



Influence of Strategic Competitiveness on the Performance of Organizations: An Examination of Theoretical Literature

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Abstract

This paper examines the existing literature on strategic competitiveness in broad terms and how the related theoretical framework influence organizational performance. Achieving a competitive advantage position and enhancing firm performance relative to their competitors are the main objectives that business organizations should strive to attain. In order to compete and sustain successfully businesses must not only excel in their area but also persist in the long run. Achieving such a “sustainable competitive advantage” status is not an easy task without a proper strategy being outlined and put into practice by strategic managers. Competitive advantage is a result from and being associated with a long list of contributing factors. An in-depth analysis of four theories is made; the five forces model as postulated by Porter; the resource based view that gave credence to endogeneity; the Dynamic capabilities framework classify resources into seven assets that conjointly enable the firms to identify the need for change, to formulate a response and to implement appropriate measures contribute immensely to achieving and sustaining a competitive advantage; and the relational theory that expounds the need for collaboration amongst organizations. Strategic competitiveness is multi-dimensional and that a firm (Strategic management experts’) can attain it through several pathways and by use of a combination of diverse set of strategies.

Key Words: Competitive Advantage, Strategic Competitiveness, Organizational Performance

1.0 Introduction

Globalization has made business competition fierce (hypercompetitive). This has been sharpened by reduced trade barriers among countries, spread of technology, lower costs of communication and transportation as well as information communication technology development (Bang and Markeset 2012). The pursuit of competitive advantage is an idea very much at the heart of the strategic management literature (Porter & Kramer, 2006; Liao & Hu, 2007). The key question on strategic management is how to create and sustain competitive advantage (Barney & Clark, 2007). Thus, understanding the sources of sustained competitive advantage has become a major area of study in strategic management (King et al, 2007). The fundamental question in strategic management is how a firm can achieve and sustain competitive advantage in the market place. Achieving and sustaining a competitive advantage position and enhancing firm performance relative to their competitors are the main objectives that business organizations, in particular, should strive to accomplish. In order to compete and sustain successfully, locally and globally, businesses must not only excel in their area but also persist in the long run and be able to consistently create new competitive advantages. Achieving such a “sustainable competitive advantage” status is not an easy task without a proper road map or strategy being outlined and put into practice. Competitive advantage is a result from and being associated with a long list of contributing factors. Firms are continuously striving for ways to attain a sustainable competitive advantage.

They need to count more on their internal distinguished strengths to provide more added customer value, strong differentiation and extendibility; in other words count more on their “core competencies”(Hamel & Prahalad, 1994). This brings forth the first approach to organizational performance as being the relationship between the organization and its environment as it is explained by the environment dependence theory. It defines performance as the ability of the organization to secure the limited and valued resources in the environment (Sainaghi, 2010b). This concept gains its strength from the resource based theory (RBV) which utilizes all the useful resources in the environment of the business in order to gain sustainable competitive advantage. In accordance to Porter (2008), performance is viewed as the evaluation of the functioning of an organization under definite parameters such as employee morale, productivity and with the objective of attaining competitive advantage. Further, that competitiveness is dependent on five competitive forces as postulated by Porter (1980).

Under the present turbulent business conditions, strategic capabilities in firms ought to evolve with the ever changing environment and customer requirements. This calls for changes in their strategy of operations within such firms, ultimately leading to sustainable competitive advantage. This gives credence to the dynamic capability framework (Teece et al., 1997). According to Teece, a firm should have dynamic capabilities to shape, reshape, reconfigure, and reconfigure assets to respond to shifting environment and attain a Competitive Advantage. Dynamic

capabilities manifest in several distinct but related capabilities that conjointly enable the firm to identify the need for change, to formulate a response, and to implement appropriate measures.

