.moea.gov.tw/> or
<http://cus93.trade.gov.tw/bftweb/english/FSCE/FSC0011E.ASP>

⁸ According to the interview with the CEO of Alpha; See Alpha (2007). Alpha annual report 2006.

⁹ According to the interview with the CEO of Beta; See Beta (2008). Beta annual report 2007 and Beta (2002). Beta annual report 2001.

¹⁰ According to the interview with the CEO of Gamma; See Gamma (2008). Introduction to Gamma, internal document.

¹¹ According to the interview with the CEO of Delta; See Delta (2008). Delta annual report 2007 and Delta (2002). Delta annual report 2001.

¹² According to the interview with the senior manager of Epsilon; See Epsilon (2008). Epsilon annual report 2007 and Epsilon (2002). Epsilon annual report 2001.

¹³ According to the interview with the senior manager of Zeta; See Zeta (2008). Zeta annual report 2007 and Zeta (2002). Zeta annual report 2001.

¹⁴ According to the interview with the CEO of Eta; See Eta (2008). Eta annual report 2007 and Eta (2002). Eta annual report 2001.

¹⁵ If the number of employees included those of the subsidiaries, it would have totalled 12,000.

¹⁶ According to the interview with the senior manager of Theta.

¹⁷ According to the interview with the CEO of Iota; See Iota (2008). Iota annual report 2007 and Iota (2002). Iota annual report 2001.

¹⁸ According to the interview with the CEO of Kappa.

¹⁹ The RSA algorithm was publicly described by Ron Rivest, Adi Shamir, and Leonard Adleman at MIT in 1978; the letters RSA are the initials of their surnames, listed in the same order on the paper.

- ²⁰ According to the interviews with the senior manager of Epsilon and Zeta.
- ²¹ According to the interviews with the CEOs and the senior managers of all case companies in this study.
- ²² According to the interviews with the CEO of Delta and the senior manager of Theta.
- ²³ For example, the CEO of Eta and the senior manager of Epsilon and Zeta emphasised that the bargaining power of the unions have become much stronger than before; they argued that employees are more powerful because of this trend.
- ²⁴ This concept is consistent with ‘customer value’ discussed in Chapter 4.
- ²⁵ *ibid.*
- ²⁶ See the case of Eta in Section 5.3 of this thesis.
- ²⁷ According to the interview with the CEO of Alpha; Alpha (2007) *op.cit.*
- ²⁸ Beta (2007). Beta annual report 2006.
- ²⁹ Gamma *op.cit.*
- ³⁰ According to the interview with the CEO of Delta; Delta (2007). Delta annual report 2006.
- ³¹ According to the interviews with senior managers of Epsilon and Zeta.
- ³² According to the interview with the CEO of Eta; See Eta (2007). Eta annual report 2006.
- ³³ According to the interview with the CEO of Gamma; Gamma *op.cit.*
- ³⁴ Delta (2007) *op.cit.*
- ³⁵ See Iota (2007). Iota annual report 2006.
- ³⁶ Epsilon (2008), (2002) *op.cit.*
- ³⁷ *ibid.*
- ³⁸ Zeta (2008), (2002) *op.cit.*
- ³⁹ According to the interview with the CEO of Alpha; Alpha (2007) *op.cit.*
- ⁴⁰ Beta (2008) *op.cit.*
- ⁴¹ Delta (2007) *op.cit.*
- ⁴² According to the interview with the senior manager of Epsilon.
- ⁴³ According to the interview with the CEO of Alpha.
- ⁴⁴ Beta (2007) *op.cit.*
- ⁴⁵ Epsilon (2008), (2002) *op.cit.*
- ⁴⁶ Zeta (2008), (2002) *op.cit.*
- ⁴⁷ Eta (2007) *op.cit.*
- ⁴⁸ *ibid.*
- ⁴⁹ Iota (2007), (2002) *op.cit.*
- ⁵⁰ According to the interview with the CEO of Iota.
- ⁵¹ According to the interview with the CEO of Alpha; Alpha (2007) *op.cit.*
- ⁵² According to the interview with the CEO of Gamma; Gamma *op.cit.*
- ⁵³ Delta (2007) *op.cit.*
- ⁵⁴ Beta (2007) *op.cit.*

-
- ⁵⁵ Epsilon (2008), (2002) op.cit.
- ⁵⁶ Zeta (2008), (2002) op.cit.
- ⁵⁷ According to the interviews with senior managers of Epsilon and Zeta.
- ⁵⁸ Iota (2007) op.cit.
- ⁵⁹ Beta (2007) op.cit. Epsilon (2008) op.cit. and Zeta (2008) op.cit.
- ⁶⁰ See Epsilon (2007). Corporate Social Responsibility Report 2006.
- ⁶¹ Zeta (2008) op.cit.
- ⁶² Delta (2007), (2002) op.cit.
- ⁶³ According to the interview with the CEO of Beta.
- ⁶⁴ According to the interviews with senior managers of Zeta; Zeta (2008) op.cit.
- ⁶⁵ According to the interview with the senior manager of Theta.
- ⁶⁶ According to the interviews with the CEOs of Alpha and Eta.
- ⁶⁷ According to the interviews with the CEOs of Alpha and Beta and the senior managers of Epsilon, Zeta, and Theta
- ⁶⁸ According to the interviews with the CEOs of Gamma and Eta
- ⁶⁹ According to the interviews with the CEOs of Delta, Iota, and Kappa
- ⁷⁰ According to the interviews with the CEOs of Alpha, Gamma and Eta.
- ⁷¹ According to the interviews with the senior managers of Epsilon and Zeta.
- ⁷² According to the interviews with the CEOs of Beta and Kappa.
- ⁷³ According to the interviews with the CEOs of Gamma and Kappa
- ⁷⁴ According to the interviews with the CEOs of Beta, Gamma, Delta and Eta and the senior managers of Epsilon and Theta.
- ⁷⁵ According to the interview with the CEO of Gamma.
- ⁷⁶ Alpha (2007) op.cit.; Beta (2007) op.cit.; Epsilon (2007) op.cit.; and Zeta (2007)op.cit.
- ⁷⁷ According to the interview with the CEO of Iota; Iota (2007) op.cit.
- ⁷⁸ Alpha (2007) op.cit.
- ⁷⁹ Gamma op.cit.
- ⁸⁰ Delta (2007) op.cit.
- ⁸¹ Eta (2007) op.cit.
- ⁸² Gamma op.cit.
- ⁸³ According to the interview of the senior manager of Theta.

References

- Aberbach, J.D., Dollar, D., & Sokoloff, K.L. (Eds.). (1994). *The role of the state in Taiwan's development*. Armonk, NY: M.E. Sharpe.
- Ackers, P. (2002). Reframing employment relations: The case for neo-pluralism. *Industrial Relations Journal*, 33, 2–19.
- Adler, P.S. (2001). Market, hierarchy, and trust: The knowledge economy and the future of capitalism. *Organisation Science*, 12, 215–234.
- Alchian, A.A., & Demsetz, H. (1972). Production, information costs, and economic organisation. *American Economic Review*, 62, 772–795.
- Amit, R., & Schoemaker, P. (1993). Strategic assets and organisational rent, *Strategic Management Journal*, 14, 33–46.
- Anderson, J.C., Narus, J.A., & van Rossum, W. (2006). Customer value propositions in business markets. *Harvard Business Review*, 84(3), 91–99.
- Andreu, R., & Sieber, S. (2000). Organisational learning and knowledge management: Where is the link? In Y. Malhotra (Ed.), *Knowledge management and business model innovation* (pp. 60–76). London: Idea Group Publishing.
- Andriof, J., & Waddock, S. (2002). Unfolding stakeholder engagement. In J. Andriof, S. Waddock, B. Husted & S. Sutherland (Eds.), *Unfolding stakeholder thinking* (pp. 19–42). Sheffield, UK: Greenleaf Publishing.
- Ansoff, H. I. (1979). *Strategic management*. London: Macmillan.
- Antonacopoulou, E. P., & Méric, J. (2005a). A critique of stake-holder theory: Management science or a sophisticated ideology of control? *Corporate Governance: The International Journal of Effective Board Performance*, 5(2), 22–33.
- Antonacopoulou, E.P., & Méric, J. (2005b). From power to knowledge relationships: Stakeholder interactions as learning partnerships. In M. Bonnafous-Boucher &

- Y. Pesqueux (Eds.), *Stakeholders theory: A European perspectives* (pp. 125–147). London: Palgrave.
- April, K.A. (2002). Guidelines for developing a k-strategy. *Journal of Knowledge Management*, 6, 445–456.
- Argyres, N., & McGahan, A.M. (2002). An interview with Michael Porter. *Academy of Management Executive*, 16(2), 43–52.
- Arrow, K.J. (1974). *The limits of organisation*. New York: Norton.
- Asher, C. C., Mahoney, J. M., & Mahoney, J.T. (2005). Towards a property rights foundation for a stakeholder theory of the firm. *Journal of Management and Governance*, 9, 5–32.
- Ayuso, S., Rodríguez, M. Á., & Ricart, J.E. (2006). Using stakeholder dialogue as a source for new ideas: A dynamic capability underlying sustainable innovation. *Corporate Governance*, 6, 475–490.
- Balmer, J.M.T., & Gray, E.R. (2003). Corporate brands: What are they? What of them? *European Journal of Marketing*, 37, 972–997.
- Barney, J. (1986). Strategic factor markets: Expectations, luck, and business strategy, *Management Science*, 32, 1231–1241.
- Barney, J. B. (1991). Firm resources and sustained competitive advantage. *Journal of Management*, 17, 99–120.
- Barney, J. B. (2001a). Is the resource-based “view” a useful perspective for strategic management research? Yes. *Academy of Management Review*, 26, 41–56.
- Barney, J. B. (2001b). *Gaining and sustaining competitive advantage* (2nd ed). Upper Saddle River, NJ: Prentice Hall.
- Barney, J.B., & Mackey, T.B. (2005). Testing resource-based theory. *Research Methodology in Strategy and Management*, 2, 1–13.

