

Relationship between generic strategies, competitive advantage and organizational performance

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Abstract:

This paper examines the relationships among generic strategy, competitive advantage, and organizational performance. It focuses on: (i) the relationship of generic strategy and organisational performance, (ii) the relationship between generic strategies and competitive advantage, and (iii) the relationship among generic strategies, competitive advantage and organisational performance.

Key words: Generic strategies, Organizational performance, Competitive advantage

الملخص:

يهدف هذا البحث إلى تحديد طبيعة العلاقة بين الاستراتيجيات التنافسية العامة، الميزة التنافسية والأداء التنظيمي، وذلك من خلال التركيز على : 1. العلاقة بين الاستراتيجيات التنافسية والأداء التنظيمي، 2. العلاقة بين الاستراتيجيات التنافسية العامة والميزة التنافسية، 3. وأخيرا العلاقة بين الاستراتيجيات التنافسية العامة، الميزة التنافسية والأداء التنظيمي. **الكلمات المفتاحية :** الاستراتيجيات التنافسية العامة لوحدة الأعمال، ، الأداء التنظيمي، الميزة التنافسية .

➤ Introduction:

Recent years have witnessed a growing intensity of competition in virtually all areas of business, whether at home or abroad, in markets upstream for raw materials, components, supplies, capital and technology as well as in markets downstream for consumer goods and services. This has resulted in greater attention to analyzing competitive behavior and competitive strategies under different environment conditions. Typologies of generic competitive strategies or strategy types have, for example, been proposed by **Porter (1980, 1985) and Miller (1986)**. Theses authors have examined the levels of performance associated with these strategy types along with their organizational characteristics and the type of environmental conditions under which these different types of competitive strategy are not likely to be pursued by the organization.

In the industrial organization and business strategy literature, considerable interest has been centered on identifying generic business strategies or strategy types based on strategy components, such as the scope or domain of the business, resource depmoyment in marketing, production and R&D, asset management. The primary emphasis has been on examining the link between strategy, environment and performance in an effort to achieve a position of competitve advantage. A number of typologies of business and competitive strategies have

been identified, some based on a priori conceptual frameworks, others on empirical studies. The number and precise nature of the strategy types identified varies widely, depending on the specific components or variable included, as well as the exact methodology employed.

This study has been undertaken to address some of these gaps in the present research base.

➤ **Research Problem:**

The study shall examine and identify the relationship between generic strategies, competitive advantage and oragnizational performance. Therefore, the following questions have to be answered:

- 1 . What is the nature of relationship between generic and oragnizational performance in company ?
- 2 . What is the relationship between generic strategies and competitive advantge ?
- 3 . What is the relationship between competitive advantge and oragnizational performance in company ?

➤ **Research purpose:**

The overall aim of any research on strategy is “to examine various forms of advantages that a dominant firm may be able to develop and hold over its competitors for some period of time ” (Shamise, 2003).

Our study was understaken to address some of these gaps in the present research base. The purpose of this study is as follows:

1. Identifying the nature of generic strategies and oraganizational performance in company.
2. Describing the relationship between generic strategies and competitive advantage in cimpany.
3. Describing the relationship between competitive advantage and oraganizational performance in cimpany.
4. Consequently, this study, hopefully, will make a modest contribution to the literature, at both teoretical levels.

➤ **The need for the study:**

Reasons that we are behind this study are as follows:

