Chapter II

Sustainable Competitive Advantage from Information Technology: Limitations of the Value Chain

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The strategic benefit of IT (information technology) in supporting business functions is often seen as the basis for competitive advantage that is sustainable. The value chain concept has been a handy tool widely utilized in business strategy analysis to match firm competency in performing business activities with the achievement of sustainable marketplace advantage. When it comes to the assessment of the competitive value of information technology, the value chain concept seems to either categorize IT as a support activity or to overly narrow the scope of IT’s role in achieving sustainable competitive advantage.

This chapter reviews the concepts of the value chain and sustainable competitive advantage. Short case studies from a number of industries are presented in order to illustrate the limitations of using the value chain to describe information technology’s role in achieving sustainable competitive advantage. These examples demonstrate the subtle and often complex relationship between information technology and competitive advantage.

Information technology and systems are often cited as having a strategic role in achieving competitive advantage. Beyond the achievement of simple competitive advan-
The strategic benefit of deploying information technology to support business functions is often seen as the basis for competitive advantage that is sustainable. While there have recently been questions about the reality of sustainable competitive advantage (Oliver, 1999), this concept nevertheless often underlies characterizations of information technology’s value to the firm.

The value chain concept has been a handy tool widely utilized in business strategy analysis to match firm competency in the performance of business activities with the achievement of sustainable marketplace advantage. This concept works rather well for assessing firm activities such as sales, manufacturing, retailing, and purchasing. Nevertheless, when it comes to the assessment of information technology competency, the value chain concept seems to imply either categorizing this competency as a support activity or overly narrowing the scope of IT’s role in achieving sustainable competitive advantage.

This chapter will review the concepts of the value chain and sustainable competitive advantage. It will then present case examples that illustrate the limitations of using the value chain to describe information technology’s role in achieving sustainable competitive advantage. These case examples will also be used to demonstrate the subtle and often complex relationship between information technology and competitive advantage.

**THE VALUE CHAIN CONCEPT**

The value chain concept is one particular paradigm that has often been utilized for describing the achievement of sustainable competitive advantage. The value chain concept, as introduced by Porter (1985), states that a firm’s activities can be viewed as part of an array of sequential processes that transform unfinished inputs into finished outputs suitable for customer use. The sequential string of activities was referred to as the value chain because each activity is considered to add perceived or real value for the customer or end-user of the product. Porter regarded five primary business activities as being constituent of a generic value chain.

The manifestation of value chains differs from firm to firm. Value chains also significantly differ according to the product or service being produced. Moreover, even as each component activity of a value chain presumably adds some value to the finished output delivered to the customer, each activity also incurs some cost. Figure 1B illustrates a typical value chain for a producer of butter.

One of the most powerful insights of the value chain concept is that some of the significant activities in the value chain for a firm’s products could lie outside the boundaries of the firm’s own activities. For example in the value chain for butter production presented in Figure 1B, the actual sale of butter to the consumer is accomplished by retailers and the marketing of butter to the consumer may also be handled largely by intermediaries rather than by the producer.

A related strength of the value chain concept is that it can be applied at the level of an
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www.igi-global.com/article/organisations-responsibilities-towards-corporate-sustainability/171600?camid=4v1a