INDUSTRIAL ORGANIZATION

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Reference this article

Abstract / Definition
The industrial organization (I/O) view of strategy assumes that the external environment determines the actions a firm can deploy. The implication of the I/O model for strategic management is that firms identify and seek to operate in environments that provide the best opportunities for competitiveness and profitability. The main concerns of the I/O model are the four industry structures of perfect competition, monopoly, monopolistic competition and oligopoly. The strategic conduct of the firm revolves around policies (such as maximization or optimization of profit levels, growth, sales and marginal utility), pricing objectives (cost-plus, marginal cost, entry-deterring price, collusive pricing, price leadership and price discrimination), marketing strategies and advertising, and the extent of innovation and technical change. When measuring performance, strategists and economists focus on profitability, efficiency, product quality and technical progress. The limitations of the I/O model arise from the occurrence of the four underlying assumptions of the theory regarding the effects of the environment of strategy, the homogeneity of resources, capabilities and strategic intent. The assumptions of I/O theory have been challenged by the opposing view of strategy, the resource based view of the firm.

Keywords
Industrial organization, industry structure, performance, macro environment.

Link to publication