Strategic Management Journal
Strat. Mgmt. J., **36**: 97–112 (2015)
Published online EarlyView 20 December 2013 in Wiley Online Library (wileyonlinelibrary.com) DOI: 10.1002/smj.2204
Received 23 February 2012; *Final revision received 17 October 2013*

STRATEGIZING BY THE GOVERNMENT: CAN INDUSTRIAL POLICY CREATE FIRM-LEVEL COMPETITIVE ADVANTAGE?

SERGIO G. LAZZARINI
Insper Institute of Education and Research, São Paulo, Brazil

Despite the prevalence of governmental action devised to foster firms and industries, the link between industrial policy (IP) and competitive advantage has received scant attention in strategic management. I propose a model where such a link is mediated by the accumulation and churning of local resources and capabilities. I also introduce the concept of support-adjusted sustainable competitive advantage (SASCA), which occurs if a firm's observed performance is superior to the expected performance of competitors had they received the same array of policies. I argue that achieving SASCA through IP is a difficult endeavor and requires the interplay of three conditions: insertion in global production networks, geographical specificity, and governmental capability. Thus, the model expands the potential determinants of competitive advantage into the context of governmental intervention.

INTRODUCTION

Can governments help develop firms and industries? For scholars associated with the so-called industrial policy (IP) literature, the answer is a vehement "yes." Thus, Rodrik (1995, 2004) and Amsden (1989) forcefully argue that rapid industrial development is often backed by governmental subsidies and protective tariffs that deliberately distort markets in order to incentivize local investment and entrepreneurship. Influential books have been written about how diverse countries such as Japan (Johnson, 1982), South Korea (Amsden, 1989) and Taiwan (Wade, 1990) have managed to catch up with developed economies through active governmental policy. To some, even the rapid development of the United States owes much to temporary protection against industrialized products from England in the nineteenth-century (Chang, 1994) as well as government-sponsored research and targeted initiatives such as those in computing, health, and agriculture (Graham, 2010; Mazzucato, 2011; Mowery, 1984). Despite criticisms that excessive governmental involvement in the private sector can lead to rent-seeking (Ades and Di Tella, 1997; Krueger, 1990; Pack and Saggi, 2006), some authors go as far as to claim that imperfect IP "is infinitely better than failing on the opposite side" of governmental inaction (Reinert, 2009: 102).

Surprisingly, although strategic management (SM) is about how competitive advantage is created and sustained (Barney, 2002; Peteraf, 1993), there has been scant integration between the SM and IP literatures. However, IP and SM, viewed broadly, do share similar conceptual roots. At a more fundamental level, IP is based on the idea of "imperfect tradability of key inputs (and technologies) associated with modern sector production" (Rodrik, 1995: 78). In other words, a basic cause of underdevelopment is the restricted access to

Keywords: industrial policy; competitive advantage; resource accumulation; governmental capability; development
*Correspondence to: Sergio G. Lazzarini, Insper Institute of Education and Research, Rua Quata 300, Sao Paulo, SP 04546-042, Brazil. E-mail: SergioGL1@insper.edu.br