

Concept of competitive advantage | literature review



Abstract:-

This article addresses the issues of the development of the concept of competitive advantages. It is based on theories of different writers, their explanation and a literature review of these theories. Competitive advantages arises from different firms attributes and characteristics that allow one firm to create better customer value than do others. Competitive advantage includes ownership of assets and their positions. To achieve and sustain competitive advantage, a firm or industry need to create creativity. Strategic management theories give the concept of competitive advantage and explain the performance and ability of the firm and describe how we can run the firm in the right direction.

Introduction :-

The concept of competitive advantage are quiet same in different industries or firms and writers are explain in different ways but they rotate on same point for example superior performance of the firm in a decent manner. There are various theoretical framework are used to explain competitive advantage. Competitive advantage arises from the differential among firms along any dimensions of firm to create better customer value against the competitors. The basic purpose of this coursework to indicate how firm can gain their position in the market. This coursework can help to analyse different theories of management and give an integrative framework that helps management practitioners systematically analyse the nature and cause of competitive advantage in a different manner.

LITERATURE REVIEW:-

There are basically five forces to develop basic foundations include competitors, threat of new entrants substitute products, bargaining power of suppliers and bargaining power of buyers. Companies are fighting with each other and some of them are defend itself against these competitive forces (Porter 1998).

The resources and capabilities of a firm are the central consideration in formulating its strategy. The resource based theory approach to strategy formulated understands the relationship between resources, capabilities, competitive advantage and profitability. According to writer there are four factors which are useful for the firm to increase their depth i. e. strategy, competitive advantage, capabilities and resources (Grant 1991).

According to writer he relates the competitive advantage with a theory of comparative advantage. According to his theory he say that the comparative advantage theory suffer from the same weakness as a neoclassical theory of the firm. So according to writer the idea of competitive advantage gives explanatory power of strategy and organization. The success of firm in the market depends upon the organisation work of firm, sector and their interrelationship. They sought where a competitive advantage could be established by devolving organizational superiority (Bagnoli. et. al; 2003).

There can be a heterogeneity or firm level differences among firms that allow some of them to sustain competitive advantage. The main concept of theory are based on four points i. e. valuable, rare imperfectly unite able, without strategically equivalent substitutes (Barney 1991).

The ability of the firm is stay ahead of competition with the help of their superior performance and leaderships. So competitive advantage is directly proportional to competition either it is in different departments or in different firm throughout the world. Manager could understand the current position of the firm. In short porter argues that strategy is a race to get an ideal position in the market and differentiate itself for targeting customer (Porter 1998).

Scholars in the strategy field are concerned fundamentally with explaining differential firm performance. As strategy scholars have searched for sources of competitive advantage. Two prominent views have emerged regarding the source of supernormal returns. Primarily a function of a firm membership in an industry with favourable structural characteristics and secondly is that differential firm performance is fundamentally due to firm heterogeneity rather than industry structure (Rumlet et. al; 1994).

Competition in any industry does not stem only for competitors and it also influenced by the underlying structure of the industry. Additionally author stresses competitive advantage, which is created and hence can be controlled by individual firms and not comparative advantage (access to factors of production like cheap or natural resources), which is mainly inherited (Porter 1985).

The purpose of the industrial organization was the internal competition of the industry. This aim was inverted to produce models aim at helping firms realize supernormal returns by surreptitious way of competition (Barney 1986).

The development and implementation of new ideas by people who overtime engage in transactions with other within an institutional context (Van 1989).

The generation, acceptance and implementations of new ideas, processes, products and services to create a market and competition against the competitors (Kanter 1983).

Different researchers attempt to explain the superior performance of the firm. They explain how firm can gain their better position in the market. Some of them say, the leading hypothesis is that sustained superior performance coming from sustained competitive advantage Barney (1997). But on the other hand Grant (1998) can relate the superior performance of the firm with competitive advantage. According to them competitive advantage and superior performance of the firm are different unit to each other. Theories are different as the source of competitive advantage. Because some time firm gain their superior performance by using different tactics like monopoly, because they want to maintain their position or protect their position against the compotators. This is the best point according to the big firms, because they create monopoly in the market and try to protect their position (Caves et. al; 1977)

Sometimes the superior performance of the firm depends on the level of the firm, business unit, corporation or industry. Because in big firms the power of gaining is more as compare with small firms. So small firms cannot compete the large firms (Powell et. al; 1997). Better explanation for superior performance may exist, it has specifiable causes and these causes are tied

to perform distributors may be fellow simple heuristics or stem for a single process such as problem solving Popper (1972).

