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CONTENTS

PAPER ABSTRACTS

Pricing Process as a Capability: A Resource Based Perspective

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Abstract

From a resource-based view a central response to the strategic problem of generating rent is value creation. Firms create value by accumulating resources and capabilities which other firms cannot imitate and for which other firms cannot trade or substitute other assets. Even if a firm has created value, however, it is not a foregone conclusion that the firm will capture the potential rents by setting the right prices. Rather, firms must develop that ability. Most views of pricing assume that a firm can readily set appropriate prices. We argue pricing is a capability, so a firm must invest in resources and routines in order to set prices effectively. We base our argument in a study of the pricing process of a large, Midwestern manufacturing firm. We show that pricing resources, routines, and skills may help or inhibit a firm in setting the right price—and hence in extracting value from a strategy. Our view of pricing as a capability contributes to the resource-based view by suggesting that strategists consider the portfolio of value creation and value extraction capabilities a firm uses to create competitive advantage. Our view of pricing as a capability also contributes to economics because it suggests that strategic decisions about pricing capabilities have important implications for a fundamental economic action, determining the "right" price. Without effective pricing capabilities, firms may set the wrong price and both the firm and society lose creative possibilities because resources are used ineffectively. This takes the resource-based-view straight to the heart of what is perhaps the central economic question, the best use of resources.

Uncertainty, Imitation, and Plant Location: Japanese Multinational Corporations, 1990-96

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Abstract

This paper combines neoinstitutional theory and research on the institutional environment to explain the process of organizational entry into new geographic markets. We extend neoinstitutional theory's proposition that prior decisions and actions by other organizations provide legitimization and information to a decision marked by uncertainty, by showing that the prevalence of this effect varies across imitation modes as determined by levels of organizational and market uncertainty. We exploit interorganizational cross-sectional and inter-temporal variation in organizational uncertainty, to demonstrate not only that mimetic strategies are pursued, but also that they are more commonly pursued when the level of uncertainty is high. To test the influence of structural market uncertainty in the institutional environment, we rely upon observable inter-temporal and cross-national differences in the structure of a country's political environment to craft an internationally comparable measure of policy uncertainty in a potential host country. We test these ideas on a sample of international plant location decisions for the population of listed Japanese multinational corporations, across a possible set of 155 countries in the 1990-1996 period.

Electric Charges: The Social Construction of Rate Systems

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Abstract

Price is a central analytic concept in both neoclassical and old institutional economics. Combining the social network perspective with old and new institutionalist approaches to price formation, this paper examines technological, economic, institutional, and political factors which shaped the earliest pricing systems for electricity used in the US, between

1882 and 1910. We show that certain characteristics of electricity supply led to ambiguities in how the product should be priced, that created consumer skepticism about legitimacy of pricing, and to a politics of pricing among electricity producers. In particular, we investigate why the “Wright system”, arguably inferior in productive efficiency to other alternatives, was widely adopted by 1900. We argue that this outcome resulted in part from the political and organizational clout of its supporters, as well as from their particular conceptions of the boundaries and future of the industry itself. The Wright system best suited the “growth dynamic” strategy promoted by the managers of large central stations in their fierce competition with smaller and more decentralized installations. Thus, even in this apparently highly technical and mainly economic issue of how to price the product, there was ample room for social construction and political manipulation. The outcome reached was by no means inevitable and had a highly significant impact on the shape of the American industrial infrastructure.

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