- Barney, J.B. & Wright, P. M. (1998). On becoming a strategic partner: The role of human resources in gaining competitive advantage. *Human Resource Management*, 37, 31–46.
- Barringer, B. R., & Harrison, J. S. (2000). Walking a tightrope: Creating value through interorganisational relationships. *Journal of Management*, 26, 367–403.
- Baum, J. A. C., Calabrese, T., & Silverman, B. S. (2000). Don't go it alone: Alliance network composition and startups' performance in Canadian biotechnology. *Strategic Management Journal*, 21, 267–294.
- Beal, D.J., Goyen, M., & Phillips, P. (2005). Why do we invest ethically? *Journal of Investing*, 14(3), 66–77.
- Bendixen, M., & Abratt, R. (2007). Corporate identity, ethics and reputation in supplier–buyer relationships. *Journal of Business Ethics*, 76, 69–82.
- Benner, M. J., & Tushman, M. L. (2003). Exploitation, exploration, and process management: The productivity dilemma revisited. *Academy of Management Review*, 28, 238–256.
- Berman, S.L., Wicks, A.C., Kotha, S., & Jones, T.M. (1999). Does stakeholder orientation matter? The relationship between stakeholder management models and firm financial performance. *Academy of Management Journal*, 42, 488–506.
- Besanko, D., Dranove, D., & Shanley, M. (2000). *Economics of Strategy* (2nd ed.). New York: John Wiley & Sons.
- Bharadwaj, S.G., Varadarajan, P.R., & Fahy, J. (1993). Sustainable competitive advantage in service industries: A conceptual model and research propositions. *Journal of Marketing*, 57, 83–99.
- Bick, G., Jacobson, M., & Abratt, R. (2003). The corporate identity management process revisited. *Journal of Marketing Management*, 19, 835–855.

- Bloch, H., Madden, G., & Savage, S.J. (2001). Economies of scale and scope in Australian telecommunications. *Review of Industrial Organisation*, 18, 219–227.
- Blyler, M., & Coff, R.W. (2003). Dynamic capabilities, social capital, and rent appropriation: Ties that split pies. *Strategic Management Journal*, 24, 677–686.
- Boatright, J. R. (1994). Fiduciary duties and the shareholder-management relation: Or what's so special about shareholders? *Business Ethics Quarterly*, 4, 393–407.
- Boatright, J.R. (2002). Contractors as stakeholders: Reconciling stakeholder theory with the nexus-of-contracts firm. *Journal of Banking & Finance*, 26, 1837– 1852.
- Boatright, J.R. (2006). What's wrong—and what's right—with stakeholder management, *Journal of Private Enterprise*, 21, 106–130.
- Bohn, R.E. (1995). Noise and learning in semiconductor manufacturing. *Management Science*, 41, 31–42.
- Bontis, N., Crossan, M. M., & Hulland, J. (2002). Managing an organisational learning system by aligning stocks and flows. *Journal of Management Studies*, 39, 437–469.
- Bowman, C., & Ambrosini, V. (2000). Value creation versus value capture: Towards a coherent definition of value in strategy. *British Journal of Management*, 11, 1–15.
- Bowman, C., & Ambrosini, V. (2001). "Value" in the resource-based view of the firm: A contribution to the debate source. *The Academy of Management Review*, 26, 501–502.
- Bowman, C., & Ambrosini, V. (2003). How the resource-based and the dynamic capability views of the firm inform corporate-level strategy, *British Journal of Management*, 14, 289–303.

- Bowman, C., & Ambrosini, V. (2007). Identifying valuable resources. *European Management Journal*, 25, 320–329.
- Brandenburger, A.M., & Stuart, H.W. Jr. (1996). Value-based business strategy. *Journal of Economics & Management Strategy*, 5, 5–24.
- Bridoux, F. (2004). *A resource-base approach to performance and competition: An overview of the connections between resources and competition*, Working paper no. 04/110, Institut d'Administration et de Gestion, Université catholique de Louvain, Belgium.
- Bryman, A. (1989). *Research methods and organisation studies*. London: Unwin Hyman.
- Buchler, J. (1955). *Philosophical writings of Peirce*. New York: Dover Publications.
- Campbell, A., & Alexander, M. (1997). What's wrong with strategy? *Harvard Business Review*, 75(6), 42–51.
- Carlson, F. P. (1990). The long and short of strategic planning. *Journal of Business Strategy*, 11(3), 15–19.
- Carow, K., Heron, R., & Saxton, T. (2004). Do early birds get the returns? An empirical investigation of early-mover advantages in acquisitions. *Strategic Management Journal*, 25, 563–585.
- Carpenter, M.A., Sanders, W.G., & Gregersen, H. B. (2001). Bundling human capital with organisational context: The impact of international assignment experience on multinational firm performance and CEO pay. *Academy of Management Journal*, 44, 493–511.
- Carroll, A. B. (1979). A three-dimensional conceptual model of corporate performance. *Academy of Management Review*, 4, 497–505.
- Carroll, A. B. (1991). The pyramid of corporate social responsibility: Toward the moral management of organisational stakeholders. *Business Horizons*, 34(4), 39–48.

- Carroll, A.B., & Buchholtz, A. K. (2006). *Business & society: Ethics and stakeholder management* (6th ed.). Mason, OH: Thomson/South-Western.
- Caves, R. E., & Porter, M. (1977). From entry barriers to mobility barriers: Conjectural decisions and contrived deterrence to new competition. *Quarterly Journal of Economics*, 91, 241–262.
- Cennamo, C., Berrone, P., & Gomez-Mejia, L. (2009). Does stakeholder management have a dark side? *Journal of Business Ethics*, 89, 491–507.
- Chaharbaghi, K., & Lynch, R. (1999). Sustainable competitive advantage: Towards a dynamic resource-based strategy. *Management Decision*, 37, 45–50.
- Cheung, S.S.N. (1983). The contractual nature of the firm. *Journal of Law and Economics*, 26, 1–22.
- Christensen, C.M. (2001). The past and future of competitive advantage. *MIT Sloan Management Review*, 42(2), 105–109.
- Clarkson, M.B.E. (1995). A stakeholder framework for analysing and evaluating corporate social performance. *Academy of Management Review*, 20, 92–117.
- Coase, R.H. (1937). The nature of the firm. *Economica*, 4, 336–405.
- Coase, R.H. (1960). The problem of social cost. *Journal of Law and Economics*, 3, 1–44.
- Coff, R.W. (1999). When competitive advantage doesn't lead to performance: The resource-based view and stakeholder bargaining power, *Organisation Science*, 10, 119–133.
- Coff, R.W. (2003). The emergent knowledge-based theory of competitive advantage: An evolutionary approach to integrating economics and management an integrated conceptual framework, *Managerial and Decision Economics*, 24, 245–51.

- Cohen, W.M., & Levinthal, D. A. (1990). Absorptive capacity: A new perspective on learning and innovation. *Administrative Science Quarterly*, 35, 128–152.
- Coleman, J.S. (1990). *Foundations of social theory*. Cambridge, MA: Harvard University Press.
- Collis, D. (1994). How valuable are organisational capabilities? *Strategic Management Journal*, 15, 143–52.
- Cook, S., & Yanow, D. (1996). Culture and organisational learning. In M. Cohen & L. Sproull (Eds.), *Organisational learning* (pp. 430–59). Thousand Oaks, CA: Sage Publications.
- Cool, K., Costa, L.A., & Dierickx, I. (2002). Constructing competitive advantage. In A. Pettigrew, H. Tomas & R. Whittington (Eds.), *Handbook of strategy and management* (pp. 55–71). London: Sage Publications.
- Cornell, B., & Shapiro, A.C. (1987). Corporate stakeholders and corporate finance. *Financial Management*, 16, 5–14.
- Corsten, D., & Kumar, N. (2005). Do suppliers benefit from collaborative relationships with large retailers? An empirical investigation of efficient consumer response adoption. *Journal of Marketing*, 69(3), 80–94.
- Creswell, J.W. (2007). *Qualitative inquiry and research design: Choosing among five approaches* (2nd ed.). Thousand Oaks, CA: Sage Publications.
- D'Aveni, R.A. (1994). *Hypercompetition: Managing the dynamics of strategic manoeuvring*. New York: The Free Press.
- Daellenbach, U. S., & Rouse, M.J. (2007). Ten years after: Some suggestions for future resource-based view research. *Research Methodology in Strategy and Management*, 4, 3–18.
- Dahlman, C. (2008). Technology, globalisation, and international competitiveness: Challenges for developing countries. In D. O'Connor & M. Kjölleström (Eds.),

- Industrial development for the 21st century* (pp. 29–84). New York: United Nations, Department of Economic and Social Affairs.
- Das, T. K., & Teng, B.-S. (2000). A resource-based theory of strategic alliances. *Journal of Management*, 26, 31–61.
- Day, G.S., & Wensley, R. (1988). Assessing advantage: a framework for diagnosing competitive superiority. *Journal of Marketing*, 52(2), 1–20.
- Deeds, D.L., Decarolis, D., & Coombs, J. (2000). Dynamic capabilities and new product development in high technology ventures: An empirical analysis of new biotechnology firms. *Journal of Business Venturing*, 15, 211–229.
- Dentchev, N.A. (2009). To what extent is business and society literature idealistic? *Business & Society*, 48, 10–38.
- Denzin, N. K. & Lincoln, Y. S. (2005). Introduction: The discipline and practice of qualitative research. In N. K. Denzin & Y. S. Lincoln, (Eds.), *The SAGE handbook of qualitative research* (pp. 1–32). Thousand Oaks, CA: Sage Publications.
- Dierickx, I., & Cool, K. (1989). Asset stock accumulation and sustainability of competitive advantage, *Management Science*, 35, 1504–1513.
- Doh, J. P. (2000). Entrepreneurial privatisation strategies: Order of entry and local partner collaboration as sources of competitive advantage. *Academy of Management Review*, 25, 551–571.
- Dollar, D. (1992). Outward-oriented developing economies really do grow more rapidly: Evidence from LDCs, 1976–1985. *Economic Development and Cultural Change*, 40, 523–544.
- Dolphin, R.R. (2004a). Corporate reputation—a value creating strategy. *Corporate Governance*, 4(3), 77–92.
- Dolphin, R.R. (2004b). The strategic role of investor relations. *Corporate Communications: An International Journal*, 9, 25–42.

