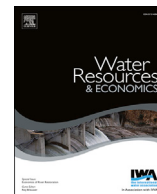


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A resource-based view of utilities: The key-determinant factors for customer prices and organizational costs in the Portuguese water industry

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ABSTRACT

The resource-based view supports the idea that firms that make better use of their existing resources have superior performance, which depends on organizational processes and routines to lower organizational costs and prices to customers. By applying this approach to the Portuguese water industry based on a cross-sectional research strategy, the findings demonstrate that public firms' with lower organizational costs are able to charge lower prices. There are two implications of the current findings. The first is political in nature and involves the discussion of the best way to improve the provision of public services by utilities. From an economic, managerial and social approach, all the arrangements, whether public or private, should be rethought. The second implication is theoretical, since firm effects can be established based on the existence of superior resources, the key variable to explain differences in organizational performance.

1. Introduction

Under what conditions can water utilities achieve sustained competitive advantage? (see Ref. [1]). This question results from a theoretical discussion about management strategy that considers the competitive advantages of a firm in comparison with its competitors. In this particular, the resource-based view highlights the internal resources as the major drivers of organizational performance [2]. Internal resources can be measured as the “firm's management skills, its organizational processes and routines, and the information and knowledge it controls” [1]; p. 625). Firms in possession of these superior resources will be able to decrease their production costs [3], thus increasing their competitive advantage.

An ongoing theoretical discussion exists about which factors are associated with firms' superior performance. As far as we know, this theoretical discussion does not include utilities, especially water companies [4]. An attempt was carried out by Ref. [5]; but his focus was a natural resource based view of firms and the influence on firms' performance. Regarding water utilities, several studies have been conducted to understand which contextual factors are related to water consumption through pricing schemes, but very few have examined the factors that influence customer prices [6–12]; as examples). Therefore, studies in this sector still need to be developed to provide insights for practitioners and politicians.

For those reasons, this study's main aim is to understand which factors are related with residential customer prices and

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organizational costs for Portuguese water utilities. As an innovation, this study applies a resource-based view approach, to shed light on this phenomenon from a different perspective [53] and benefiting from cross-fertilization that sustains future decisions. Applying a cross-sectional research design [13], customer prices and organizational costs for 2013 are the dependent variables in this study. As explanatory variables, institutional and governance factors such as organizational costs, ownership structure, management model and economic heterogeneity were considered, while socio-demographic, political and local government economic and financial results were selected as predictors for measurement of the resource-based view and structure-conduct-performance, respectively.

This manuscript is organized as follows: first, the literature concerning strategic management is discussed, with details of the resource-based view; then predictors for user prices and organizational costs are presented and debated. After that, details of research design and variables are discussed. Lastly, the results and conclusions are presented.

2. The resource-based view for the water industry

For Penrose [14]; firms are distinct due to their internal resources. The differentiation of resources and their application is what makes firms stand apart from each other. Starting with strategic decision-making, firms' are able to better apply their resources to reach competitive advantage in light of organizational returns. The main emphasis of the resource-based view is to understand competitive heterogeneity, which ultimately will influence firms' performance [15]. This approach seeks, grounded on different organizational resources, to explain performance of competing firms [16]. Such firm effects can be established based on the existence of superior resources, the key variable to explain differences in organizational performance. When superior resources are properly applied, they will generate lower production costs and/or higher benefits [17].

In the water sector, private involvement has been considered as adding value by promoting organizational efficiency and cost savings [18]. According to this view, the private sector has superior resources in relation to other institutional arrangements. These resources result from a for-profit management perspective, which ultimately aims to make better use of scarce resources.

Based on business policy roots, it is believed that organizations are different in their attributes. Those attributes are heterogeneous, since it "implies that some firms have resources that generate more value than others" [3]; p. 317). In that respect, their resources and internal capabilities must be considered for successful strategic management of the firm [19]. Those resources, however, need to be rare, unable to be copied easily and superior to others to lead to a competitive advantage. The assets can be tangible and intangible, "including a firm's management skills, its organizational processes and routines, and the information and knowledge it controls" [1]; p. 625).

For the water sector, private operators are viewed as more efficient since in theory they have the ability to improve their operational results [20]. In turn, for public operators, one of the greatest problems is the need to follow bureaucratic rules, strongly influencing the processes and routines of these organizations that are invariably considered inefficient [51].

Competitive advantage comes from economic and productive efficiency and customer satisfaction [21]. In theory, making better use of scarce resources will benefit customers through lower prices. Even though organizational resources and internal capabilities are crucial factors for organizational strategy, managers cannot forget external factors. Among those factors are "changes in demand, science and technology, availability of raw materials, and government policy," which influence organizational resources and internal capabilities [22]; p. 1004).

In sum, the institutional and governance factors where the firm operates need to be considered for strategic decisions. This is to say that internal factors are crucial, but other factors must not be forgotten, especially in the water industry [6].

3. A review of institutional and contextual factors in the water industry

In this section, studies of the water supply industry are highlighted, taking into account the resource-based view in order to understand which factors are related with water firms' performance. According to the resource-based view, superior resources within a firm will lead to lower production costs and ultimately lower customer prices: "In the majority of cases, the operational costs of water companies form the 'indicator' for defining prices" [23]; p. 224).

The 1980s brought many changes in assessing the performance of utility companies. Legislators introduced "explicit standards and measures of performance" while stressing the "discipline and parsimony in the resource use" [24]; pp. 4–5) in order to improve utilities' performance. Major structural reforms, such as privatization, were accomplished to raise competition and ultimately lead to lower prices [25].

3.1. Institutional and governance factors

Organizational performance can be influenced due to particular institutional and governance characteristics, which are assumed to differ in each organization [6]. According to Carter [26]; ownership can influence firms' performance, since public and private companies can produce different output levels. In that sense, and in theory, private companies tend to perform better than public organizations [27]. Since private firms' aim to raise profits, they will try to lower their operational costs in order to improve their revenues [20]. However, in comparison with other variables, according to Carvalho and Marques [11]; ownership does not seem to influence firms' efficiency in the Portuguese water industry. Similar results were found by Romano et al. [28] in Italy. By itself, ownership was not a determinant factor for water consumption, but consumption levels were higher under public utilities, while customer prices were lower. In Spain, customer prices are also higher when the operator is a private company and lower when it is a municipally owned utility [29].

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