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COMPETITIVE ADVANTAGE: ITS IMPORTANCE AND IMPACT ON DESIGN OF STRATEGY

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ABSTRACT

This article defines the various aspects of competitive advantage and brings out its importance in order to achieve a better performance that is sustainable over a period of time. Globalization brings forth new opportunities but also puts forward new challenges to be countered in order to be successful.

Key Words: Competitive Advantage, Business Strategy, Sustainability.

1. INTRODUCTION

A company can outperform rivals only if it can establish a difference that it can preserve (Porter, 1996)[1]. The essence of strategy is choosing to perform activities differently than rivals do. Strategic competition can be thought of as the process of perceiving new positions that woo customers from established positions or draw new customers into the market. Strategic positions can be based on customers' needs, customers' accessibility, or the varieties of a company's products or services.

A firm's probability of success depends whether its business strengths not only match the key success requirements for operating in the target market, but also exceed those of its competitors (Dash & Das, 2010)[2]. In any multi-product manufacturing scenario, profitability on a long-term basis is a function of product mix. Moreover, existing demand and/or capacity do not always coincide with or guarantee maximum profitability. Comprehensive analysis of current as well as foreseeable business scenarios, balanced against capacity, capability, plus investment, can help manufacturers optimize their product mix, prioritize their sales / marketing efforts to minimize risk and maximize profitability on a long-term basis. The strategy of the firm has to be so designed that there is a proper fit between external opportunities and internal strengths, while working around external threats as well as internal weaknesses.

A competitive advantage exists when a firm has a product or service that is perceived by its target market customers as better than that of its competitors (Dess et al, 2005)[3]. The magnitude of a firm's competitive advantage is the difference between the perceived value created and the costs to produce the good or service compared to its direct competitors. If the economic value created is greater than that of its competitors, the firm has a competitive advantage; if it is equal to the competitors, the firms are said to have competitive parity; and if it lower than its rival firms, the firm has a competitive disadvantage (Rothaermel, 2008)[4].

2. LITERATURE REVIEW

The business environment and scenario has changed considerably with the opening out of the economies. Development of business activities, competition and markets on worldwide basis is generally referred to as globalization. In economic terms, globalization is referred to as the increasing interdependence between national economies and markets (Stonehouse et al, 2004)[5]. Globalization brings both opportunities and challenges; it liberates and constrains; it creates the largest markets ever known and allows the potential players to be smaller than ever (Kourdi, 2003)[6].

The forces arising from globalization that affect strategy are as follows: (a) Power is increasingly out of proportion to size. In the global economy, it is not simply size that is important; it is other intangible factors such as scarcity or reputation. Firms are able to exert great power and influence if they have something scarce and valuable to offer as earlier they were competing only within the local or national market, but with globalization the demand was now much bigger. Business, thus, becomes better either through increase in prices or increase in volumes. (b) Globalization demands firms to act fast and be flexible, especially in technological developments so that they stay ahead of competition. (c) The more global we become, the more tribal is our behaviour. The more we become economically interdependent, the more we hold on to what constitutes our core basic identity. (d) Globalization has also led to the realization that there are many geographic opportunities beyond the current sphere of operations.

Challenges of Global Markets: Involvement in global markets present a number of challenges for the firms, which influence their competitive advantage in the global markets, and also determine how fast they can achieve economies of scale and scope, in the process realizing synergies from operations in a multi-country environment. While developing a strategy that would make it more competitive, the firm must deal with change, complexity, competition and conscience, which are four interrelated challenges of global marketing strategy (Craig & Douglas, 1996)[7]. In order to be able to keep pace with change, the marketing strategy of the firm should be continuously monitored and reviewed so as to take care of new economic, technological, political and social realities. The effect of these forces in different geographic areas makes it more complex as market configurations evolves, challenging the ability of the firm to handle the widespread and diverse operations. Another challenge which firms face in global markets is the increasing intensity and accelerated speed of competition, with competitors' actions also accelerating change and increasing the degree of complexity. In addition, growing awareness and concern with social responsibility and ethical issues, such as environmental protection and conservation, or consumer rights, requires that the firm develops a social conscience, and takes care of this while shaping its global marketing strategy. Thus, for a firm to be successful in the current business environment, it needs to have visible competitive advantages.