The well-known phrase which says „no business is an island” means that the firm is a part of a bigger whole and only this perspective (rather than as an independent unit) might help it open to new opportunities and create new concepts of building strategies and strategic management (Hakansson and Snehota, 2006). This approach to relational resources emphasizes that no firm has all the necessary and valuable resources and competencies for being successful in the market. One solution is starting the relations through creation of inter-organizational ties and acquisition of resources and competencies from the environment.

Competitive advantage and firm's performance are two different constructs and their relationship seems to be complex (Ma, 2000). Moullin (2007) highlights strategic competitiveness measurement as one of the tools which helps firms in monitoring performance, identifying the areas that need attention, enhancing motivation, improving communication and strengthening accountability. Performance may be described in terms of four perspectives; financial, customer, internal processes and innovativeness. The financial perspective identifies the key financial drivers of enhancing performance which are profit margin, asset turnover, leverage, cash flow, and working capital (Odhun, Kambona, Odhuno, & Wadongo, 2010). The customer focus describes performance in terms of brand image, customer satisfaction, customer retention and customer profitability (Lo & Lee, 2010).

It is evident from the foregoing that strategic competitiveness is multi-dimensional and that a firm can attain it through several pathways and by use of diverse strategies. This paper therefore explores such perspectives to identify the most optimal advantage creating and advantage enhancing strategies by firms.

2.0 Literature Review

2.1 Theoretical Framework

This section reviews different streams of strategic management theories. First it explores the various strategic management theories relevant to strategic competitiveness; including porter's five forces model, resource based view, relational view, and dynamic framework,. The theoretical foundation culminates in the development and construction of a conceptual framework.

2.1.1 Porter's Five Framework

Porter's five forces model proposes that an industry's structure depends on five competitive forces: (a) bargaining power of suppliers (b) bargaining power of buyers (c) threat of new entrants (d) threat of substitutes and (e) intensity of rivalry (Porter, 1980). The Five Forces model is a simple but influential tool for the identification where power lies in a certain business situation by using the outside-in perspective (Johnson, Scholes & Whittington, 2008). The cumulative strength of these forces determines the profitability hence competitiveness of existing and emerging firms in the industry. The firms should find a position in the industry from which they can defend themselves against competitive forces or influence them in their favor, these commonly referred to as 'positioning approach'. The strength of each of the five forces is inversely proportional to the price and profits such that a weak competitive force may serve as an opportunity, while a strong one, may serve as a threat (Hill & Jones, 2007). A firm will therefore have competitive advantage when it outperforms its competitors, earning profits above the industry averages. Accordingly, Porter (1985) argues that the fundamental basis of above average profits in the long run is sustainable competitive advantage, opportunities as well as neutralizes threats.

To enable a firm deal effectively with the five competitive forces and thus generate a sustainable competitive advantage, the firm is required to develop a defendable position in an industry through competitive strategy. Such strategies could be either a differentiator or cost leader. These two strategies combined with the competitive scope of activities that a firm seeks to achieve result into three generic strategies for outperforming rivals within an industry; (a) differentiation- launching a differentiated set of products which the company provides to its customers a distinctive features products that satisfies their needs as they have a willingness to pay more for these products, (b) cost leadership- focuses on pushing costs down, hence "the low cost strategy" and (c) focus-focusing on a particular segment in the market (Wheelen and Hunger, 2008). Barney and Clark (2007) suggest that to create more value than its rivals, firms must produce greater net benefit, through superior differentiation and/or lower cost.

Using analytical tools such as SWOT analysis, the internal and external forces affecting the industry can be analyzed to gauge sustainability, survival, prosperity and competitiveness

Whatever their collective strength, the strategist's goal is to find a position in the industry where the firm can best defend itself against these forces or can influence them in the firm's favor. Knowledge of these underlying sources of competitive pressure provides the groundwork for strategic agenda of action. They highlight the critical strengths and weaknesses of the company, animate the positioning of the company in the industry, clarify the areas where strategic change may yield greatest payoff, and highlight the places where industry trends promise to hold the greatest significance as either opportunities or threats (Pearce and Robinson, 2010).

