BlueScope Case Study Report

Part 1 Role in Business

BlueScope has demonstrated a dominant role in creating shared value (CSV) while assuming a silent role in profit maximisation.

CSV: Dominant Role

BlueScope predominantly adopts the CSV role, which pursues both the economic and societal goals (Porter & Kramer, 2011). Three methods are proposed to practise CSV, that is, "reconceiving products and markets, redefining productivity in the value chain, and local cluster development." Based on the following analysis, BlueScope practises CSV using the first two methods.

First, BlueScope has reconceived products for the sustainability market (BlueScope Steel Limited, 2021). BlueScope has designed steel for wind towers, solar farms, and cool roofing; it has used novel technology to prolong product life. These reimagined products are necessary because of people's attitudes and law regulations. Quicke (2021) from the Australia Institute reports favourable attitudes towards net zero among most Australians; European Union's carbon border adjustment mechanism imposes taxes on big carbon-emitting countries. These prove again that BlueScope's actions benefit both environment-minded consumers and the company.

Second, BlueScope redefines productivity by embedding sustainability in its value chain. Since 2005, BlueScope has reduced 39% of its water consumption and expanded scrap-recycling technology use (BlueScope Steel Limited, 2021). These actions reduce costs for BlueScope itself while creating value for the society and the environment.

PM: Silent Role

Granted, CSV is dominant in BlueScope's operation, controversies still linger, which suggests a silent role in profit maximization (PM) (Friedman, 1970). BlueScope was found illegally engaging in cartel conduct in 2013, which resulted in the imprisonment of former general manager Jason Ellis (Australian Competition & Consumer Commission [ACCC], 2020). It performed poorly in the Modern Slavery Report in 2018 (IBIS World, 2021). However, the decrease in negative articles can indicate less PM practice in BlueScope, though the company may control negative news coverage on major media outlets. Thus, PM is becoming more silent while CSV is becoming more dominant in recent years.

Critiques of CSV

First, why would a good-natured CSV company engage in illegal cartel conduct and provide inadequate welfare of employees? Crane et al. (2014) note that "CSV ignores the tension between social and economic goals". This notion corroborates the dominant and silent role mentioned above. Because CSV overlooks the trade-offs between social and economic goals, a silent role is needed to describe the complexity.

Second, what should a company do if social norms have not yet been formed? In BlueScope's example, the government does not dictate how sustainability should be embedded in the business practice of the steel industry. In such an underregulated market, according to de los Reyes et al. (2017), the company should couple CSV practice with one of the two ethical frameworks, namely the norm-forming framework. In fact, BlueScope has participated in the establishment of industry standards, including ResponsibleSteelTM. This norm-forming process help it avoid financial losses when it is practising CSV while others do not observe the industry rules.

Part 2 Porter's Five Forces Analysis

Porter (2008) introduced five competitive forces (P5F) to evaluate competition to formulate a strategy. The following analysis on Australian steel industry will list all five forces in order of importance.

Power of Buyers: High and Increasing

Strapped for money, BlueScope's main buyer, the construction industry, possesses a strong and growing power against the steel industry (IBIS World, 2021). Construction insolvencies and money shortages are affecting contractors and clients alike.

First, from the contractors' perspective, the industry has the highest construction insolvencies in the 2022 June quarter for the past three years; the Australian Tax Office (ATO) expects the number to even increase due to rising costs of energy and materials (Bleby, 2022). This is the result of a growing labour shortage and supply chain issues and is highly likely to persist during the COVID-19 pandemic (Australian Constructors Association [ACA] & Arcadis,2022).

Second, clients are strapped for money in both the public and private sectors, which discourages construction companies from purchasing steel. Although in the public sector, aged care, healthcare, and tertiary education are projected to require more construction, the pandemic has hampered government and public university financial capabilities. Nor is it optimistic with the private sector, where mortgage affordability deteriorates over the pandemic. (Kelly, 2022).

The only positive message comes from China, where steel export contracts rapidly because of lockdowns and government policies. This reduction in imported steel reduces the power of buyers. Furthermore, this policy is further cemented in the Fiver-year Plan of the China's government, which emphasises CO_2 emission reduction and green technology (Goering, 2021). Yet these are not adequate to counteract the strong power of buyers. As Australian constructors are strapped for cash, the price of steel is not unbounded. The Australian steel industry ultimately has to come to a price accepted by most construction companies.

Rivalry Among Existing Competitors: High and Stable

Competition in the Australian steel industry is fierce due to the undifferentiated nature of the market and the low to medium concentration of market share. But such effects are counteracted by reduced steel imports, making the rivalry level stabilised.

