

The competitive position of a company



This statement (in the coming referred to as The Statement) holds two different perspectives on the strategy thinking - one based on competitive positioning and the other one based on industry structure and The Statement could to all appearances come from Porter. In Porter's world it is the industry in which a company operates that is the foundation for the strategic analysis (reference). This is where the rules for competition are being made - something that is well documented in Porter's earlier work (see box - Black box reference). In his later work (after 1980?? reference) Porter is more concerned about the resource needed to create a favorable competitive position within the industry. According to Porter every strategic formulation therefore needs to contain the two elements - industry analysis and competitive positioning analyses (reference). My argument in this paper is that the two approaches cannot stand alone and that they are the two sides of the same coin.

Taken the word limitations of this assignment into consideration, this is a short version of a huge area of strategic thinking, literature and ideas.

How and why the stages of the evaluation has been undertaken

I will be evaluating The Statements through two different theoretical approaches to strategy. The industry analyses (outside-in) versus the resource based view (inside-out). I will be working with the two approaches as two opposite poles in strategy thinking. In the industry analyses part I will be focusing on Porters early work (and the positioning school in the coming referred to as P-School) and their approach to strategy thinking. On the other side I will be focusing on the resource based view (in the coming referred to

as RVB). This will be done through 2 different aspects A) The two approaches fundamental hypothesis and B) The two approaches key points of criticism. Finally I will compare the two directions and make the following conclusion/thesis: The main statement of the assignment is too simplistic. In my view it's a combination of internal and external factors that determines the competitive position of a company. The inside-out and the outside-in approaches have much in common and for strategy development both approaches are relevant.

A theoretical approach to evaluation of the statement

There have been several attempts in literature to categorize strategy perspectives or schools of thought (e. g. Mintzberg 1990 and Whittington 2001). The two schools I will be looking at here P-school and RVB school each describing one part of a the SWOT framework (Barney 1991). RVB describes the strengths and weaknesses of a company, and the industry analyses are accountable for opportunities and threats as described in Barneys view on strategic framework. In the following I will try to make the correlation between two key views which both are occupied with the concept of competitive advantage through two components (Verdin & Williamson, 1994); external sources and internal sources.

Focus on the internal sources – Resource based view (Inside out)

The resources based view underlines the internal capabilities of the organisation in achieving sustainable competitive advantages in the market. Studies show that there are differences in companies' returns within specific industries (Werner Field & Montgomery, 1988). These differences are

interpreted as caused by the existence of company specific differences in resources and skills. So it can be argued that it is the companies ' portfolio' of resources and skills and the effective use of them, which determines a sustainable competitive advantage. Jay Barney is often mentioned as the author of the RBV approach (reference), but also significant contributions have been made by authors like Wernerfelt (1984) and Gary Hamel/ C. K. Prahalad (1990). With the publication of the book: The Theory of the Growth of the Firm (Penrose 1959) Edith Penrose advocates the view that the limitation of a company's growth opportunities are primarily related to its internal resources and capabilities. Grant, another noble contributor to the RBV, puts the theses internal resources into three groups: tangible, intangible and human (reference). They all have similar but still slightly different understandings of RBV, but fundamentally they argument for an inside-out view, where the competitive advantage derives from a company's resources. Studies show that there are differences in companies' returns within specific industries (Werner Field & Montgomery, 1988). These differences are interpreted as caused by the existence of company specific differences in resources and skills. So the main hypothesis of the RBV writers is that is its ' portfolio' of resources and skills and the effective use of them, which is the prerequisite for achieving sustained competitive advantage (reference).

Fahy, Smithee (1999) cites Hooley, Moller and Broderick (1998) for criticising the resource-based view for its inward focus which risks ignoring the nature of market demand. Also Priem Butler (2001) made several points of critic by arguing that the role of product markets is underdeveloped in the argument,

and that different resource configurations can generate the same value for firms and thus would not be competitive advantage. Priem and Butler further argue that the RBV is lacking detail and therefore being difficult to implement.

The most outspoken criticism of the school's theory and method is directed against the school's one-sided emphasis on the company's resource at the expense of the market. It can be argued that this theory is too one track minded on enterprise resource being the only factor in building competitive advantages. The resource-based only relates inward – inside out, so it does not create an immediate understanding of its environment, or the fact that a company must act in the environment in order to be competitive.