According to Powell (1996), strategic management has not told us the significant debate on the competitive advantage. According to writer there are two proportions are important to increase the performance of the firm. First one is the dependent variable (superior performance) of the firm and secondly independent variables include competitive advantage. He separates these two proportions and gives the relationship between them. On the other hand if we examine this theory with other theories like Porter (1998) theory. His attention toward the firm and how much firm create competition in the market and how much effort put by firm to stay ahead against the competitors. But according to Robert (1999) sustainable competitive advantage is not necessary or important for the superior performance of the firm. But on the other hand Barney (1996) can relate sustainable competitive advantage with the performance of the firm.

There is substantial agreement with in the literature on the price, cost and differentiation definition of competitive advantage. But according to Reed (1990) competitive advantage does not play a vital role for making the firms strategy. He creates a link between competitive advantage and competence. He says competitive advantage can be derived from numerous sources and advantage can come from competence and this competence can control by firm and can be manipulated with in the strategy to generate advantage for performance. On the other hand Porter (1998) says superior performance of the firm is due to the competitive advantage. He relates competitive

advantage directly with the competition, so the ability of the firm to stay
<https://assignbuster.com/concept-of-competitive-advantage-literature-review/>

ahead of competition with help of their superior performance. But the major development comes when Hofer (1978) described competitive advantage “the unique position of an organization developed against the competitors through its patterns of resources deployments”. He suggesting that competitive advantage ensues from competencies. They also say that competitive advantage as something can be used with the firm strategy. As such competencies and competitive advantage are independent variables while a firm performance is the dependant variables.

(Mahoney et. al; 1992) suggests in his article about the special issue in his article. He says firm physical resources and its capabilities interact to create competitive advantage. He seeks to reconcile the resources and capabilities based theories of competitive advantage through the theory of invisible assets. This theory was proposed by (Itami et. al; 1987) holds that experience and constitute the principle source of sustainable competitive advantage.

If we talk about the competitive advantage then we cannot neglect the overall progress of the country. Some governments can support their industrial sector because industrial sector is directly proportional to the economy of the country especially we can see in china and in of United States of America. So according to Porter (1998) specific elements condition the international success of an enterprise in a certain segments. He figures out that the enterprises of an inferior cost or differentiated product to assert them worldwide. According to them through the globalization of the economic game enterprise to improve their competitive advantage. The same thing can explain by other writers. To create a competitive advantage, <https://assignbuster.com/concept-of-competitive-advantage-literature-review/>

the enterprise is required to progress to innovate and to discover the best competitive opportunities and exploit them. So create an opportunity against the competitors Robert (1999).

According too many writers and their theories, why a country is more competitive than others. The national competitiveness comes from macro-economic phenomena directed by change rate, interest rate, deficit of the national budget. On the other hand some of them Robert (1999) says some companies or industrial sector are try to compete with cheap work force of with cheap raw material. The big example of this point is China. In china the work force is very cheap and there is no tax on any import and export. Chines government are support their industrial sector and improve their economy.

According to the writer, the creation and capture of private and social value by firm that adopt corporate social responsibility strategies. So to achieve a competitive advantage is a responsibility of a manager to accomplish their objective. He relates this theory with the economics such as hedonic pricing, contingent valuation and the new literature on the economics of industrial organization. The same kind of things was discuss by Barney (1986) in his journal and also by porter (1998) in his book.

Sometime researchers are not depending on the same point. Because in every case they have a different task and every case of superior performance is unique, extreme and non-generalization Starbucks (1992). But according to (Bowen et. al; 1999), competitive advantage has generated a large volume of scholarly output, both theoretical and empirical. So

strategic management researchers has not produced a same effect on the competitive advantage. Most empirical studies infer the existence of competitive advantages.

