

6 The Company and Environmental Interaction:

Porter's Concept of Generic Strategies

The company and environment interaction

The company is interlocked with the environment. Due to an increasing association of a company with the happenings in its surrounding, the co-ordination of its value chain configuration with its surrounding needs emerges as an important component.

A company deals with the environmental influences due to the following reasons:

- a To convert inputs into outputs aimed at meeting the needs of the environment.
- b To conduct managerial activities in each life cycle phase in order to justify its social legitimacy.

A company relates its operating mode with the demands of its environment. A company must have the support of the environment. A bad corporation value chain configuration, which leads to a decrease in operational efficiency and operational effectiveness, prompts sanctions imposed by the environment.

Business strategy is in charge of coordinating, i.e. balancing that relationship. Hence, a business strategy is a binding agent creating an interaction between the company and its environment. It is clear that the success of a company depends on its relation with its environment. A company uses the environment as its information resource needed for the orientation in its business activities. There are different viewpoints on the coordination between the company and the environment. According to one viewpoint, company *are not capable of adopting to the environment*, whereas another viewpoint advocates the idea that *companies are capable of adopting to its environment*. Both viewpoints are incomplete because they consider both approaches in an alternating manner. Consequently, the two approaches have been integrated into the so-called *strategic perspective*, which goes a step further. This dominant approach is based on the hypothesis that *companies not only adapt to the environment, but they can shape it, too*.

The core message of these two approaches is that business definition must be based on: (1) environmental influences and (2) company capabilities. Consequently, a company is not founded only on existing production possibilities, it also considers the conditions of the environment. As a consequence, the *adaption to the known* (ex-post analysis) is insufficient, and the *recognition of the unknown* (ex-ante analysis) is needed. This shifts the focus from the intern organisation (the company) to the extern orientation (the environment).

In addition to its adaptation and influence, a company has a host of other options when interacting with its environment. A company must provide a strategic consonance with the environment by a trade-off approach between *everything that the environment wants and everything that the company can offer* on one side and *everything that a company needs and everything that the environment can offer*, on the other. Creating a sustainable competitive advantage depends on the interaction between the company and the environment.

According to Michael Porter (Kiechel, 2010), a scenario is an *internally consistent view (in a company) of all possible future changes (in an environment)*. He based his claims on a set of convincing assumptions on important uncertainties from the environment which can influence a company which has an effect on creating sustainable competitive advantage. The scenario of an environment presents one possible future structure of the environment. A set of environmental scenarios has been carefully selected to point out to the frame of possible (and sound) future aspects of the environment, with significant implications for the company. The environmental scenario time period should reflect the time horizon of the most important decisions (Milisavljević, 2005).

Michael Porter (Kiechel, 2010) suggests the following process of creating environmental scenarios:

- 1 Identify the uncertainties which could influence the environment
- 2 Determine the causative factors which initiate them
- 3 Create a frame of reliable assumptions on each causative factor
- 4 Combine the assumptions on individual factors into an internally consistent scenario
- 5 Environmental analysis which will be dominant in each scenario
- 6 Determine the sources of competitive advantage in each scenario
- 7 Predict the behaviour of competitors in each scenario.

A company systematically includes the possible consequences of environmental uncertainty into its formation of business strategy by constructing several scenarios. An analysis of each industry scenario should specify the resulting implications on the value chain. The purpose of creating one or more scenarios is for the company to understand the way to change the industry structure and competitive conditions. That is, when a scenario