Sources of Business Competitive Advantage: A Review

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Abstract

Business competitive advantage is considered among the research community and practitioners as a means for attaining financial goals. The idea is to gain a sustainable edge or superiority over rivals. In the industry context, firms look at demand generation for sales, profitability and market share as key indicators of business success. For this purpose, 'strategy' represents the phenomenon that triggers competitive advantage where an organization employs variety of means in charting its direction and enabling for execution. This paper takes the framework of strategy as the main argument to explain competitive status of a business. It sheds light on different perspectives on strategic sources ranging from resource-based view to market positioning and social capital as the means of generating and sustaining business competitive advantage.

Keywords: Business Strategy, Sustainable Competitive Advantage, Strategic Advantage Sources, Marketing Positioning, RBV resource-based view, Social Capital.

1. Introduction

Literature suggests that various macro-environmental or industrial factors explain the extent of competitive advantage earned by a business firm. A variety of deliberate managerial actions as well such as innovation, resource generation, or shift of strategic position determine business competitive advantage. Research reveals that competitive

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advantage is best seen from the lens of strategy i.e., envisaging the right organizational destination, running proper course of action, propelling appropriate resources and capabilities, realizing innovation and quality in products/services, manufacturing at lower cost structure than rivals, or a combination of above. Competitive advantage in business organizations is sourced both from firm's internal or external environment covering firm's human and capital resources, suppliers, customers and partners. This discussion entails large and small business contexts in explaining theoretical evolution of the 'competitive advantage,' its determinants and application to business strategy.

2. Notable Determinants of Business Competitive Advantage

Theory indicates competitive advantage to be un-intentional or by deliberate action. On one extreme, Barney (1997) suggests unexpected factors or forces, arising or disappearing without conscious control, to effect upon competitive state of the firm. On the other extreme, a deliberate, well-intended strategic action may develop into sound competitive or cooperative approach to successfully manage firm's culture, structure, process, technology, and people (Chandler, 2001). For example, Ansoff (1965) views competitive advantage as a function of identifying right product-market dimensions for strong competitive positioning of the firm. Similarly, Porter (1985) takes the industry positioning approach to propose competitive advantage as a creation of better customer value compared to a firm's competitors by performing specific activities that are either more economically driven or superior in terms of quality or services, or a combination of the two. Porter understands competitive advantage as a value created for buyers that exceeds firm's cost structure. He expects businesses to leverage with attractive value proposition to customers as a viable source of competitive advantage. The competitive advantage notions proposed thus far converge on the point of strategy formulation i.e., providing superior value resulting in a favorable competitive position. It may imply growth for large firms but for SMEs (small and medium enterprises) competitive strength means survival (Simpson et al., 2007). This underscores a

tremendous need for developing critical competencies for SMEs in dynamic industrial conditions.

Another view of competitive advantage arises from the perspective of firm's resources. One of the earliest explanations in this regard comes from Penrose (1959) who attributed resource-based view (RBV) including internal firm characteristics such as management capability, economies of scale, technological capacity, etc., to business competitive advantage. The theory of RBV focuses upon acquisition of core resources rather than mere adjustment of firm's operating category to fit with environmental changes as proposed in the market positioning framework. RBV believes in a sustained construction of core resources to deliver competitive advantages thereby enabling firms to survive and grow regardless of changes taking place in the environment. Wernerfelt (1984) supplemented with the concept of resource position barrier that determined firm's differentiated resources for sustainable competitive advantage. Later, the concept of RBV was refined by Barney (1991) who characterized and defined valuable resources as tacit, complex, exclusive, being unable to rapidly aggregate, and preventable from being easily acquired by competitors. In this perspective, strategic competitive advantage derives from firm's core resources and competencies that are valuable, rare, inimitable, and non-substitutable. Later, Ma (1999) categorized the discussion into three generic types of competitive advantages including ownership-based, accessed-based, or proficiency-based. This conceptualization combined leading theoretical views such as unique resource endowment (Barney, 1991); superior knowledge, competence, or capabilities in managing business processes (Prahalad and Hamal, 1990); and exclusive relationship with a supplier or distribution channel (Bailey, 1997). Once resources and capabilities are acquired, according to Collis and Montgomery (1995), firms should focus on the impact of their utilization leading to strategic implementation. In sum, the RBV considers firm's internal potential as an important factor in neutralizing threats and exploiting environmental opportunities for competitive edge advantage.