- Donaldson, T., & Preston, L. (1995). The stakeholder theory of the corporation: Concepts, evidence, and implications. *Academy of Management Review*, 20, 65–91.
- Douglas, T., & Ryman, J. (2003). Understanding competitive advantage in the general hospital industry: Evaluating strategic competencies. *Strategic Management Journal*, 24, 333–347.
- Dowling, G.R. (1986). Managing your corporate images. *Industrial Marketing Management*, 15, 109–115.
- Drucker, P.F. (1993). *Post-capitalist society*. New York: HarperBusiness.
- Dubois, A., & Gadde, L.-E. (2002). Systematic combining: An abductive approach to case research. *Journal of Business Research*, 55, 553–560.
- Dutton, J.E., & Dukerich, J.M. (1991). Keeping an eye on the mirror: Image and identity in organisational adaptation. *Academy of Management Journal*, 34, 517–554.
- Dyer, J. H. (1996). Specialised supplier networks as a source of competitive advantage: Evidence from the auto industry. *Strategic Management Journal*, 17, 271–292.
- Dyer, J., & Chu, W. (2003). The role of trustworthiness in reducing transaction costs and improving performance: Empirical evidence from the United States, Japan and Korea. *Organisation Science*, 14, 57–68.
- Dyer, J.H., Kale, P., & Singh, H. (2001). How to make strategic alliances work: Developing a dedicated alliance function is key to building the expertise needed for competitive advantage. *Sloan Management Review*, 42(4), 37–43.
- Dyer, J.H., & Singh, H. (1998). The relational view: Cooperative strategy and sources of interorganisational competitive advantage, *Academy of Management Review*, 23, 660–679.

- Dyer, J.H., & Singh, H., & Kale, P. (2008). Splitting the pie: Rent distribution in alliances and networks. *Managerial & Decision Economics*, 29, 137–148.
- Edwards, S. (1993). Openness, trade liberalisation, and growth in developing countries. *Journal of Economic Literature*, 31, 1358–1393.
- Eesley, C., & Lenox, M. J. (2006). Firm responses to secondary stakeholder action. *Strategic Management Journal*, 27, 765–781.
- Egels-Zandén, N., & Sandberg, J. (2010). Distinctions in descriptive and instrumental stakeholder theory: A challenge for empirical research. *Business Ethics: A European Review*, 19, 35–49.
- Eisenhardt, K. M. (1989). Building theories from case study research. *Academy of Management Review*, 14, 532–550.
- Eisenhardt, K. M. (1991). Better stories and better constructs: The case for rigor and comparative logic. *Academy of Management Review*, 16, 620–627.
- Eisenhardt, K. M., & Martin, J. A. (2000). Dynamic capabilities: What are they? *Strategic Management Journal*, 21, 1105–1021.
- Evan, W., & Freeman, R. E. (1993). A stakeholder theory of the modern corporation: Kantian capitalism. In T. Beauchamp & N. Bowie (Eds.), *Ethical theory and business* (4th ed.) (pp. 75–84). Englewood Cliffs, NJ: Prentice Hall.
- Eweje, G. (2007). Strategic partnerships between MNEs and civil society: The post WSSD perspectives. *Sustainable Development Journal*, 15, 15–27.
- Eweje, G. & Bentley, T. (2006). *CSR and staff retention in New Zealand companies: A literature review*. Working paper 2006, No. 6, Department of Management & International Business, Massey University, Auckland, New Zealand.
- Eweje, G., & Palakshappa, N. (2009). Business partnerships with nonprofits: Working to solve mutual problems in New Zealand. *Corporate Social Responsibility and Environmental Management*, 16, 337–351.

References

- Fahy, J. (2002). A resource-based analysis of sustainable competitive advantage in a global environment. *International Business Review*, 11, 57–77.
- Fama, E.F., & Jensen, M.C. (1983). Separation of ownership and control. *Journal of Law and Economics*, 26, 301–326.
- Farjoun, M. (1998). The independent and joint effect of the skill and physical bases of relatedness in diversification. *Strategic Management Journal*, 19, 611–630.
- Farjoun, M. (2002). Towards an organic perspective on strategy. *Strategic Management Journal*, 23, 561–594.
- Fassin, Y. (2009). The stakeholder model refined. *Journal of Business Ethics*, 84, 113–135.
- Faulkner, D. O. (2000). Trust and control: Opposing or complementary functions? In D. O. Faulkner & M. de Rond (Eds.), *Cooperative strategy* (pp. 341–361). Oxford, UK: Oxford University Press.
- Fiengenbaum, A., & Karnani, A. (1991). Output flexibility-A competitive advantage for small firms. *Strategic Management Journal*, 12, 101–114.
- Flint, G.F. (2000). What is the meaning of competitive advantage? *Advances in Competitiveness Research*, 8, 121–129.
- Fombrun, C. J. (1996). *Reputation: Realising value from the corporate image*. Boston: Harvard Business School Press.
- Fombrun, C.J., & Shanley, M. (1990). What's in a name? Reputation-building and corporate strategy. *Academy of Management Journal*, 33, 233–258.
- Fombrun, C. J., & van Riel, C. B. M. (1997). The reputational landscape. *Corporate Reputation Review*, 1(2), 5–13.
- Foss, N. J. (1994). The theory of the firm: The Austrians as precursors and critics of contemporary theory. *Review of Austrian Economics*, 7, 31–65.

- Foss, N.J. (1998). The resource-based perspective: An assessment and diagnosis of problems. *Scandinavian Journal of Management*, 14, 133–149.
- Foss, K., & Foss, N. J. (2005). Resources and transaction costs: How property rights economics furthers the resource-based view. *Strategic Management Journal*, 26, 541–553.
- Foss, K., Foss, N. J., & Klein, P. G. (2007). Original and derived judgment: An entrepreneurial theory of economic organisation. *Organisation Studies*, 28, 1–20.
- Foss, K., Foss, N.J., Klein, P.G., & Klein, K. (2007). The entrepreneurial organisation of heterogeneous capital. *Journal of Management Studies*, 44, 1165–1186.
- Frederick, W. C. (1994). From CSR1 to CSR2: The maturing of business-and-society thought. *Business & Society*, 33, 150–164.
- Freeman, R.E. (1984). *Strategic management: A stakeholder approach*. Boston: Pitman.
- Freeman, R. E. (1994). The politics of stakeholder theory: Some future directions. *Business Ethics Quarterly*, 4, 409–421.
- Freeman, R.E. (1997). A stakeholder theory of the modern corporation. In T. L. Beauchamp & N. Bowie (Eds.), *Ethical Theory and Business* (5th ed.) (pp. 66–76). Upper Saddle River, NJ: Prentice Hall.
- Freeman, R. E. (1999). Divergent stakeholder theory source. *The Academy of Management Review*, 24, 233–236.
- Freeman, R.E., & Evan, W.M. (1990). Corporate governance: A stakeholder interpretation. *Journal of Behavioural Economics*, 19, 337–359.
- Freeman, R.E., Harrison, J.S., & Wicks, A.C. (2007). *Managing for stakeholders: Survival, reputation, and success*. New Haven, CT: Yale University Press.

- Freeman, R.E. & Liedtka, J. (1997). Stakeholder capitalism and the value chain. *European Management Journal*, 15, 286–296.
- Freeman, R.E., & McVea, J. (2001). A stakeholder approach to strategic management. In M.A. Hitt, R.E. Freeman & J. S. Harrison (Eds.), *The Blackwell handbook of strategic management* (pp. 189–207). Malden, MA: Blackwell Publishers.
- Freeman, R. E., Martin, K., & Parmar, B. (2007). Stakeholder capitalism. *Journal of Business Ethics*, 74, 303–314.
- Freeman, R. E., & Phillips, R. A. (2002). Stakeholder theory: A libertarian defence. *Business Ethics Quarterly*, 12, 331–349.
- Freeman, R. E., & Reed, D. L. (1983). Stockholders and stakeholders: A new perspective on corporate governance. *California Management Review*, 25(3), 88–106.
- Freeman, R. E., Wicks, A.C., & Parmar, B. (2004). Stakeholder theory and “The corporate objective revisited.” *Organisation Science*, 15, 364–369.
- Frooman, J. (1999). Stakeholder influence strategies. *Academy of Management Review*, 24, 191–205.
- Gabbay, S.M., & Leenders, R.Th.A.J. (1999). CSC: The Structure of advantage and disadvantage. In R.Th.A.J.Leenders & S.M.Gabbay (Eds.), *Corporate social capital and liability* (pp. 1–14). Boston: Kluwer Academic Publishers.
- Ghemawat, P. (1986). Sustainable advantage. *Harvard Business Review*, 64(5), 53–58.
- Ghemawat, P. (1991). *Commitment: The dynamic of strategy*, New York: The Free Press.
- Ghemawat, P. (2001). Anticipating competitive and cooperative dynamics. In P. Ghemawat (Ed.), *Strategy and the business landscape: Core concepts* (pp. 75–110). Upper Saddle River, NJ: Prentice Hall.

- Ghemawat, P., & Pisano, G.P. (2001). Building and sustaining success. In P. Ghemawat (Ed.), *Strategy and the business landscape: Core concepts* (pp. 111–134), Upper Saddle River, NJ: Prentice Hall.
- Ghemawat, P., & Rivkin, J. (2001). Creating competitive advantage. In P. Ghemawat (Ed.), *Strategy and the business landscape: Core concepts* (pp. 49–74), Upper Saddle River, NJ: Prentice Hall.
- Gherardi, S., Nicolini, D., & Odella, F. (1998). Toward a social understanding of how people learn in organisations. *Management Learning*, 29, 273–97.
- Gilbert, R.J., & Harris, R.G. (1984). Competition with lumpy investment. *RAND Journal of Economics*, 15, 197–212.
- Goodpaster, K. E. (1991). Business ethics and stakeholder analysis. *Business Ethics Quarterly*, 1, 53–73.
- Gotsi, M., & Wilson, A.M. (2001). Corporate reputation: Seeking a definition. *Corporate Communications: An International Journal*, 6, 24–30.
- Grandori, A. (2005). Neither stakeholder nor shareholder ‘theories’: How property right and contract theory can help in getting out of the dilemma. *Journal of Management and Governance*, 9, 41–46.
- Grant, R. M. (1996). Toward a knowledge-based theory of the firm. *Strategic Management Journal*, 17, 109–22.
- Gregory, A. (2007). Involving stakeholders in developing corporate brands: The communication dimension. *Journal of Marketing Management*, 23, 59–73.
- Griffith, D., & Harvey, M. (2001). A resource perspective of global dynamic capabilities. *Journal of International Business Studies*, 32, 597–606.
- Grossman, S. J., & Hart, O.D. (1986). The costs and benefits of ownership: A theory of vertical and lateral integration. *Journal of Political Economy*, 94, 691–719.