Examples of competitive advantage:-

The most powerful example of achieving competitive advantage against the competitors is an Apple company. First this company based on computers but after that Apple has established a stellar reputation for developing products that there customer needs and want. The iPhones, iPods and iPads each combine functionally, ease of use, which not merely satisfy but delight the customers. They promote their products in a different manner like music for iPods and application software for iPhones. The competitors of Apple Company try to compete by using different hardware features, sometime same features like touchscreen and applications but they cannot compete the Apple Company. The main reason of this happening because Apples instance secrecy about its product development makes it hard for imitation to begin before the product is launched, that's why Apples Company takes advantage over others. Secondly Apple Company gives useful applications like iTunes by being first on attractive fixed charges. So finally prove itself all over the world with their outstanding performance and services.

Chinas is the second most powerful country economically now a days, because of their industrial sector. Chines government support their industry in a decent way and help to improve their strength. In textile sector China play a vital role throughout the world. In 2005 china controlled one third markets of garments in Europe and one fourth markets in United States of America. More than 50% of the market capture by China all over the world in <https://assignbuster.com/concept-of-competitive-advantage-literature-review/>

textile sector. There are few reasons why china is dominant in the market. Firstly the inflation rate is increased all over the world and due to this reason the prices are going up. Secondly low labour cost as compare with Europe and United States of America. In china the utility cost is very low due to the support of their government to their industrial sector. On the other hand Pakistan, India and honking are try to give some competition but they are given so much competition and the market are increased very dramatically. The same thing was discuss by Robert (1999) in his article. He says how much cheap labour and material are affected the overall progress of the company (Brambilla. et. al; 2007).

In 2004, when Danish maker of interconnecting brick toys had lost money each of the previous six years, its survival as an independent company was in jeopardy. Lego had been harmed by falling birth-rates in many developed countries, by low-cost imitations, and by their many boy customers switching from traditional toys to video games and personal computers. This is very interesting thing when your business will decrease due to birth rate. Because the A poorly-conceived attempt at diversification followed. When Jordan Knudstorp was appointed CEO, in addition to divesting noncore businesses and cutting costs, he worked to enhance Lego's competitive advantages. Because of its philosophy of learning through play, Lego had avoided toys about fighting or violence, despite the interest of boys in both. By leveraging Lego's strong brand name, design capability and quality reputation into products based on Star Wars, Batman, and Ferrari race cars, Lego's turnaround gained traction. Knudstorp also grew Lego's Mindstorms

buildable, programmable robot line to the point that it and other non-interlocking-brick products exceed 33 percent of sales.

Sometimes when your strategy maker or upper level management was unclear about the strategy then sometimes the firms are clash. The same thing happening with the Taco Bell company. The CEO John Martin strategy was unclear and performance was mediocre. Understanding with his customer thing and their needs and desires was outstanding; he commissioned a major study employing conjoint analysis. On his first attempt he changes the customer services value with fast service, accurate order filling. But more surprising was that the customer considered the condition captured in the fact formula to be more important than having an authentic ethnic food experience. Taco Bell wasn't competing with Tex-Mex restaurants because competitors are fast food provider but Taco Bell is not. Now John Martin develops a value base strategy and tries to give a better service in low cost. Now he cut down the prices and reducing store size with better facilities. He upgraded the restaurants by using new data entry equipment; improve store layout and the job profile for store managers and for manager assistants emphasized customer service. Due to these changing in his strategy now Taco Bell has 5000 restaurants. So we can easily analyse for this example, if we increase the customer value and give good services with the help of competitive advantage theories then we improve our input in a decent manner.

Conclusion:-

In this assignment I studied different types of competitive advantage

theories and write a literature review on these theories with the help of <https://assignbuster.com/concept-of-competitive-advantage-literature-review/>

different journals and papers. From all of these theories I develop my idea about firm's performance and conclude how firm are ahead against the competitors. Firstly a firm has to look deeply into what it has, what it can do, what it can get. Secondly the competition is not between or within the industry or firm but sometimes the competition is all over the world where firm need to support about nationally (government) as well as internationally (suitable polices for international companies). For internationally success it is required to be able to transform a domestic position into a global one. Finally to create a competitive advantage the company required a continuous progress to innovate and to discover the competitive opportunities and exploit them. Firm should not stop improving the quality of its products and its methods.