One of the key objectives of any business strategy is to achieve competitive advantage that is sustainable (Stonehouse et al, 2004)[8]. This implies that a strategy will result in better performance in the industry that is sustainable over a period of time. Competitive advantage gets explained by a number of interlinked concepts such as, (a) Superior performance – is often assessed in terms of increased profit returns against sales or investment, higher unit revenue, lower unit costs, higher market share etc. (b) Strategy – is the plan of action by which the business hopes to achieve competitive advantage. (c) Core competences – the distinctive awareness, skills and organization of activities which make the firm different and better than its competitors, acting as the basis of its generic strategy. (d) Innovation – The pace of change in the global business environment means that firms must continuously develop new skills and core competences, so as to innovate faster than competitors. (e) Configuration – the way in which the value-adding actions of the organization are configured on a world-wide basis. (f) Co-ordination or integration – refer to the way the value-adding actions are co-ordinated on a transnational or global basis. (g) Responsiveness – refers to the capability of the firm to respond to local requirements.

Sustainability is assessed in terms of the time period over which improved performance is maintained. The degree to which competitive advantage is maintainable normally depend on a number of organizational features such as its ability to (a) build and leverage knowledge-based core competences, build an architecture and design strategies that are better than those of its competitors and difficult to imitate; (b) co-ordinate and combine its international activities in a better way than its competitors; (c) innovate on a continuous basis and improve strategies, knowledge, competences, architecture and co-ordination;

Apart from the above, sustainability also depends on the ability of competitors to imitate or surpass a business that has achieved a superior level of performance, and also on changes in the business environment, like technological change, which may be beyond the control of the leading competitor and which may enhance or reduce its competitive advantage.

Quantitative assessment of how strongly a company holds its competitive position compared to its rivals, have been developed based on each success factor of the industry and each competitively essential resource and ability (Thompson et al, 2003)[9]. The following industry success factors have been identified: Quality / product performance, reputation / image, manufacturing capability, technological skills, dealer network / distribution capability, financial resources, new product innovation capability, relative cost position, and customer service capabilities. Each of the above-indicated competitive strength was assigned a weight based on its perceived importance in shaping competitive success. Weighted strength ratings were calculated by deciding how a company stacks up on each strength measure (using the 1 to 10 rating scale) and multiplying the allotted rating by the assigned weight. Addition of the weighted strength ratings of the firm for all the measures yielded the overall strength rating. Comparisons of the weighted overall strength scores indicated which competitors were in the strongest and weakest competitive positions and size of the net competitive advantage of each competitor over the other.

There are three well-established frameworks that explain the ways in which sustainable competitive advantage can be achieved. These approaches are as follows: competitive positioning, knowledge and competence-based strategy, and global strategy.

In an industrial supply context, competitive advantages are defined as strategic benefits gained over competing dyads that enable the dyad to compete more effectively in the marketplace (Sethuraman et al, 1988)[10]. In the Resource Based View framework, the theoretical conditions that underlie the achievement of competitive advantages and also create the backdrop for the attainment of competitive advantages in inter-organizational relationships are resource heterogeneity, ex-ante and ex-post limitations to competition, and imperfect mobility (Jap, 2000)[11].

Resource heterogeneity refers to the resource bundles and capabilities that underlie production in a firm (Barney, 1991)[12]. These resources have varying levels of productivity efficiency that enable firms to produce more economically or better satisfy customer demands than their competitors. When these factors are inelastic in supply and insufficient to satisfy demand, then the low-cost firm will earn supernormal profits in the form of rents to their scarce resources. This allows efficient firms to sustain their competitive advantage as long as the resources cannot be expanded or freely imitated by competition. Prahalad and Hamel (1990)[13] note that core competencies that are enhanced as they are applied (i.e., those which involve collective learning and are knowledge based), contain natural learning trajectories that also serve as a basis for competitive advantage. In industrial supply relationships, buyers and suppliers bring together unique competencies in differing functional areas. These competencies may involve learning curves and differing levels of efficiency. When they are combined, the dyad gains access to critical resources that enable the creation of superior value in the marketplace. The more unique the combination of capabilities and the more inelastic the supply of the joint capability, the greater the potential for generating supernormal returns relative to competing dyads.