- Gulati, R. (1999). Network location and learning: The influence of network resources and firm capabilities on alliance formation. *Strategic Management Journal*, 20, 397–420.
- Gulati, R., Lavie, D., & Singh, H. (2009). The nature of partnering experience and the gains from alliances. *Strategic Management Journal*, 30, 1213–1233.
- Gulati, R., Nohria, N., & Zaheer, A. (2000). Strategic networks. *Strategic Management Journal*, 21, 203–215.
- Gummesson, E. (2000). *Qualitative methods in management research*. Thousand Oaks, CA: Sage Publications.
- Gummesson, E. (2006). Qualitative research in management: Addressing complexity, context and persona. *Management Decision*, 44, 167–179.
- Ha, H., & Rothaermel, F.T. (2005). The effect of general and partner-specific alliance experience on joint R&D project performance. *Academy of Management Journal*, 48, 332–345.
- Halal, W.E. (2001). The collaborative enterprise: A stakeholder model uniting profitability and responsibility. *Journal of Corporate Citizenship*, Summer, 27–42.
- Hall, R. (1992). The strategic analysis of intangible resources. *Strategic Management Journal*, 13, 135–144.
- Hall, J.K., & Martin, M.J.C. (2005). Disruptive technologies, stakeholders and the innovation value-added chain: A framework for evaluating radical technology development. *R & D Management*, 35, 273–284.
- Hall, J. K., & Vredenburg, H. (2003). The challenges of innovating for sustainable development. *MIT Sloan Management Review*, 45(1), 61–68.
- Hall, J., & Vredenburg, H. (2005). Managing stakeholder ambiguity. *MIT Sloan Management Review*, 47(1), 11–13.

- Hamel, G., & Prahalad, C. K. (1989). Strategic intent. *Harvard Business Review*, 67(3), 63–78.
- Hamel, G., & Prahalad, C. K. (1991). Corporate imagination and expeditionary marketing. *Harvard Business Review*, 69(4), 81–92.
- Handfield, R. B., Krause, D. R., Scannell, T. V., & Monczka, R. M. (2000). Avoid the pitfalls in supplier development. *Sloan Management Review*, 41(2), 37–49.
- Hanson, N. R. (1958). *Patterns of discovery: An inquiry into the conceptual foundations of science*. Cambridge: Cambridge University Press.
- Hanson, N. R. (1960). Is there a logic of scientific discovery. *Australasian Journal of Philosophy*, 38, 91–106.
- Hardin, G. (1968). The tragedy of the commons. *Science*, 162, 1243–1248.
- Harman, G. (1965). The inference to the best explanation, *Philosophical Review*, 74, 88–95.
- Harrison, J.S., Bosse, D.A., & Phillips, R.A. (2010). Managing for stakeholders, stakeholder utility functions, and competitive advantage. *Strategic Management Journal*, 31, 58–74.
- Harrison, J.S., & Freeman, R. E. (1999). Stakeholders, social responsibility, and performance: Empirical evidence and theoretical perspectives. *Academy of Management Journal*, 42, 479–485.
- Harrison, J.S., & St. John, C.H. (1996). Managing and partnering with external stakeholders. *Academy of Management Executive*, 10(2), 46–60.
- Harrison, J.S., & St. John, C.H. (1997). *Strategic management of organisations and stakeholders*. Cincinnati, OH: South-Western College Pub.
- Hart, O.D. (1988). Incomplete contracts and the theory of the firm. *Journal of Law, Economics, and Organisation*, 4, 119–139.

- Hart, S.L. (1995). A natural-resource-based view of the firm. *Academy of Management Review*, 20, 986–1014.
- Hart, S.L., & Sharma, S. (2004). Engaging fringe stakeholders for competitive imagination. *Academy of Management Executive*, 18(1), 7–18.
- Harting, T.R. Harmeling, S.S., & Venkataraman, S. (2006). Innovative stakeholder relations: When “ethics pays” (and when it doesn’t). *Business Ethics Quarterly*, 16, 43–68.
- Hatch, N.W., & Dyer, J.H. (2004). Human capital and learning as a source of sustainable competitive advantage. *Strategic Management Journal*, 25, 1155–1178.
- Hatch, N.W., & Mowery, D.C. (1998). Process innovation and learning by doing in semiconductor manufacturing. *Management Science*, 44, 1461–1477.
- Hawawini, G., Subramanian, V., & Verdin, P. (2003). Is performance driven by industry- or firm-specific factors? A new look at the evidence. *Strategic Management Journal*, 24, 1–16.
- Helfat, C.E., & Peteraf, M. (2003). The dynamic resource-based view: Capability lifecycles. *Strategic Management Journal*, 24, 997–1010.
- Helfat, C.E., & Raubitschek, R.S. (2000). Product sequencing: Co-evolution of knowledge, capabilities and products. *Strategic Management Journal*, 21, 961–979.
- Hervas-Oliver, J.-L., & Albors-Garrigos, J. (2009). The role of the firm's internal and relational capabilities in clusters: When distance and embeddedness are not enough to explain innovation. *Journal of Economic Geography*, 9, 263–283.
- Heugens, P.P.M.A.R., van den Bosch, F. A. J., & van Riel, C.B.M. (2002). Stakeholder integration: Building mutually enforcing relationships. *Business & Society*, 41, 36–60.

- Heugens, P.P.M.A.R., & van Oosterhout, H. (2002). The confines of stakeholder management: Evidence from the Dutch manufacturing sector. *Journal of Business Ethics*, 40, 387–403.
- Hill, C.W. L., & Jones, T.M. (1992). Stakeholder-agency theory. *Journal of Management Studies*, 29, 131–154.
- Hitt, M.A., Keats, B.W., & DeMarie, S.M. (1998). Navigating in the new competitive landscape: Building strategic flexibility and competitive advantage in the 21st century. *Academy of Management Executive*, 12(4), 22–42.
- Ho, P. (2008). Green industries, clean environment? China, Vietnam, Taiwan and Singapore compared. In P. Ho (Ed.), *Leapfrogging development in emerging Asia: Caught between greening and pollution* (pp. 1–18), New York: Nova Science Publishers.
- Holmström, B. (1979). Moral hazard and observability. *Bell Journal of Economics*, 10, 74–91.
- Holmström, B., & Milgrom, P. (1994). The firm as an incentive system. *American Economic Review*, 84, 972–991.
- Hsing, Y. (1999). Trading companies in Taiwan's fashion shoe networks. *Journal of International Economics*, 48, 101–120.
- Hsueh, L., Hsu, C., & Perkins, D. H. (2001). *Industrialisation and the state: The changing role of the Taiwan government in the economy, 1945–1998*. Cambridge, MA: Harvard Institute for International Development.
- Huang, C. (2002). The politics of reregulation: Globalisation, democratisation, and the Taiwanese labour movement. *The Developing Economies*, 40, 305–326.
- Huber, G. P., & van de Ven, A. H. (Eds.). (1995). *Longitudinal field research methods: Studying processes of organisational change*. Thousand Oaks, CA: Sage Publications.

- Huff, L., & Kelley, L. (2003). Levels of organisational trust in individualist versus collectivist societies: A seven-nation study. *Organisation Science*, 14, 81–90.
- Hunt, S.D., & Morgan, R.M. (1995). The comparative advantage theory of competition. *Journal of Marketing*, 59(2), 1–15.
- Illia, L., & Lurati, F. (2006). Stakeholder perspectives on organisational identity: Searching for a relationship approach. *Corporate Reputation Review*, 8, 293–304.
- Ireland, R. D., Hitt, M.A., & Vaidyanath, D. (2002). Alliance management as a source of competitive advantage. *Journal of Management*, 28, 413–446.
- Janney, J.J., & Folta, T.B. (2006). Moderating effects of investor experience on the signaling value of private equity placements. *Journal of Business Venturing*, 21, 27–44.
- Jarzabkowski, P. (2005). *Strategy as practice: An activity-based approach*. London: Sage Publications.
- Javidan, M. (1998). Core competence: What does it mean in practice? *Long Range Planning*, 31, 60–71.
- Jawahar, I., & McLaughlin, G. (2001). Towards a descriptive stakeholder theory: An organisational lifecycle approach. *Academy of Management Review*, 26, 397–414.
- Jensen, M.C. (1983). Organisation theory and methodology. *Accounting Review*, 50, 319–339.
- Jensen, M.C. (2002). Value maximisation, stakeholder theory, and the corporate objective function. *Business Ethics Quarterly*, 12, 235–256.
- Jensen, M.C., & Meckling, W. (1976). Theory of the firm: Managerial behaviour, agency costs and ownership structure. *Journal of Financial Economics*, 3, 305–360.

- Johnson, G., Melin, L., & Whittington, R. (2003). Guest editors' introduction: Micro strategy and strategising: Towards an activity-based view. *Journal of Management Studies*, 40, 3–22.
- Jones, G.R., & Hill, C.W.L. (1988). Transaction cost analysis of strategy-structure choice. *Strategic Management Journal*, 9, 159–172.
- Jones, T. M. (1995). Instrumental stakeholder theory: A synthesis of ethics and economics. *Academy of Management Review*, 20, 404–437.
- Jones, T. M., & Wicks, A.C. (1999). Convergent stakeholder theory. *Academy of Management Review*, 24, 206–221.
- Jones, T.M., Felps, W., & Bigley, G.A. (2007). Ethical theory and stakeholder related decisions: The role of stakeholder culture. *Academy of Management Review*, 32, 137–155.
- Jørgensen, J. J. (2008). Michael Porter's contribution to strategic management. *BASE – Revista de Administração e Contabilidade da Unisinos*, 5, 236–238.
- Judd, C. M., Smith, E. R., & Kidder, L. H. (1991). *Research methods in social relations*. Fort Worth, TX: Halt, Rinehart and Winston.
- Kale, P., Dyer, J.H., & Singh, H. (2002). Alliance capability, stock market response, and long-term alliance success: The role of the alliance function. *Strategic Management Journal*, 23, 747–767.
- Kay, J. A. (1993). *Foundations of corporate success: How business strategies add value*. Oxford, UK: Oxford University Press.
- Key, S. (1999). Toward a new theory of the firm: A critique of stakeholder “theory.” *Management Decision*, 37, 317–328.
- Khanna, T., Gulati, R., & Nohria, N. (1998). The dynamics of learning alliances: Competition, cooperation, and relative scope. *Strategic Management Journal*, 19, 193–210.