Although the Five Forces model is one of the most known and widely spread strategic management models in practice nowadays, the criticism became progressively harsh in the recent years (O'shaughnessy, 1984; Speed, 1989; Dulcic et al, 2012). However, most detractors demonstrate that economic conditions changed basically in the last

decades (Conklin & Tapp, 2000). The first criticism is the fact that Porter (1979) has no justification for the choice of the five environmental forces, which prove the validity of his choice (O'shaughnessy, 1984; Speed, 1989). Other stakeholders like the government, shareholders, local community, trade associations, creditors and special interest groups could form a sixth force (Hunger and Wheeler, 2001). The second criticism is that the model only generates snap-shots. According to Thyrlyby (1998), the Five model's nature is static indicating that its applicability is in a stable unchanging marketplace. Thus it is much more difficult to determine markets with higher competition dynamic because they can change very quickly. This demands a steady creation of new models. Dulcic et al. (2012) are extremely critical in regard to the use of this model. In their opinion taking the dimension time into account might be beneficial for managers. If they take care about the 'time dimension', managers are better able to consider market trends and changing environment. Furthermore making use of the Five Forces framework does not guarantee a competitive advantage that is inviolable and sustained (Aktouf, 2004). The reason for this lies in the fact that Five Forces framework is a static model, which does not include consistently changes of the competitive environment (Karagiannopoulos, Georgopoulos & Nikolopoulos, 2005). According to Hill and Jones (2008) Industry factors are able to justify business performance variations. Those factors can only motivate 20 per cent of the variations in terms of market share, growth and industry profitability (Grant, 2011). Today's goal is not only to protect against the Five Forces, it becomes more and more important to start collaboration and maintain innovation due to the increasing power of the Internet and other information technologies (Karagiannopoulos et al., 2005; Holm, Eriksson & Johanson, 1996). Flower (2004) and Downes (1997) criticize Porter's model because of the missing attention to 'Digitalization', 'Globalization', and 'Deregulation'. Those three factors are one reason why the industry structures changed during the last decades. In addition, Grundy (2006), notes that the framework not refers to the 'PEST' factors or to the 'dynamics of growth' for a certain industry or market. The Five Forces model does not assess the resources and capabilities of a company, which are also relevant for analyzing the overall profitability (Rivard, Raymond & Verreault, 2006). This is brought forth by the RBV.

2.1.2 Resource Based View

Resource based view (RBV) is considered as one of the most accepted theories of strategic management (Powell, 2003). The RBV has emerged in recent years as a popular theory of competitive advantage. The term was originally coined by Wernerfelt in 1984 (Fahy, 2000). Fahy (2000) has reasoned that the principal contribution of the RBV of the firm has been as a theory of competitive advantage. The resource-based view of the firm predicts that certain types of resources owned and controlled by firms have the potential and promise to generate competitive advantage and eventually superior firm performance (Ainuddin et al., 2007).

The RBV stipulates that in strategic management the fundamental sources and drivers to firms' competitive advantage and superior performance are mainly associated with the attributes of their resources which are valuable and costly-to-copy (Barney, 1986, 1991, 2001a; Conner, 1991; Mills, Platts and Bourne, 2003; Peteraf and Bergen, 2003). As such, in order to achieve a competitive advantage level that not only can at least match those of their business rivals' but also will be able to exceed the industrial performance averages, business organizations have to initially seek understanding as to the relative degree of relationship between their organizational internal resources, competitive advantage and performance. Barney (2007) articulates the firm's resources as the fundamental determinants of competitive advantage with two critical assumptions; heterogeneity and immobility. He further argues that only resources which are simultaneously valuable and rare can generate competitive advantage.