Ex-ante limitations to competition means that there must be limited competition for a particular resource position prior to any firm's establishing the position. Barney (1986)[14] contends that economic performance depends not only on the returns from various strategies, but also on the cost of implementing the strategies. Imperfections in strategic resource markets, where the necessary resources for implementation are acquired, enable the creation of supernormal returns. Without these imperfections in the markets, firms can only hope for normal returns. Rumelt (1987)[15] argues that unless there is a difference in the ex post value of a venture and the ex-ante cost of acquiring the necessary resources, the entrepreneurial rents are zero.

Ex-post limitations to competition or causal ambiguity is the notion that once a firm is able to gain a superior position, there must be barriers to competition for the associated rents. The work in this area has focused on two forms of ex post competition: imperfect substitutability and imperfect imitability (Barney, 1991; Reed and DeFillipi, 1990)[16],[17]. Substitutes erode rents by making demand more elastic. Much greater attention has been paid to the concept of imperfect imitability. This is the notion that competitors have difficulty imitating the resource stream and eroding the firm's rents. Lippman and Rumelt (1982)[18] call this 'causal ambiguity,' which prevents would-be imitators from knowing exactly what to imitate or how to go about it. Other similar mechanisms include producer learning, switching costs, reputation, search costs, or others barriers to entry. Relationships between organizations are particularly amenable to ex-post limitations to competition because it is very difficult for competitors to observe and duplicate the efforts and, and activities of the dyad.

Imperfect mobility refers to resources that are not easily traded; they are more valuable within the firm than in other firms. This includes resources that are ill defined or non-fungible. Ill-defined resources are those for which there are no well-defined property rights. Examples of this may include customer loyalty or supplier trust. Non-fungible resources are those whose value is derived within a specific context; its value is not transferable to alternative relationships or firms. These resources may be tangible (e.g., capital equipment, manufacturing facilities), or intangible (e.g., human resource capabilities, specific technologies and know-how). Teece (1986)[19] describes co-specialized resources as another case in point. These are resources that have higher value when employed together than when employed separately. When co-specialized or non-fungible resources have few other equivalent uses or value outside the firm, then they are imperfectly mobile. These resources have less value outside the firm, hence, they are not readily bid away, remain bound to the firm and available for use over the long run. This provides a basis for competitive advantage.

3. DISCUSSIONS & CONCLUSION

Competitive advantage thus refers to the condition where the product or service of a firm is perceived to be better than that of its competitors. The most common types of competitive advantage are due to low-price or differentiated products/services. The old school of thought believes that a strategy based on a combination of both low-price and product differentiation will lead to failure. Economies of scale and scope contribute in a major way in retaining a low-price structure.

There are other aspects of strategy which results in competitive advantages for the firm. Quickly responding to changes in the business environment and modifying the operating strategy helps in maintaining its competitive advantage. A firm possessing critical manufacturing capabilities like human talent for technical and execution skills, state-of-the-art manufacturing facilities, specific technical know-how etcetera can leverage on the same and convert them into competitive advantages. The effort that goes into building a successful brand also has a positive impact on the competitive advantage of the firm, especially in industrial products where quality and reliability are important aspects.

Various authors have developed typologies of global strategy, which can be divided in to three main categories: (a) Those that center on the organization's generic strategies and its competitive positioning as the sources of competitive advantage. (b) Those that focus on knowledge, resources, capabilities and competences as sources of sustained superior performance. (c) Those that emphasize the co-ordination and assimilation of operations that are geographically dispersed while pursuing global competitiveness.

One of the strategies of beating competition has been to be in a niche market. This means being in a market where there are not many other players; hence competition is limited. Such markets may not be very large, yet the profit margins justify having a position there. However, due to the normal prevailing market forces, a highly profitable segment will not remain so for long with the high margins bound to attract other players, thereby increasing competition and reducing margins over a period of time. Thus, in such conditions, the strategy would be to innovate to maintain competitive advantage or to identify and move to other related niche markets till the time they remain attractive.

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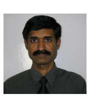

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