Recently, Adner and Zemsky (2006) drew attention to the demand-based perspective of sustainable competitive advantage. Their conceptualization involves the importance of quality to the market and thus classifies four resource types in value creation. This includes process resources to lower firm's cost structure, product resources to increase firm's performance, timing resources to deliver value by right timing to the market, and innovation resources to influence technology trajectory. According to Adner and Zemsky, these and other resources shape value creation in the process of developing firm's competitive position.

A different dimension comes from the social capital theory that focuses upon collaborative approach as a source of business competitive advantage. As organizations depend upon their environment to provide resources (Pfeffer and Salancik 1978), firm's internal and external network can be instrumental to its performance. Social capital theory stresses upon inter-firm collaborative networks from both demand-side and supply-side. Yu (2000) explains upstream and downstream relations as production networks. Interpersonal collaborations in these areas explain the strength of network relation between organizations for mutual benefit. Powell (1990) elaborates that network relationship management depends upon trust. Similarly, such networks, in turn, facilitate development of trust between firms (Hite, 2005). To understand the importance of social and business networks, Coviello and Munro (1995) assert that firms lacking strategic resource minimize risks by establishing and maintaining network relationships for obtaining such assets and capabilities. To stress on the role of individuals, Chang and Tan (1999) regard business managers as nodes that mesh interpersonal networks together for economic and business interests. Identifying three areas of networks, Hite (2003) explains that business links are affected by personal relationships, dyadic economic interaction, and social capital. His work also proposes different other combinations of social network components, discussed above, for creating business ties.

3. International Context in Business Competitive Advantage

In the pursuit of acquiring competitive advantage at international level, literature suggests globally-coordinated marketing or competitive moves (Ohmae 2000) and country-specific maneuvers for gaining competitive advantage (Porter, 1990). Research also identifies a third category that focuses on globally integrated yet locally responsive strategies for pursuing global competitive advantage (Gupta and Govindrajan, 2001). For determining a national competitive advantage of particular industry of a country, Porter (1998) suggests four forces that are mutually reinforcing. These include factor conditions (supply-side), demand conditions, related and support industries, and rivalry of local competitors. Porter sees the competitive advantage of a nation's industry to derive from these forces. Moreover, he argues that only those industries that deliver a positive growth pattern in their own local markets can promise success in the international context.

Interestingly another source, cooperative strategy, has been highlighted in business literature as a viable approach for attaining competitive advantage. This suggests inter-firm collaborative arrangements (Yip, 1995) such as international joint ventures and strategic alliances to yield competitive viability in the global competitive arena (Hamel et al., 1989). Another view takes co-option to highlight the interactional effect of governmental agencies (Bailey, 1997), third-party neutral players in the industry (Hill, 1997) or influential stakeholders (Doh, 2000) for attaining a positive competitive standing. Especially, for co-option, the rationale for differentiating is threefold. First, the alliance is made with stakeholders or independent players that are not directly in competition or cooperation with the local firm in question. Second, the entity chosen for alliance should be non-economic or non-market in origin (Baron, 1995) with a significant influence over the firm's performance in the global competition (Bailey, 1997). Third, the mechanism used in cooperative interaction is often implicit or informal based on socio-cultural, political, or legal reasons. In this light, it is a

distinct approach compared with explicit collaborative approach in the inter-firm cooperation framework.