- Kilbourn, B. (2006). The qualitative doctoral dissertation proposal. *Teachers College Record*, 108, 529–576.
- Kim, W.C., & Mauborgne, R. (1997). Value innovation: The strategic logic of high growth. *Harvard Business Review*, 75(1), 103–112.
- Kim, C., & Song, J. (2007). Creating new technology through alliances: An empirical investigation of joint patents. *Technovation*, 27, 461–470.
- King, A. W. (2007). Disentangling interfirm and intrafirm causal ambiguity: A conceptual model of causal ambiguity and sustainable competitive advantage. *Academy of Management Review*, 32, 156–178.
- King, A. W., & Zeithaml, C. (2001). Competencies and firm performance: Examining the causal ambiguity paradox. *Strategic Management Journal*, 22, 75–99.
- Klein, J. (2002). Beyond competitive advantage, *Strategic Change*, 11, 317–327.
- Kochan, T.A., & Rubinstein, S.A. (2000). Toward a stakeholder theory of the firm: The Saturn partnership. *Organisation science*, 11, 367–386.
- Kogut, B. (2000). The network as knowledge: Generative rules and the emergence of structure. *Strategic Management Journal*, 21, 405–425.
- Kraaijenbrink, J., Spender, J.-C., & Groen, A. J. (2010). The resource-based view: A review and assessment of its critiques. *Journal of Management*, 36, 349–372.
- Kraatz, M. S. (1998). Learning by association? Interorganisational networks and adaptation to environmental change. *Academy of Management Journal*, 41, 621–643.
- Kvale, S. (1995) The social construction of validity. *Qualitative Inquiry*, 1, 19–40.
- Kvale, S. (1996). *Interviews: An introduction to qualitative research interviewing*. Thousand Oaks, CA: Sage Publications.

- Kwon, I-W. G., & Suh, T. (2005). Trust, commitment and relationships in supply chain management: A path analysis. *Supply Chain Management: An International Journal*, 10, 26–33.
- Kyriakopoulos, K., & de Ruyter, K. (2004). Knowledge stocks and information flows in new product development. *Journal of Management Studies*, 41, 1469–1498.
- Lado, A.A., Boyd, N.G., & Hanlon, S.C. (1997). Competition, cooperation, and the search for economic rents: A syncretic model. *Academy of Management Review*, 22, 110–141.
- Lampe, M. (2001). Mediation as an ethical adjunct of stakeholder theory. *Journal of Business Ethics*, 31, 165–173.
- Langley, A. (1999). Strategies for theorising from process data. *Academy of Management Review*, 24, 691–710.
- Laplume, A.O., Sonpar, K., & Litz, R. A. (2008). Stakeholder theory: Reviewing a theory that moves us. *Journal of Management*, 34, 1152–1189.
- Lavie, D. (2006). The competitive advantage of interconnected firms: An extension of the resource-based view. *Academy of Management Review*, 31, 638–658.
- Lavie, D. (2007). Alliance portfolios and firm performance: A study of value creation and appropriation in the U.S. software industry. *Strategic Management Journal*, 28, 1187–1212.
- Lawrence, T.B., Mauws, M.K., Dyck, B., & Kleysen, R.F. (2005). The politics of organisational learning: Integrating power into the 4i framework. *Academy of Management Review*, 30, 180–191.
- Lazzarini, S. G., Miller, G. J., & Zenger, T. R. (2004). Order with some law: Complementarity versus substitution of formal and informal arrangements. *Journal of Law, Economics, & Organisation*, 20, 261–298.
- Lea, D. (2004). The imperfect nature of corporate responsibilities to stakeholders. *Business Ethics Quarterly*, 14, 201–217.

- Leana, C. R., & Rousseau, D. (2000). *Relational wealth: The advantages of stability in a changing economy*. New York: Oxford University Press.
- Leana, C.R., & van Buren, H.J.V. (1999). Organisational social capital and employment practices. *Academy of Management Review*, 24, 538–555.
- Leiblein, M.J., Reuer, J.J., & Dalsace, F. (2002). Do make or buy decisions matter? The influence of organisational governance on technological performance. *Strategic Management Journal*, 23, 817–833.
- Lengnick-Hall, C. A., & Wolff, J. A. (1999). Similarities and contradictions in the core logic of three strategy research streams. *Strategic Management Journal*, 20, 1109–1132.
- Lepak, D. P., Smith, K. G., & Taylor, M. S. (2007). Value creation and value capture: A multilevel perspective. *Academy of Management Review*, 32, 180–194.
- Letza, S., Sun, X., & Kirkbride, J. (2004). Shareholding versus stakeholding: A critical review of corporate governance. *Corporate Governance: An International Review*, 12, 242–262.
- Levinthal, D., & March, J. (1993). The myopia of learning. *Strategic Management Journal*, 14, Special issue, 95–112.
- Li, S., Ragu-Nathan, B., Ragu-Nathan, T.S., & Rao, S. S. (2006). The impact of supply chain management practices on competitive advantage and organisational performance. *Omega*, 34, 107–124.
- Licht, A.N. (2004). The maximands of corporate governance: A theory of values and cognitive style. *Delaware Journal of Corporate Law*, 29, 649–746.
- Lieberman, M. B., & Montgomery, D. B. (1988). First-mover advantages. *Strategic Management Journal*, 9, Summer special issue, 41–58.
- Lieberman, M. B., & Montgomery, D. B. (1998). First-mover (dis)advantages: Retrospective and link with the resource-based view. *Strategic Management Journal*, 19, 1111–1125.

- Lippman, S., & Rumelt, R. (1982). Uncertain imitability: An analysis of interfirm differences in efficiency under competition. *The Bell Journal of Economics*, 13, 418–438.
- Lippman, S., & Rumelt, R. (2003a). The payments perspective: Micro-foundations of resource analysis. *Strategic Management Journal*, 24, 903–927.
- Lippman, S., & Rumelt, R. (2003b). A bargaining perspective on resource advantage. *Strategic Management Journal*, 24, 1069–1086.
- Lipton, P. (1991). *Inference to the best explanation*. New York: Routledge.
- Lockett, A., Thompson, S., & Morgenstern, U. (2009). The development of the resource-based view of the firm: A critical appraisal. *International Journal of Management Reviews*, 11, 9–28.
- López-Gamero, M. D., Claver-Cortés, E., & Molina-Azorín, J.F. (2008). Complementary resources and capabilities for an ethical and environmental management: A qual/quant study. *Journal of Business Ethics*, 82, 701–732.
- Lozano, J.M. (2005). Towards the relational corporation: From managing stakeholder relationships to building stakeholder relationships (waiting for Copernicus). *Corporate Governance*, 5(2), 60–77.
- Lui, S.S., & Ngo, H.-Y. (2004). The role of trust and contractual safeguards on cooperation in non-equity alliances. *Journal of Management*, 30, 471–485.
- Luo, Y. (2002). Contract, cooperation, and performance in international joint ventures. *Strategic Management Journal*, 23, 903–919.
- McEvily, S. K., Das, S., & McCabe, K. (2000). Avoiding competence substitution through knowledge sharing. *Academy of Management Review*, 25, 294–311.
- McGahan, A., & Porter, M. (1997). How much does industry matter, really? *Strategic Management Journal*, 18, Special issue, 15–30.

- McPhee, W., & Wheeler, D. (2006). Making the case for the added-value chain. *Strategy & Leadership*, 34(4), 39–46.
- McVea, J., & Freeman, E. (2005). A names-and-faces approach to stakeholder management: How focussing on stakeholders as individuals can bring ethics and entrepreneurial strategy together. *Journal of Management Inquiry*, 14, 57–70.
- Mahon, J.F., & Wartick, S.L. (2003). Dealing with stakeholders: How reputation, credibility and framing influence the game. *Corporate Reputation Review*, 6, 19–35.
- Mahon, J.F., Heugens, P.P., & Lamertz, K. (2004). Social networks and non-market strategy. *Journal of Public Affairs*, 4, 170–189.
- Mahoney, J. T. (1995). The management of resources and the resource of management. *Journal of Business Research*, 33, 91–101.
- Makadok, R. (1998). Can first-mover and early-mover advantages be sustained in an industry with low barriers to entry/ imitation? *Strategic Management Journal*, 19, 683–696.
- Makadok, R. (2001). Toward a synthesis of the resource-based and dynamic-capability views of rent creation. *Strategic Management Journal*, 22, 387–401.
- Makni, R., Francoeur, C., & Bellavance, F. (2009). Causality between corporate social performance and financial performance: Evidence from Canadian firms. *Journal of Business Ethics*, 89, 409–422.
- March, J. (1991). Exploration and exploitation in organisational learning. *Organisation Science*, 2, 71–87.
- March, J. G., & Simon, H. (1958). *Organisations*. New York: John Wiley.
- March, J.G., & Sutton, R.I. (1997). Organisational performance as a dependent variable. *Organisation Science*, 8, 698–706.

References

- Marcoux, A.M. (2003). A fiduciary argument against stakeholder theory, *Business Ethics Quarterly*, 13, 1–24.
- Margolis, J. D., & Walsh, J. P. (2003). Misery loves companies: Rethinking social initiatives by business. *Administrative Science Quarterly*, 48, 268–305.
- Martin-de-Castro, G., Navas-Lopez, J.E., Lopez-Saez, P., & Alama-Salazar, E. (2006). Organisational capital as competitive advantage of the firm. *Journal of Intellectual Capital*, 7, 324–337.
- Martinez, R.J., & Norman, P.M. (2004). Whither reputation? The effects of different stakeholders. *Business Horizons*, 47(5), 5–32.
- Mason, R. O., & Mitroff, I. I. (1981). *Challenging strategic planning assumptions*. New York: John Wiley.
- Mata, F.J., Fuerst, W.L., & Barney, J.B. (1995). Information technology and sustained competitive advantage: A resource-based analysis. *MIS Quarterly*, 19, 487–505.
- Mathews, J.A. (2003). Strategising by firms in the presence of markets for resources. *Industrial and Corporate Change*, 12, 157–1193.
- Mellewigt, T., Madhok, A., & Weibel, A. (2007). Trust and formal contracts in interorganisational relationships – substitutes and complements. *Managerial and Decision Economics*, 28, 833–847.
- Mesquita, L., Anand, J., & Brush, T.H. (2008). Comparing the resource-based and relational views: Knowledge transfer and spillover in vertical alliances. *Strategic Management Journal*, 29, 913–941.
- Miles, M. B., & Huberman, A. M. (1994). *Qualitative data analysis: An expanded sourcebook*. Thousand Oaks, CA: Sage Publications.
- Mintzberg, H. (1994). *The rise and fall of strategic planning*. Englewood Cliffs, NJ: Prentice Hall.