Barney (1991) suggests that firm resources must have the following four attributes; (a) it must be valuable, that is it exploits opportunities and/or neutralizes threats in a firm's environment; (b) it must be rare among the firm's current and potential competition; (c) it must be inimitable and (d) it must be non-substitutable in order to be a source of a sustained competitive advantage. In accordance to Barney (1991), firm resources include all assets, capabilities, organizational processes, firm attributes, information, and knowledge controlled by a firm that enable the firm to conceive and implement strategies that improve its efficiency and effectiveness. Furthermore, a firm is said to have a sustained competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors and when these other firms are unable to duplicate the benefits of this strategy (Barney, 1991).

The RBV provides an avenue for organizations to plan and execute their organizational strategy by examining the position of their internal resources and capabilities towards achieving competitive advantage (Kristandl and Bontis, 2007; Sheehan and Foss, 2007). There are several criticisms on the RBV: firstly, the unit of analysis for the various resources that contribute to competitive advantage is not certain and uniform. Secondly, the RBV is thought to be tautological and blurred as well as neglecting the significance of the competitive environment (Wang and Ahmed, 2007). Penrose (1958) argued that resources are unlikely or rarely valuable in seclusion. As a result, a combination of a firm's resources might be able to be valuable, but then competitive advantage is unlikely attributed to one individual resource (Lockett et al, 2009). Thirdly, the issue of heterogeneity creates problems for researchers with the interest in creating a homogeneous sample for testing specific RBV hypothesis (Lockett et al., 2009).

2.1.3 Relational View

This view argues that the resources generating competitive advantage can span firm boundaries and embedded in inter-firm relations. This therefore means that the evolution of competitive advantage is not only limited to those in the custody of a firm (as in the RBV) but also from the external resources in the relational networks (Arya & Lin, 2007; Dyer & Singh, 1998; Lavie, 2006.). This view deal with the significance of strategic relational resources that are generated from the collaboration with other firms which can be the source of competitive advantage (Lavie, 2006; Dyer, Kale and Singh, 2001). There are four probable sources of inter-organizational competitive advantage: relation-specific assets, complementary resources/capabilities, effective governance and knowledge-sharing routines (Dyer and Singh, 1998). This view is regarded as an extension of the RBV. However, it focuses on shared resources only rather those that are not shared making this view to be a complement rather than a substitute to the RBV. It also only refers to inter-firm relationships but does not involve social partnerships between business and not for business and not-for profit organizations which could also create strategic advantages for firms (Eweje & Palakshappa, 2009). More specific, the following mechanisms characterize the relational resources and safeguard their rent (Dyer and Singh, 1998): (a) inter-organizational assets interconnectedness; (b) partner scarcity; (c) resource indivisibility; (d) complexity of the institutional environment. Once the firm explores the sources of relational rent, it must define the models that support the defense of the relation-based competitive advantage.

2.1.4 The Dynamic Capabilities Theory

The dynamic capabilities framework (Teece et al., 1997) has attracted great attention in strategic management and organizational research as it has great potential to explain how firms attain and sustain competitive advantage. A growing body of empirical research evolved around this complex framework. Dynamic capabilities' effects on competitive advantage on firm level (Wu, 2010) or process level (Pavlou & El Sawy, 2006) have been examined. Dynamic capabilities are defined as "...the capacity of an organization to purposefully create, extend, or modify its resource base" (Helfat et al., 2007) and thus represent a dynamic extension of the resource-based view (Barreto, 2010). Dynamic capabilities thereby operate on other – operational – capabilities (Collis, 1994; Winter, 2003), which are resources themselves, and thus, are part of the resource base (Barney, 1991; Helfat et al., 2007). Thus, dynamic capabilities alter the resource base by building, integrating, or reconfiguring operational capabilities (Helfat & Peteraf, 2003).