Focus on the external sources – Industry Perspective

Porter is a prominent scientist in relations to the outside-in view – at least his work before 1980 (reference) (which is what I will comment here). Porter and the P-School, tries explaining why some companies are more successful than other companies when they apparently are subject to the same business conditions (reference). In addition, the school has focused on answering the question “ What forces drive competition in an industry”? (reference). In relation to The Statement Porter believes that for the individual company, the industry structure is essential for the company's strategic development and competitive position (reference). Porter identifies 5 different basic forces which determine a company's competitive position in the market – a model of industry attractiveness – Porter's 5 Forces. The five forces is an out-side strategy tool which is used to illuminate the main competition issues in a market and measure how strong and important each one of them is.

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A critic of Porter and the P-school is linked to the fact that the choice of strategy is largely based on analytical desk work, without prior knowledge of real market conditions. Mintzberg writes in his book - *The rise and fall of Strategic Planning*: "The whole positioning school of which Porter is the leading spokesman depends to such an extent on strategic analyses, that it virtually replaces overall planning as the main activity" (Mintzberg 1994: 273). Porter's Five Forces Model has some limitations with the market and business environment we have today. One of the criticisms is that the model assumes a relatively static market structure ((Prahalad and Gary, 1990) that can only create a snapshot picture of the market situation. Porter's model is based primarily on the economic situation in the 80s were characterized by strong competition and a stable market structures. Today's market is dynamic, hectic and constantly changing (Prahalad and Gary, 1990), which also affects the firms acting in these markets. Another recent critique is made by Larry Downes (2001) who comments on Porters theory not being as important as they used to be, as new economic laws, conditions and markets have raised (globalisation, digitalisation and deregulation). Still they are valid to some extent, as long as they are used with the knowledge that they have limitations within them. Hill and Jones (1995) make further criticisms of Porter's 5 forces by stating that a company's success is not certain to be successful just because it operates in an attractive industry. The positioning school are solely focused on the market conditions and their crucial role in the competitive position of a company (reference). They do not involve the internal environment in determining/improving the competitive position of a company. This is a very limited view, which is the same critique as I put on the RBV - it's too one-sided.

Alternative nonfinancial perspective to Inside-Out and Outside-in approach

An alternative theoretical approach to Inside-Out and Outside-in in a nonfinancial measure could be done by looking at the contingency approach to management and strategy development. Fiedler's contingency model has the basic assumption that there is no best way of organizing or leading (Fiedler, 1964). Charles W. Hofer (1975) discusses the concept in terms of business strategy development. The contingency approach to strategy thinking underlines the importance of developing a best fit between structure, strategy and environment (lærebogen side 69).

Summery – Not either or, but complementary

I have now looked at our statement through two perspectives to strategy thinking. In my opinion, there is no one best way. It's about finding the perfect fit between inside out and outside in focus. The industry perspective and RBV perspective in strategic analysis are two parts of the same whole. E. g. in analyzing the industry perspective, it is possible to identify elements, which lies outside the area of RBV and vice versa. To be able to navigate successfully and be successful in today's dynamic markets you have to adapt to the external environments as well as the internal resources and ideally create the perfect fit between them. So it's not neither or, but a complementary of both approaches, which is also the direction Porter is giving in his later work from 1985 (Murray, A. I.: 390).

Conclusion

Strategic analysis has two dominant approaches or better referred to as fractions or perspectives. Outside In which is based on Porter and the

positioning schools and the inside out concept which is often referred to as RBV Barney being the central author. This papers main point is that none of them can do without the other. The fundamental difference is that inside-out looks at the strategic analysis and a company competitive ability as being based on the internal resources and capabilities of which the company has at its disposal. On the other hand, outside in works from the starting point that it is the structure of a given industry which determines the companies competitive ability. An industry analyses requires both internal and external analyses to be successful.

The Statement “ The competitive position of a company is determined by the industry structure in which it competes.” should be rephrased to “ The competitive position of a company is determined by the internal resources available to the company and by the industry structure in which it competes.” ... if the statement should be fully correct.