Growth strategies of incumbent utilities as contextually embedded: Examples from Denmark, Germany, Finland and Spain

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A R T I C L E   I N F O

Article history:
Received 12 November 2012
Received in revised form 24 February 2014
Accepted 26 February 2014

Keywords:
Incumbent utilities
Electricity industry
Growth strategies
Social context

A B S T R A C T

In this article changes in the electricity industries of four different countries are analyzed in terms of the incumbent utilities’ growth strategies. The economic activities are analyzed as socially embedded as we analyze how the social context influences these strategies. A typology for analyzing growth strategies based on the relative strength of social ties and focus on markets is presented. Qualitative case studies of the three largest incumbent utilities in Denmark, Germany, Finland and Spain were analyzed. Our findings show that incumbent utilities with relatively strong social relations can influence the energy policies, and their growth strategies tend to be more focused on domestic markets. In the opposite case, the growth strategies are more likely to be based on diversification and internationalization. We conclude that an incomplete unbundling of interests appears to slow down changes in the incumbent utilities’ growth strategies. Thus, we propose that a complete unbundling of interests is needed.
Clifton et al. (2010) [4] found that the responses of the incumbents to changes in the markets do not seem to follow a universal logic, but a country and firm logic would be more applicable. Hence, our main research focus is to analyze how the social context influences incumbent utilities’ growth strategies. These strategies are analyzed as socially embedded [21,23]. We are particularly interested in how the contextual factors influence the kind of strategies that the utilities consider appropriate and for what reason [70]. In other words, our focus is on the strategies that the incumbents have chosen and the context in which these choices were made.

Empirical examples are drawn from the electricity industry, in particularly incumbent utilities, which are well suited for analyzing strategies as socially embedded as the electricity industry is deeply rooted in the context it exists, such as fuel choices, energy need, climatic conditions and other contextual peculiarities that have influenced the development of this industry. Finally, regardless of the growing number of international climate conventions and agreements related to energy, the electricity industries still also remain under the jurisdiction of national governments, highlighting the importance of analyzing utilities’ strategies in the country context.

In the next section we propose a typology for analyzing incumbents’ growth strategies. This is followed by an overview of the main changes in electricity industries and generation technologies. Then the research method used in the analyses is presented. The analysis section is based on the strategies of the three largest incumbent utilities from four EU countries. The paper ends with a summary of findings and conclusions.

2. Incumbent utilities’ growth strategies

The starting premise here is that countries, along with their electricity industries, are contextual and dynamic social constellations of competing groups of actors whose rationalities are socially constructed [21–23]. To analyze utilities’ growth strategies in a specific context and the unique dynamism between the utilities and other actors in and around the electricity industry, we chose to base our typology on the systemic approach to strategy (as presented in Ref. [70]). Thus, this approach focuses on the country and company logics that influence why the particular growth strategies are chosen [70].

The more commonly known and used strategic approaches have a more universal view of strategy and the influence of the country context is secondary. For example, Porter (1980) [49] emphasizes the importance of having the right positioning in the market in relation to competitors; Ansoff (1965) [2] emphasizes having planning systems for strategy, and Hamel and Prahalad (1994) [25] emphasize having a vision. A more modern approach, strategy-as-practice, focuses on strategy as something that is done and which can be studied by analyzing social actions around strategies [64]. This is an approach which is probably better suited to analyzing the internal organizational processes of a firm.

A systemic approach was chosen because the intention here is to analyze and compare the strategies of utilities from four countries. Such an approach is also well suited to analyzing the slow technological changes that are typical of electricity infrastructures, where several contextual factors influence the historical development, for example, the available domestic fuel sources: in Norway most of the electricity is generated by hydro power, in Iceland by geothermal power and in the United Kingdom and Germany by coal (Eurostat, 2011). The nature of the industrial infrastructure also has a bearing on the electricity industry and economic perceptions on energy; energy-intensive industries have very different energy needs and interests in energy from, for example, the service sector.

According to the systemic approach, growth strategies can be based on innovation, diversification or internationalization. Which particular strategy a firm chooses depends on the time, context and firm [70]. Innovation is the growth strategy which refers to creating new businesses, for example, new services or products within the existing business. This includes, for example, improving the efficiency of existing technologies and investments in large-scale wind or biofuel-based generation technology. Although these are improvements to the existing energy system, they still keep the business, i.e., the generation and supply of electricity, unchanged. Diversification refers to venturing into new businesses, for example, the new energy technologies business. And finally, internationalization refers to venturing into new geographical areas.

We base our typology on two classification criteria: a focus on the markets and the relative strength of social relations. Following Whittington (1993) [70], the focus on the markets is based on analyzing the geographical locations of a firm’s businesses. Although Whittington discusses the reasons why a firm chooses to internationalize, the emphasis here is on how utilities have internationalized. The relative strength of social relations was chosen because it has been noted that the stronger the links are between the incumbent utilities and the government, the more able and likely the incumbents are to slow down changes in the industry [44,47] and vice versa [39].

We illustrate the approach in Fig. 1. The focus on the markets is the y-axis and the relative strength of social relations is the x-axis. The scale of the focus on the markets runs from domestic to international markets and the relative strength of social relations runs from strong to weak relations. On the basis of these two dimensions, four
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