Innately undifferentiated quality forces companies to adopt extremely harmful price competition. This kind of competition benefits customers while causing great damage to sellers. Sustainability is one of the few ways for companies to avoid such vicious competition. However, challenges remain even as leading steel companies invest enormously in sustainability to differentiate themselves. Gretta Stephens, BlueScope Steel's chief executive of climate change and sustainability, called for a “reality check” on green steel, citing the difficulty of its success (Ludlow, 2022). Sustainable steel inevitably means higher prices and is far from commercialisation. In the short run, the construction insolvencies and money shortages make buyers reluctant to trade money for sustainability; in the long run, it will take decades to commercialise the novel green technology (Dyrenfurth & Meagher, 2022). Therefore, sustainability is not a panacea for differentiating companies in this homogeneous industry.

Rivalry is also fierce because the Australian steel industry has a low to medium industry concentration level. The dominant players of the industry account for less than 60% of the market share (Baikie, 2021). As customers have a wider range of choices, companies are pressured into fierce competition (Porter, 2008).

Imported steel poses a serious challenge to the profitability of the Australian steel industry. The Australian steel market imports about 1/3 of the steel from abroad, with China being the largest contributor (World Integrated Trade Solution [WITS], 2022). By selling cheap steel, China’s steel imports has attracted customers, and even forcing local companies out of business (Illmer, 2016).

However, as discussed in the power of buyers part, China has slowed down steel production and even imposed higher export taxes for steel. Australian construction companies will be less incentivised to buy Chinese steel, which is advantageous for the Australian steel industry. The huge loss of steel imports counteracts the effects of the factors mentioned above, making rivalry level stable.

Power of Suppliers: Medium and Increasing

Traditionally, the steel industry relies on iron ore to produce steel. As it transitions to sustainable production, more hydrogen and electricity is needed.

For traditional practice, the costs of iron ore decrease in favour of the Australian steel industry. The domestic iron ore mining industry exports iron ore to China, which aim to establish a central buyer to lower costs in the future (Yu & Hume, 2022). The Australian steel industry can benefit from decrease in material costs along with its Chinese counterparts.

However, sustainable practice increases the power of suppliers. The hydrogen market has over a decade to commercialize, causing suppliers to gain power because of a shortage of supplies. According to the Australian Financial Review, sustainable steel also requires more electricity (Evans, 2022). In the same report, BlueScope CEO Mark Vassella criticized the dysfunctionality of the Australian energy market, citing unsustainable energy prices. This highlights the rising power of suppliers again.

Threat of Substitute Products or Services: Low and Steady

According to OCED (2012), in the construction industry, which is BlueScope's main buyer, common substitutes are aluminium, wood, stone and concrete, and PVC. But few substitutes have properties similar to those of steel, such as strength and anti-corrosion. It could then be argued that some unique qualities make steel irreplaceable in construction industry, leading to a low threat of substitutes.

Threat of New Entrants: Low and Steady

Due to the established economics of scale and the high technology concentration level, the barriers are significantly high, making the threat of new entrants low. From a supplier's perspective, big companies like BlueScope have economics of scale and patented technologies to reduce the costs of products; from a buyer's perspective, using steel from the same company can reduce maintenance costs. Customers are not likely to switch to a new entrant due to high prices and switching costs.

The capital-intensive nature of the industry also raises barriers to entry. Some may argue that investors are willing to finance this industry due to high revenue. But according to IBIS world, of the four main industries in which BlueScope operates, the highest projected growth for 2022-2027 is just 1.6% (Baikie, 2021). Investors are more likely to look for more fast-growing industries, such as software development which grows at an annual rate of 14.6% (Ekaterina, 2022).

Critiques of Porter's Five Forces Analysis on Steel Industry

First, it only provides managers with a static snapshot, which cannot match the volatility of today's business (Thurlby, 1998). For example, the power of suppliers mentioned above is medium but expected to increase. Managers can overlook this trend if they are overly reliant on the static P5F model. To solve this issue, Grundy (2006) proposes a dynamic approach, mapping not only the start point of each force but also the end point and the trend. This approach not only prepares steel industry leaders at present but also in the future.

Second, the theory fails to capture rapid social characteristics, such as globalization, digitalisation, deregulation, and innovativeness (Isabelle et al., 2020). To solve this failure, Isabelle et al. have augmented the existing Porter's Five Forces model with the four factors above. Notably, they compare effectiveness in both the mining and IT industries, concluding that the four factors above are beneficial for these two distinct industries. Since the steel and mining industries are both resource-based and captital-intensive, the four factors can also be applied in the Australian steel market. This provides a rigorous thinking model in addition to the Porter's Five Forces framework.

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