The context of internet has special implications on business. Web is an amalgam of information and communication technologies that permit business transactions across physical or geographic borders. Quelch and Klein (1996) regard any company that markets products or services over the Web as a global company. Porter (2001) thinks that by focusing on operational effectiveness and distinctive strategic positioning, internet firms can achieve a sustainable competitive advantage. Web is an active arena to the application of strategic positioning, a concept mentioned earlier by Porter that refers to not just doing things differently than competitors, but serving target markets with a unique value. In this perspective, Web-based firms catering to a large market around the world can employ customer-driven strategies to build a sustainable competitive advantage. For example, service-driven companies leverage from customer relationship management (CRM), a management and technological approach. Based upon Web-based computing and information technology, businesses can play a dominant role in attracting and retaining customers in the global market. Especially for CRM, Agarwal (2003) and Panda (2003) have found the Web channel is critical in developing a profitable and interactive relationship with customers, maximizing value proposition, and impacting upon long-term firm performance.

4. Implications on Small and Medium Enterprises (SMEs)

The research community treats competitive advantage in the SME context different from the large-scale organizational sector. Beaver and Prince (2004) consider competitive advantage for small firms a matter of survival than growth. The idea is similar to the assertion of Jones (2003) that small firms should focus on value-addition in processes or manufacturing/service innovation as a measure of competitive advantage rather than mere profits or market share. Competitive advantage by SMEs involves the role of entrepreneurs (Hannon and Atherton, 1998),

firm's resources and capabilities (Collis and Montgomery, 1995) along with supporting agencies (Kettunen, 2002). This represents a dynamic nature of strategy formulation process that essentially utilizes major resource factors available to the firm (Buckley et al., 1988). SMEs face a peculiar challenge to balance changes occurring in larger business environment with changes at the firm level involving owner's role, obligations, and resource and capability issues.

McKee et al., (1989) believes that the business environment can largely help in determining strategic options available to the firm. The issue for SMEs is therefore to create a strategic, organizational and operational fit with changes taking place in their industrial context. For example, Chakravarthy (1982) underscores the importance of adaptation at the firm level that determines its strategic options. According to him, adaptation is to overcome misfits due to inadequate strategies, failure to optimally involve firm's resources and capabilities in the strategy, or inability to adjust with the business environment. Similarly, Jones (2003) considers SMEs to be especially vulnerable to environmental changes asserting upon firms to be flexible and adaptive in setting their competitive strategies. Adaptation as a strategic move is known to facilitate in creating competitive advantage, and may involve formal or informal planning activities aiming at products, services, markets, and marketing approaches (Schindehutte and Morris, 2001). Nevertheless, a continuous business environment scanning requires SMEs to be insightful and adaptive for envisioning scenarios of the future (Srivastava et al., 2001). Such a practice is expected to continuously evaluate fitness of resources and capabilities of the firm considering its strategy-development needs and requirements (Chakravarthy, 1982).

Another important factor for competitive advantage in the SME context is the institutional support including private and public for providing diverse facilitation. According to Kettunen (2002), industry and government associations, chambers of commerce, training centers, financial institutions, education and training institutions play a pivotal role in facilitating SMEs to improve their competitive status. This

includes mutual interaction of institutional bodies for interaction and provision of essential inputs to enable strategic direction aiming at competitive success.

Importantly, at personal level, an entrepreneur has a tremendous role in determining organizational culture, strategic direction and focus on resource deployment. Hrebiniak and Joyce (1985) consider entrepreneurial role as vital in identifying opportunity, developing strategy, assembling resources, and taking initiatives leading to business success. Venkataraman and van de Ven (1998), consider the impact of entrepreneurial team on organizational learning. This demands the ability of the SMEs to exploit a host of competencies including organizational, social, and intellectual skills along with inculcating a sense of commitment (Man et al., 1998).

5. Conclusion

Research reveals strategic direction and competitive edge to guide functional and firm-level objectives for gaining superior financial goals. To this end, firms seek a variety of sources leading to a better competitive positioning. Such managerial initiatives involve tapping resources, capabilities and their utilization. Important perspectives concerning strategic sources include marketing positioning, resources-based view, social capital along with a focus on environmental adaptation and entrepreneurial management at firm level leading to competitive advantage.

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