- Mitchell, R.K., Agle, B.R., & Wood, D.J. (1997). Toward a theory of stakeholder identification and salience: Defining the principle of who and what really counts. *Academy of Management Review*, 22, 853–886.
- Molina, J. (1999). On relational view. *Academy of Management Review*, 24, 184–185.
- Moore, G. (1999). Tinged shareholder theory: Or what's so special about stakeholders? *Business Ethics: A European Review*, 8, 117–127.
- Moore, G. (2001). Corporate social and financial performance: An investigation in the U.K. supermarket industry. *Journal of Business Ethics*, 34, 299–315.
- Morgan, G., & Smircich, L. (1980). The case for qualitative research. *Academy of Management Review*, 5, 491–500.
- Morgan, R.M., & Hunt, S.D. (1994). The commitment-trust theory of relationship marketing. *Journal of Marketing*, 58(3), 20–38.
- Mosakowski, E. (1997). Strategy making under causal ambiguity: Conceptual issues and empirical evidence. *Organisation Science*, 8, 414–442.
- Nahapiet, J., & Ghoshal, S. (1998). Social capital, intellectual capital, and the organisational advantage. *Academy of Management Review*, 23, 242–266.
- Nguyen, Q.T.N., Neck, P.A., & Nguyen, T.H. (2009). The critical role of knowledge management in achieving and sustaining organisational competitive advantage. *International Business Research*, 3(2), 1–16.
- Noblit, G.W., & Hare, R. D. (1988). *Meta-ethnography: Synthesising qualitative studies*. Newbury Park, CA: Sage Publications.
- Nonaka, I. (1994). A dynamic theory of organisational knowledge creation. *Organisation Science*, 5, 14–37.
- Nonaka, I., Toyama, R., & Nagata, A. (2000). A firm as a knowledge-creating entity: A new perspective on the theory of the firm. *Industrial and corporate change*, 9, 1–20.

- Nooteboom, B. (1992). Towards a dynamic theory of transactions. *Journal of Evolutionary Economics*, 2, 281–299.
- Nooteboom, B. (1996). Trust, opportunism and governance: A process and control model. *Organisation Studies*, 17, 985–1010.
- Oliver, C. (1997). Sustainable competitive advantage: Combining institutional and resource-based views. *Strategic Management Journal*, 18, 697–713.
- Orlitzky, M., Schmidt, F. L., & Rynes, S. L. (2003). Corporate social and financial performance: A meta-analysis. *Organisation Studies*, 24, 403–441.
- Orum, A., Feagin, J., & G. Sjoberg. (1991). The nature of case study. In J. Feagin, A. Orum & G. Sjoberg (Eds.), *A case for the case study* (pp. 1–26). Chapel Hill, NC: University of North Carolina.
- Pacheco-de-Almeida, G., Henderson, J.E., & Cool, K. O. (2008). Resolving the commitment versus flexibility trade-off: The role of resource accumulation lags. *Academy of Management Journal*, 51, 517–536.
- Pacheco-de-Almeida, G., & Zemsky, P. (2007). The timing of resource development and sustainable competitive advantage. *Management Science*, 53, 651–666.
- Page, J.M. (1994). The East Asian miracle: An introduction. *World Development*, 22, 615–625.
- Pan, S. (2001). Trade union movement in Taiwan: Struggling between markets and institutions. *Employment Relations Record*, 1(1), 51–62.
- Patton, M.Q. (2002). *Qualitative research & evaluation methods* (3rd ed.). Thousand Oaks, CA: Sage Publications.
- Peirce, C. S. (1931–1958). *Collected papers of Charles Sanders Peirce*, vols. 1–6, C. Hartshorne & P. Weiss (Eds.); vols. 7–8, A.W. Burks (Ed.). Cambridge, MA: Harvard University Press.

References

- Penrose, E. (1995). *The theory of the growth of the firm* (3rd ed.). New York: Oxford University Press.
- Pesqueux, Y., & Damak-Ayadi, S. (2005). Stakeholder theory in perspective. *Corporate Governance*, 5(2), 5–21.
- Peteraf, M. (1993). The cornerstones of competitive advantage: A resource-based view. *Strategic Management Journal*, 14, 179–191.
- Peteraf, M., & Barney, J. (2003). Unravelling the resource-based tangle. *Managerial and Decision Economics*, 24, 309–323.
- Pettigrew, A.M. (1990). Longitudinal field research on change: Theory and practice. *Organisation Science*, 1, 267–292.
- Pettigrew, A. M. (1997). What is a processual analysis? *Scandinavian Journal of Management*, 13, 337–348.
- Phillips, R. A. (1997). Stakeholder theory and a principle of fairness. *Business Ethics Quarterly*, 7, 51–66.
- Phillips, R. (2003a). *Stakeholder theory and organisational ethics*. San Francisco: Berrett-Koehler Publishers.
- Phillips, R. (2003b). Stakeholder legitimacy. *Business Ethics Quarterly*, 13, 25–41.
- Phillips, R. A., Freeman, R. E., & Wicks, A. (2003). What stakeholder theory is not. *Business Ethics Quarterly*, 13, 479–502.
- Pisano, G.P. (1990). The R&D boundaries of the firm: An empirical analysis. *Administrative Science Quarterly*, 35, 153–176.
- Pisano, G.P. (1996). Learning-before-doing in the development of new process technology. *Research Policy*, 25, 1097–1119.
- Pitelis, C.N. (1998). Transaction costs and the historical evolution of the capitalist firm. *Journal of Economic Issues*, 32, 999–1017.

References

- Pitelis, C. N., & Pseiridis, A. N. (1999). Transaction costs versus resource value? *Journal of Economic Studies*, 26, 221–240.
- Pitelis, C.N., & Wahl, M.W. (1998). Edith Penrose: Pioneer of stakeholder theory. *Long Range Planning*, 31, 252–261.
- Poppo, L., & Zenger, T. (1998). Testing alternative theories of the firm: Transaction cost, knowledge-based, and measurement explanations for make-or-buy decisions in information services. *Strategic Management Journal*, 19, 853–877.
- Poppo, L., & Zenger, T. (2002). Do formal contracts and relational governance function as substitutes or complements? *Strategic Management Journal*, 23, 707–725.
- Porter, M. E. (1980). *Competitive strategy: Techniques for analysing industries and competitors*. New York: The Free Press.
- Porter, M. E. (1985). *Competitive advantage: Creating and sustaining superior performance*. New York: The Free Press.
- Porter, M. E. (1987). From competitive advantage to corporate strategy. *Harvard Business Review*, 65(3), 43–59.
- Porter, M. E. (1990). *The competitive advantage of the nations*. New York: The Free Press.
- Porter, M. E. (1991). Towards a dynamic theory of strategy. *Strategic Management Journal*, 12, 95–117.
- Porter, M.E. (1996). What is strategy? *Harvard Business Review*, 74(6), 61–78.
- Porter, M.E. (1998). Clusters and the new economics of competition. *Harvard Business Review*, 76(6), 77–90.
- Porter, M.E. (2000). Location, competition, and economic development: Local clusters in a global economy. *Economic Development Quarterly*, 14, 15–34.

- Porter, M. E. (2008). The five competitive forces that shape strategy. *Harvard Business Review*, 86(1), 78–93.
- Porter, M.E., & Kramer, M.R. (2002). The competitive advantage of corporate philanthropy. *Harvard Business Review*, 80(12), 56–69.
- Porter, M.E., & Kramer, M.R. (2006). Strategy & society: The link between competitive advantage and corporate social responsibility. *Harvard Business Review*, 84(12), 78–92.
- Porter, M.E., & van der Linde, C. (1995). Green and competitive: Ending the stalemate. *Harvard Business Review*, 73(5), 120–113.
- Portes, A. (1998). Social capital: Its origins and applications in modern sociology. *Annual Review of Sociology*, 24, 1–24.
- Post, J.E., Preston, L.E., & Sachs, S. (2002). *Redefining the corporation: Stakeholder management and organisational wealth*. Stanford, CA: Stanford Business Books.
- Powell, T.C. (2001). Competitive advantage: Logical and philosophical considerations. *Strategic Management Journal*, 22, 875–888.
- Powell, T.C., Lovallo, D., & Caringal, C. (2006). Causal ambiguity, management perception, and firm performance. *Academy of Management Review*, 31, 175–196.
- Prahalad, C.K., & Ramaswamy, V. (2004). Co-creating unique value with customers, *Strategy & Leadership*, 32(3), 4–9.
- Preston, L. E., & O'Bannon, D. P. (1997). The corporate social-financial performance relationship: A typology and analysis. *Business and Society*, 36, 419–429.
- Priem, R., & Butler, J. (2001a). Is the resource-based “view” a useful perspective for strategic management research? *Academy of Management Review*, 26, 22–40.

- Priem, R., & Butler, J. (2001b). Tautology in the resource-based view and the implications of externally determined resource value: Further comments. *Academy of Management Review*, 26, 57–66.
- Puncheva, P. (2008). The role of corporate reputation in the stakeholder decision-making process. *Business & Society*, 47, 272–290.
- Quinn, J.B. (1980). *Strategies for change: Logical incrementalism*. Homewood, IL: R.D. Irwin.
- Rao, H., & Sivakumar, K. (1999). Institutional sources of boundary-spanning structures: The establishment of investor relations departments in the Fortune 500 industrials. *Organisation Science*, 10, 27–42.
- Ravasi, D., & Rindova, V. (2007). Symbolic value creation. In D. Barry & H. Hansen (Eds.), *The SAGE handbook of new approaches in management and organisation* (pp. 270–284). London: Sage Publications.
- Ray, G., Barney, J.B., & Muhanna, W.A. (2004). Capabilities, business processes, and competitive advantage: Choosing the dependent variable in empirical tests of the resource-based view. *Strategic Management Journal*, 25, 23–38.
- Reed, R., & DeFillippi, R. J. (1990). Causal ambiguity, barriers to imitation, and sustainable competitive advantage. *Academy of Management Review*, 15, 88–102.
- Reynolds, S.J., Schultz, F.C., & Hekman, D.R. (2006). Stakeholder theory and managerial decision-making: Constraints and implications of balancing stakeholder interests. *Journal of Business Ethics*, 64, 285–301.
- Rindova, V., & Fombrun, C.J. (1999). Constructing competitive advantage: The role of firm-constituent interactions. *Strategic Management Journal*, 20, 691–710.
- Rintamäki, T., Kuusela, H., & Mintronen, L. (2007). Identifying competitive value propositions in retailing. *Managing Service Quality*, 17, 621–634.