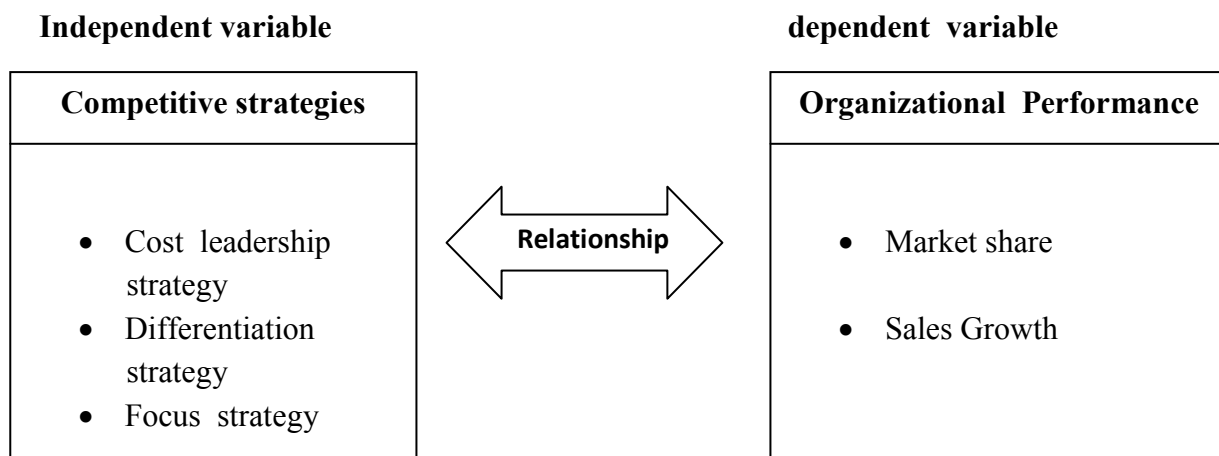
1. Competitive strategies or generic strategies have become the main, if not the only, source for sustainable competitive advantage.
2. This study provides a brief review of the literature and theoretical background on the two main constructs underlying the models tested in this study: generic strategies and organizational performance, and the presentation of our conceptual model.

3. Most of the firms management are not fully interested for the critical role of generic strategies on organizational performance.
4. The paper ends with our conclusions and suggestions for future research.
5. We argue that the strategies that a company managers pursue have a major impact on its performance relative to its competitors.
6. A study of this nature is significant to the literature and field of strategy through the creation of new knowledge derived from a pre – existing framework.
7. This study makes a significant contribution to the strategic management and organizational performance literature.
8. Research on strategic management, in general, has been conducted to examine the interrelationships among the components of strategic management and the impact of these relationships on firm^s performance.

➤ The Proposed Model

Figure (1) present the conceptual framework for the current study. As can be seen, generic strategies (or the competitive strategies) investigated herein – Cost leadership strategy, Differentiation strategy, Focus strategy – all have influence on organizational performance that can be expressed in terms of Market share and Sales Growth.

Figure (1): the proposed conceptual model



➤ Variables determination:

🚩 Competitive strategy :

Porter (1980) defined Competitive strategy as “...a combination of the ends (goals) for which the firm is striving and the means (policies) by which it is seeking to get there “.⁽¹⁾

Porter (1985) identified three generic ways (i.e differentiation, low cost, and focus) in which can gain and sustain competitive advantage over other business in the same industry.

However, the present study adopts **Porter** strategies because they are academically well accepted. **Porter** generic strategies implied that organizations should build their performance systems upon financial and non-financial measures. ⁽²⁾

✚ **Competitive advantage:**

A company is said to have a competitive advantage over its rivals when its profitability is greater than the average profitability and profit growth of other companies competing for the same set of customers. The higher its profitability relative to rivals, the greater its competitive advantage will be. A company has a sustained competitive advantage when its strategies enable it to maintain above – average profitability for a number of years. If a company has a sustained competitive advantage, it is likely to gain market share from its rivals and thus grow its profits more rapidly than those of rivals. In turn, competitive advantage will also lead to higher profit growth than that shown by rivals. The key to understanding competitive advantage is appreciating how the different strategies managers pursue over time can create activities that fit together to make a company unique or different from its rivals and able to consistently outperform them.