A capability is defined as the ability to perform an activity (Amit & Schoemaker, 1993; Grant, 1991; Helfat & Peteraf, 2003; Penrose, 1995) in the sense that a firm can carry out a specific activity purposefully, repeatedly, reliable, and in an at least minimally satisfactory manner (Helfat et al., 2007; Helfat & Winter, 2011). Operational capabilities are those that enable an organization to perform the ordinary or regular business activities (Collis, 1994; Helfat & Winter, 2011; Winter, 2003). This relates to the ability to perform the activities necessary to design, produce, market, and deliver the product, as well as the necessary supporting activities (Collis, 1994; Porter, 1985). Accordingly, examples of operational capabilities are R&D, product development, marketing, organization, management, etc. (Amit & Schoemaker, 1993; Grant, 1991). There are two kinds of capabilities by the function they fulfill.

Operational capabilities conjointly 'produce' the products and services by which a firm makes its living. Dynamic capabilities, however, do not directly affect the output of the firm in terms of its products and services, but indirectly through the impact on operational capabilities (Helfat & Peteraf, 2003). The dynamic capabilities framework thus attempts to provide an answer to the fundamental question, why some firms succeed in dynamic competitive environments while others fail (Arend & Bromiley, 2009).

2.1.5 Conceptual Framework on Strategic Competitiveness Influence on Performance

INSERT FIGURE 2.1 HERE

3.0 Discussion

The imperative question in strategic management is why, despite of nearly similar circumstance and within a given environment, some firms succeed yet others fail. By succeeding, it means that such firms are in a position to outcompete others in the same industry. This is achievable by having a superior performance that more often than not is gauged by supernormal profits, large market share, a loyal customer base and continued growth. Such a firm is said to be sustaining its competitiveness.

A myriad of reasons are attributable to such superior performance. These are explained by various theories. Not a single theory to-date can be able to explain such competitiveness exhaustively. Instead the emergent of theories has been the build-up from the previous ones as a result of the ever changing business circumstances, environment as well as evolving customer needs and tastes. The initial five forces model by Porter, though still applicable in the current world, is too rigid and static that it cannot sufficiently be relied on by strategic managers for decision making. The RBV is instructive for firm competitiveness due to inherent firm resources which if well

harnessed will lead to superior performance. However, it is rigid, static and inward looking. Some of its major strengths, VRIO, could have been overtaken by events given the speed of imitation in the current world and the unprecedented explosion of knowledge and thus creativity and innovation than ever before. To cater for the static nature and insufficiency of the two theories, Teece et al (1997) came up with the dynamic framework to explain competitive advantage. According to Teece, a firm should have dynamic capabilities to shape, reshape, configure, and reconfigure assets to respond to shifting environment and attain a Competitive Advantage. Dynamic capabilities classify resources into seven assets; complementary, reputational, financial, technological, institutional environment, structural assets and market structure (Teece et al., 1997). Dynamic capabilities manifest in several distinct but related capabilities that conjointly enable the firm to identify the need for change, to formulate a response, and to implement appropriate measures.

The current business scenario must not be competitive all the time. Firms' need to come together to share a resource for which each has a superior advantage in order to complement each other. This is because no one organization is fully endowed on its own within the environment as to be totally self-sufficient. This forms the basis for relational theory and thus alliance network formation.

4.0 Conclusion

The aim of this literature examination is to find the influence of strategic competitiveness on the performance of organizations. Strategic management entails the formulation and implementation of appropriate strategies that will lead to firms creating and sustaining competitiveness and hence superior performance. Strategies for implementation can be drawn from the survey of the relevant theoretical and conceptual framework postulated by renowned scholars.

Imperfections and limitations in earlier theories of strategic management such as Porter's five forces framework and RBV makes them inadequate by themselves to fully explain the source and sustainability of competitive advantage in organizations. Due to the dynamic and ever changing business environment, competition among firms' has become more fierce, a reason why they require superior strategies in order to survive such turbulence. This brought forth the dynamics theory that changes with the times as well as the relations theory that advocates for alliance among firms rather than competition.