- Roberts, P.W., & Dowling, G.R. (2002). Corporate reputation and sustained superior financial performance. *Strategic Management Journal*, 23, 1077–1093.
- Rock, M.T. (2002). Integrating environmental and economic policy making in China and Taiwan. *American Behavioural Scientist*, 45, 1435–1455.
- Rodriguez, M.A., Ricart, J.E., & Sanchez, P. (2002). Sustainable development and the sustainability of competitive advantage: A dynamic and sustainable view of the firm. *Creativity & Innovation Management*, 11(3), 135–146.
- Rosenkopf, L., & Nerkar, A. (2001). Beyond local search: Boundary-spanning, exploration, and impact in the optical disk industry. *Strategic Management Journal*, 22, 287–306.
- Rowe, W. G. & Barnes, J.G. (1998). Relationship marketing and sustained competitive advantage. *Journal of Market Focused Management*, 2, 281–297.
- Rowley, T. (1997). Moving beyond dyadic ties: A network theory of stakeholder influences. *Academy of Management Review*, 22, 887–910.
- Rumelt, R.P. (1987). *Theory, strategy and entrepreneurship*. In D. Teece (Ed.), *The Competitive Challenge: Strategies for Industrial Innovation and Renewal* (pp. 137–157). Cambridge, MA: Ballinger.
- Rumelt, R. P. (1997). Towards a strategic theory of the firm. In N.J. Foss (Ed.), *Resources, firms, and strategies: A reader in the resource-based perspective* (pp. 131–145). Oxford, UK: Oxford University Press.
- Rumelt, R. P. (2003). *What in the world is competitive advantage?* Working paper no. 2003–105, The Anderson School, UCLA, Los Angeles, CA, USA.
- Ryan, L.V., & Buchholtz, A.K. (2001). Trust, risk, and shareholder decision making: An investor perspective on corporate governance. *Business Ethics Quarterly*, 11, 177–193.

- Saccani, N., & Perona, M. (2007). Shaping buyer-supplier relationships in manufacturing contexts: Design and test of a contingency model. *Journal of Purchasing & Supply Management*, 13, 26–41.
- Sanchez, R. (1995). Strategic flexibility in product competition. *Strategic Management Journal*, 16, Special issue, 135–159.
- Sanchez, R. (1997). Preparing for an uncertain future: Managing organisations for strategic flexibility. *International Studies of Management & Organisation*, 27(2), 71–94.
- Sarasvathy, S.D. (2001). Causation and effectuation: Toward a theoretical shift from economic inevitability to entrepreneurial contingency. *Academy of Management Review*, 26(2), 243–263.
- Schrank, A., & Kurtz, M.J. (2005). Credit where credit is due: Open economy industrial policy and export diversification in Latin America and the Caribbean. *Politics Society*, 33, 671–702.
- Schroeder, R.G., Bates, K.A., & Junttila, M.A. (2002). A resource-based view of manufacturing strategy and the relationship to manufacturing performance. *Strategic Management Journal*, 23, 105–117.
- Schumpeter, J. (1976). *Capitalism, socialism and democracy* (5th ed.). London: Allen and Unwin.
- Schwarzkopf, D. (2006). Stakeholder perspectives and business risk perception. *Journal of Business Ethics*, 64, 327–342.
- Sharfman, M.P., & Fernando, C.S. (2008). Environmental risk management and the cost of capital. *Strategic Management Journal*, 29, 569–592.
- Sheehan, N.T., & Foss, N.J. (2007). Enhancing the prescriptiveness of the resource-based view through Porterian activity analysis. *Management Decision*, 45, 450–461.

- Simmons, J. (2008). Employee significance within stakeholder-accountable performance management systems. *The TQM Journal*, 20, 463–475.
- Siqueira, A.C.O., & Cosh, A.D. (2008). Effects of product innovation and organisational capabilities on competitive advantage: Evidence from UK small and medium manufacturing enterprises. *International Journal of Innovation Management*, 12, 113–137.
- Sirmon, D.G., & Hitt, M.A. (2003). Managing resources: Linking unique resources, management, and wealth creation in family firms. *Entrepreneurship: Theory and Practice*, 27, 339–358.
- Skagestad, P. (1979). C. S. Peirce on biological evolution and scientific progress, *Synthese*, 41, 85–114.
- Smith, H.J. (2003). The shareholders vs. stakeholders debate. *MIT Sloan Management Review*, 44(4), 85–90.
- Smith, J. B., & Colgate, M. (2007). Customer value creation: A practical framework. *Journal of Marketing Theory & Practice*, 15, 7–23.
- Stake, R.E. (1995). *The art of case study research*. Thousand Oaks, CA: Sage Publications.
- Stalk, G., Evans, P., & Shulman, L. (1992). Competing on capabilities: The new rules of corporate strategy. *Harvard Business Review*, 70(2), 57–69.
- Steensma, H. K., & Corley, K.G. (2001). Organisational context as a moderator of theories on firm boundaries for technology sourcing. *Academy of Management Journal*, 44, 271–291.
- Steinle, C., & Schiele, H. (2002). When do industries cluster? A proposal on how to assess an industry's propensity to concentrate at a single region or nation. *Research Policy*, 31, 849–858.

- Stephens, C. U., & Shepard, J. M. (2005). Normative/descriptive. In P. H. Werhane & R. E. Freeman (Eds.), *The Blackwell encyclopedic dictionary of business ethics* (2nd ed.), v. 2. Malden, MA: Blackwell Pub.
- Stoelhorst, J.W., & Bridoux, F. (2007). *Beyond competitive advantage: What can theories of strategy explain?* Paper presented at Atlanta Competitive Advantage Conference, Fourth Annual Meeting, 14–6 June 2007, Goizueta Business School, Emory University, Atlanta, GA.
- Stoelhorst, J.W., & van Raaij, E.M. (2004). On explaining performance differentials: Marketing and the managerial theory of the firm. *Journal of Business Research*, 57, 462–477.
- Strauss, A., & Corbin, J. (2008). *Basics of qualitative research: Techniques and procedures for developing grounded theory* (3rd ed.). Thousand Oaks, CA: Sage Publications.
- Stuart, T. E. (2000). Interorganisational alliances and the performance of firms: A study of growth and innovation rates in a high-technology industry. *Strategic Management Journal*, 21, 791–811.
- Sturgeon, T.J. (2003). What really goes on in Silicon Valley? Spatial clustering and dispersal in modular production networks. *Journal of Economic Geography*, 3, 199–225.
- Sundaram, A. K., & Inkpen, A. C. (2004). The corporate objective revisited. *Organisation Science*, 15, 350–363.
- Svendsen, A. C. (1998). *The stakeholder strategy: Profiting from collaborative business relationships*. San Francisco: Berrett-Koehler Publishers.
- Svendsen, A.C., Boutilier, R.G., Abbott, R.M., & Wheeler, D. (2001). *Measuring the business value of stakeholder relationships, Part one*. The Centre for Innovation in Management, Faculty of Business, Simon Fraser University.
- Svendsen, A. C., & Laberge, M. (2005). Convening stakeholder networks: A new way of thinking, being and engaging. *Journal of Corporate Citizenship*, 19, 91–104.

- Swanson, D. L. (1999). Toward an integrative theory of business and society: A research strategy for corporate social performance. *Academy of Management Review*, 24, 506–521.
- Teece, D. J. (1980). Economies of scope and the scope of the enterprise. *Journal of Economic Behaviour & Organisation*, 1, 223–247.
- Teece, D. J. (1998). Capturing value from knowledge assets: The new economy, markets for know-how, and intangible assets. *California Management Review*, 40(3), 55–79.
- Teece, D. J. (2007). Explicating dynamic capabilities: The nature and microfoundations of (sustainable) enterprise performance. *Strategic Management Journal*, 28, 1319–1350.
- Teece, D., & Pisano, G. (1994). The dynamic capabilities of firms: An introduction. *Industrial and Corporate Change*, 3, 537–556.
- Teece, D.J, Pisano, G., & Shuen, A. (1997). Dynamic capabilities and strategic management. *Strategic Management Journal*, 18, 509–533.
- Tellis, G.J., & Golder, P.N. (2002). *Will & vision: How latecomers grow to dominate markets*. New York: McGraw-Hill.
- Tencati, A., & Zsolnai, L. (2009). The collaborative enterprise. *Journal of Business Ethics*, 85, 367–376.
- Teng, B.-S. (2007). Corporate entrepreneurship activities through strategic alliances: A resource-based approach toward competitive advantage. *Journal of Management Studies*, 44, 119–142.
- Tushman, M.L., & O'Reilly, C.A. III (1996). Ambidextrous organisations: Managing evolutionary and revolutionary change. *California Management Review*, 38(4), 8–30.

- Vachon, S., & Klassen, R.D. (2008). Environmental management and manufacturing performance: The role of collaboration in the supply chain. *International Journal of Production Economics*, 111, 299–315.
- Van Buren, H. J. III. (2001). If fairness is the problem, is consent the solution? Integrating ISCT and stakeholder theory. *Business Ethics Quarterly*, 11, 481–499.
- Van der Laan, G., van Ees, H., & van Witteloostuijn, A. (2008). Corporate social and financial performance: An extended stakeholder theory, and empirical test with accounting measures. *Journal of Business Ethics*, 79, 299–310.
- Venkataraman, S. (2002). Stakeholder value equilibration and the entrepreneurial process. In R. Freeman & S. Venkataraman (Eds.), *Ethics and Entrepreneurship (The Ruffin Series, 3)* (pp. 45–57). Washington, D.C.: Society for Business Ethics.
- Vergin, R.C., & Qoronfleh, M. W. (1998). Corporate reputation and the stock market. *Business Horizons*, 41(1), 19–26.
- Vinten, G. (2001). Shareholder versus stakeholder – Is there a governance dilemma? *Corporate Governance: An International Review*, 9, 36–47.
- Waddock, S., & Graves, S. B. (1997). The corporate social performance-financial performance link. *Strategic Management Journal*, 18, 303–319.
- Waldman, J. D., Yourstone, S.A., & Smith, H.L. (2003). Learning curves in health care. *Health Care Management Review*, 28, 41–54.
- Walley, K., & Thwaites, D. (1996). A review, synthesis and interpretation of the literature on competitive advantage. *Journal of Strategic Marketing*, 4, 163–179.
- Waxenberger, B., & Spence, L. (2003). Reinterpretation of a metaphor: From stakes to claims. *Strategic Change*, 12, 239–249.
- Wernerfelt, B. (1984). A resource based view of the firm. *Strategic Management Journal*, 5, 171–180.

- Wernerfelt, B. (1985). Brand loyalty and user skills. *Journal of Economic Behaviour and Organisation*, 6, 381–385.
- Wheeler, D., & Sillanpää, M. (1997). *The stakeholder corporation: A blueprint for maximising stakeholder value*. London: Pitman.
- Wheeler, D., Colbert, B., & Freeman, R. E. (2003). Focusing on value: Reconciling corporate social responsibility, sustainability and a stakeholder approach in a network world. *Journal of General Management*, 28(3), 1–28.
- Wicks, A. C., Gilbert, D. R., & Freeman, R. E. (1994). A feminist reinterpretation of the stakeholder concept. *Business Ethics Quarterly*, 4, 475–497.
- Wiggins, R.R., & Ruefli, T.W. (2002). Sustained competitive advantage: Temporal dynamics and the incidence and persistence of superior economic performance. *Organisation Science*, 13, 82–105.
- Wijnberg, N. M. (2000). Normative stakeholder theory and Aristotle: The link between ethics and politics. *Journal of Business Ethics*, 25, 329–342.
- Williamson, O.E. (1971), The vertical integration of production: Market failure considerations. *American Economic Review*, 61, 112–123.
- Williamson, O.E. (1975). *Markets and hierarchies: Analysis and antitrust implication – A study in the economics of internal organisation*. New York: The Free Press.
- Williamson, O. E. (1981). The modern corporation: Origins, evolution, attributes. *Journal of Economic Literature*, 19, 1537–1568.
- Williamson, O. E. (1985). *The economic institutions of capitalism*. New York: The Free Press.
- Williamson, O. E. (1988). The logic of economic organisation. *Journal of Law, Economics, and Organisation*, 4, 65–93.

- Williamson, O. E. (1991). Strategising, economising, and economic organisation. *Strategic Management Journal*, 12, Special Issue, 75–94.
- Wiltbank, R., Dew, N., Read, S., & Sarasvathy, S.D. (2006). What to do next? The case for non-predictive strategy. *Strategic Management Journal*, 27, 981–998.
- Windsor, D. (1999). Can stakeholder interests be balanced? In *Proceedings of the International Association for Business and Society Tenth Annual Conference* (pp. 476–481). Paris.
- Windsor, D. (2001). The future of corporate social responsibility. *International Journal of Organisational Analysis*, 9, 225–256.
- Windsor, D. (2002). Jensen's approach to stakeholder theory. In J. Andriof, S. Waddock, B. Husted & S. Sutherland (Eds.), *Unfolding stakeholder thinking* (pp. 85–100). Sheffield, UK: Greenleaf Publishing.
- Wolfe, R.A., & Putler, D.S. (2002). How tight are the ties that bind stakeholder groups? *Organisation Science*, 13, 64–80.
- Wood, D. J. (1991). Corporate social performance revisited. *Academy of Management Review*, 16, 691–718.
- Woodruff, R.B. (1997). Customer value: The next source for competitive advantage. *Journal of the Academy of Marketing Science*, 25, 139–153.
- Wright, P.M., Dunford, B.B., & Snell, S. A. (2001). Human resources and the resource based view of the firm. *Journal of Management*, 27, 701–721.
- Wright, P., McMahan, G., & McWilliams, A. (1994). Human resources and sustained competitive advantage: A resource-based perspective. *International Journal of Human Resource Management*, 5, 301–326.
- Wu, L.-Y. (2007). Entrepreneurial resources, dynamic capabilities and start-up performance of Taiwan's high-tech firms. *Journal of Business Research*, 60, 549–555.

- Wu, M., & Eweje, G. (2007). *Stakeholder engagement as a facilitator of competence building through organisational learning*. Paper presented at the 2007 Academy of Management Meeting, Philadelphia, Pennsylvania, 3–8 August 2007.
- Yin, R. K. (2009). *Case study research: Design and methods* (4th ed.). Thousand Oaks, CA: Sage Publications.
- Young, S., & Lan, P. (1997). Technology transfer to China through foreign direct investment. *Regional Studies*, 31, 669–679.
- Youssef, A. (2001). Human capital and FDI inflows to developing countries: New empirical evidence. *World Development*, 29, 1593–1610.
- Zott, C. (2003). Dynamic capabilities and the emergence of intraindustry differential firm performance: Insights from a simulation study, *Strategic Management Journal*, 24, 97–125.
- Zollo, M., Reuer, J. J., & Singh, H. (2002). Interorganisational routines and performance in strategic alliances. *Organisation Science*, 13, 701–713.

Appendices

Appendix 1: Interview schedule

1. What are the sources of competitive advantage of your company? Can you link them to resource, capabilities, inter-firm relationships, or other factors?
2. What are the factors that may affect the durability of competitive advantage? What are the major factors that prevent imitation of your advantage by your competitors?
3. Who are the stakeholders of your company, including internal and external?
4. Who are the powerful stakeholders of your company? Would you please rank them according to their importance?
5. How do you define current relationships between the stakeholders and your company, and how may these relationships change in the future?
6. What are your corporate social responsibility (CSR) practices/strategies?
7. How are the relationships between your company and these stakeholders managed? Is there any strategy dealing with this issue?
8. How may the stakeholder relationships influence the strategic decision-making of your company? Do they affect the competitive advantage of your company?
9. How does your company adapt to the changing environment in terms of competitive or corporate strategy? How important are stakeholders regarding this matter?
10. How may the relationships between your company and stakeholders influence the sources of competitive advantage?
11. How may the relationships between your company and stakeholders influence the durability of competitive advantage?
12. Which stakeholders may benefit from an advantage of your company while it has been created?
13. How do you balance different stakeholder interests/demands? What is the most important principle to balance them?
14. What is the relationship between balancing different stakeholder interests/demands and competitive advantage?

Appendix 2: Case study protocol

Research project: The search for sustainable competitive advantage: A stakeholder management perspective

Purpose and study questions

The purpose of this research is to examine the linkage between competitive advantage and stakeholder management in a systematic approach, in terms of important issues: value creation, value preservation, and value capture.

The guiding questions for the case studies are:

- How does stakeholder management influence the source of competitive advantage?
- How may stakeholder management help a firm sustain its competitive advantage?
- How do managers perform their roles in developing and maintaining competitive advantage by balancing different stakeholder demands?

Purpose and study questions

Ten Taiwanese companies will be selected by the researcher to represent a mix of diversity in terms of age, industry and size.

The case study interviews will be implemented as follows:

- The researcher will identify listed companies or public offering firms in Taiwan and choose the market leaders in each industry.
 - The researcher will send an e-mail to each potential company introducing the research project and requesting an opportunity to interview the CEO or senior manager who is involved in strategic decisions and stakeholder management.
 - If the respondent agrees, the researcher will schedule a meeting, indicating names of site to be visited, including contact persons; if the respondent disagrees, the researcher will thank the respondent for his or her time.
1. The researcher will ring or send the e-mail to confirm the meeting, including attached interview schedule. The interviewees will be asked to sign a consent form to agree to participate in the research.
 2. Before going to the scheduled meeting the researcher should print the following materials to share with the interviewee during the interview: (1) the letter of ethical approval by Massey University Human Ethics Committee, (2) two copies of the consent form, and (3) a copy of the interview schedule.

3. The researcher will then meet with the participant as scheduled to conduct the interview according to the following guidelines:
 - After introducing himself, the researcher will hand the participant a second copy of the informed consent form and read the form.
 - The researcher will then ask the participant if he or she has any questions about the research and the consent form.
 - The researcher will clarify any issue being asked and then ask the participant to sign two copies of the consent form; one for the owner's files and one for the research files
 - Once the consent form has been signed, the researcher will:
 - if given permission to do so during the informed consent process, turn on a tape recorder and proceed with the interview, also taking notes.
 - if not given permission to use a tape recorder, proceed with the interview, recording it with notes only.
4. At the end of the interview, the researcher should thank the participant for his or her time, and remind him or her that we will send them a summary of any publications relating to their interview prior to publication.

Key points of case study report

- Settings: the focal firms and their different stakeholders
- Actors: the firms, through their senior management, such as the CEOs or senior managers.
- Events: those contribute to the understanding of the relations between stakeholder management and competitive advantage, such as investments in R&D and equipment, technology transfer, new product development, environmental protection, and participation in various social or philanthropic activities.
- Processes: advancements facilitated by stakeholder management, including resource commitment, capability development and relationship building, which would generate and sustain competitive advantage.

Interview schedule (See Appendix 1).

Appendix 3: Coding list

Tier one	Tier two	Tier three	Code
Source of competitive advantage	Resource advantage	Markets	SO-RA-MAR
		Internal	SO-RA-IN
		Inter-firm	SO-RA-INTF
		Others	SO-RA-OTH
	Positional advantage	Activities/drivers-economies of scale	SO-PAD-SCAL
		Activities/drivers-cumulative organisational learning	SO-PAD-COL
		Activities/drivers-timing of market entry	SO-PAD-TIME
		Activities/drivers-linkage between activities	SO-PAD-LINK
		Activities/drivers-degree of vertical integration	SO-PAD-INTEG
		Activities/drivers-geographic location	SO-PAD-GEO
		Competitive environment-factor conditions	SO-PACP-FC
		Competitive environment-demand conditions	SO-PACP-DC
		Competitive environment-related and supporting industries	SO-PACP-RSI
		Competitive environment-context for strategy and rivalry	SO-PACP-CFSR
		Others	SO-PA-OTH
Stakeholder management influences on source of competitive advantage	Resource advantage	Markets	SKMSO-RA-MAR
		Internal	SKMSO-RA-IN
		Inter-firm	SKMSO-RA-INTF
		Others	SKMSO-RA-OTH
	Positional advantage	Activities drivers	SKMSO-PA-DR
		Competitive environment-factor conditions	SKMSO-PA-FC
		Competitive environment-demand conditions	SKMSO-PA-DC

		Competitive environment-related and supporting industries	SKMSO-PA-RSI
		Competitive environment-context for strategy and rivalry	SKMSO-PA-CFSR
	Others	Others	SKMSO-OTH-OTH
Stakeholder management influences on durability of competitive advantage	Advancing resource capacity	Resource commitments	SKMDR-AR-RC
		Developing capabilities	SKMDR-AR-DC
		Building relationships	SKMDR-AR-BR
	Isolating mechanisms	Time compression diseconomies	SKMDR-IS-TCD
		Causal ambiguity	SKMDR-IS-CA
		Social complexity	SKMDR-IS-SC
		Transaction costs	SKMDR-IS-TC
Balancing stakeholder demands & competitive advantage	What to balance	Stakeholder interests	BSKD-WHA-INT
		Stakeholder power	BSKD-WHA-POW
	How to balance	Trade-offs	BSKD-HOW-TRD
		Alignment	BSKD-HOW-ALI
		Accommodation	BSKD-HOW-ACC
	Strategies for managing stakeholder relations	The planning approach	BSKD-STR-PLA
		The adaptive approach	BSKD-STR-ADP
		The visionary approach	BSKD-STR-VIS
		The transformative approach	BSKD-STR-TRAN