Individual firms are often unable to cope with competition in the global arena by their singular resources and capabilities. Therefore they ought to enhance their own core competencies as well as seek out cooperation with other firms to develop relations networks for mobilizing external resources

Strategic competitiveness is multi-dimensional and that a firm can attain it through several pathways and by use of a combination of diverse strategies. Strategic management experts therefore ought to selectively take into consideration all the important aspects in each of the acclaimed theories for implementation, depending on the environmental requirements, in order to attain and sustain a superior competitive advantage. This entails having value creating strategies i.e. advantage creating and advantage enhancing strategies for superior performance.

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Annexure

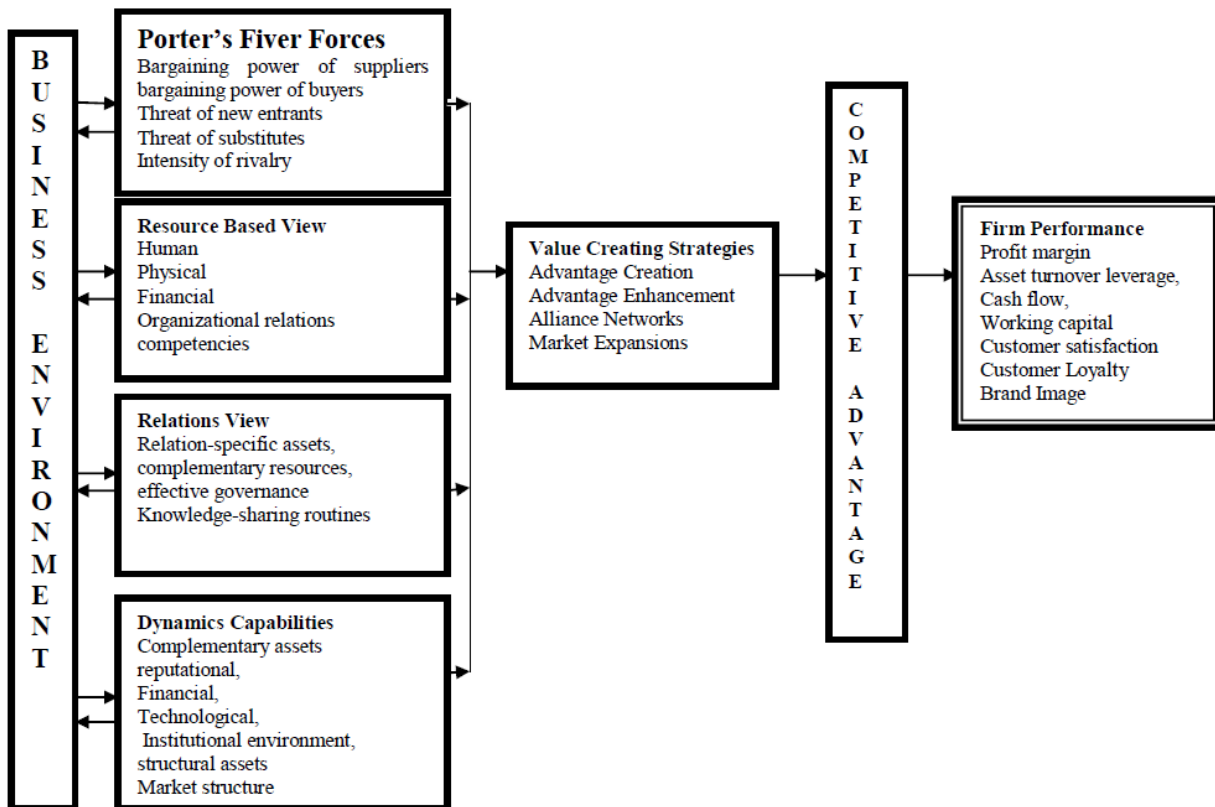


Figure: 2.1 A model for influence of strategic competitiveness on organizational performance