✚ **Organizational Performance:**

Laitinen (2002) suggests that performance can be defined as “ the ability of an object to produce results in a dimensions determined, a priori, in relation to a target ” ⁽³⁾ . He also suggests that a well-organized system of performance measurement may be the single most powerful mechanism at management disposal to enhance the profitability of successful strategy implementation. Extensive reliance on financial performance indicators has been questioned by a number of scholars. They argued that a comprehensive performance measurement system needs to comprise both financial and non-financial measures, intermittent and outcomes measures.

Theoretical Framework :

This part of the research represents a review of the literature focusing on the definition of the generic strategies or competitive strategies, competitive advantage, organizational performance, the relationship between the three concepts.

➤ **Competitive Strategy:**

According to Dauglas and Rhee (1989) the two of the most widely accepted of these conceptual frameworks are **Miles and Snow’S (1978)** typology, and **Porter’s (1980)** taxonomy of three generic competitive strategies. The focus of this study is on competitive advantage based on **Porter’s (1980, 1985)**.

In these section we will provide a summary of key typologies. The range of strategic behaviours and their key characteristics for each typology are summarized in table (1).

Table(1): Typologies of Business-level Generic Strategies

Author(s)	Typologies/taxonomies	Charecteristics
Buzzellet et al (1975)	1. Building 2. Holding 3. Harvesting	(1).Improving market share by introducing new products, increasing marketing efforts etc. (2).Maintaining exesting level of market share. (3).Achieving high short-term earning and cash flow by permitting market share to decline.
Miles and Snow (1978)	1. Defenders 2. Analysers 3. Prospectors 4. Reactors	(1).Organizations which have narrow product-market domains. (2).Organizations which operate in two types of product-market domains, one relatively stable, the other changing. (3).Organizations whiwh almost continually search for market opportunities, and they regularly experiment with potential responses to emerging environmental trends. (4).Organizationsin which top managers frequently perceive change and uncertainty occurring in their organizational environments but are unable to respond effectively.
Porter(1980)	1. Cost leadership 2. Defferentiation 3. Focus	(1).Efficiency, exerieence curve policies, overhead control, and other cost reductions. (2).Creating uniqueness in product and /or service. (3).Focusing on specific buyer groups, or market.
Miles (1978)	1.Domain defence 2. Domain offence	(1).Preservation of traditional product-market through(i) creation and control vital information and (ii) lobbying and co-opting of influential elements of the institutional environment. (2) Improvement of economic performance in traditional product-market through (i) product innovation and (ii) market segmentation.

Douglas and Rhee (1989)	1. Broad-liner 2. Innovator 3. Integrated Marketer 4. Low quality 5. Nicher 6. Synerdist	(1).Focus on high product quality and consistent with their broad market scope/product quality strategy, these types of organization have high levels of market share and ROI. (2).They have extremely high proportion of new products in their product line and they emphasise innovativeness rather than marketing effort. (3).Exhibit some charecteristics of broad-liner like broad market scope and above average quality.They also exhibit high customer concentration and a high degree of vertical integration. (4). Low product quality, narrow market scope and have below average market share. (4). Low product quality, narrow market scope and have below average market share. (5). Adopt a highly focused market niche strategy and target a small number of highly concentrated customers.They focus on high product quality and target a premium high quality segment. (6). They have relatively narrow market scope, but product quality and percentage of new products were below average.
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Source: ⁽⁴⁾

➤ Porter's Competitive Strategies:

Successfully these three strategies requires differing skills, resources and other common organizational requirements. **Porter's** perspectives on these requirements are contained in Table (2).

Table(2): Requirements for Generic Competitive strategies

Generic Strategy	Commonly Required skills and resources	Common Organizational Requirements
Overall Cost leadership	-Sustained capital investment and access to capital. -Process engineering skills. -Intense supervision labor. -Products designed for ease in manufacture. -Low-cost distribution system.	-Tight cost control. -Frequent, detailed control reports. -Structured organization and reponsibilities. -Incentives baded on meeting strict quantitative targets.
	-Strong marketing abillities. -Product enginnering. -Creative flair	-Strong coordination among function in R&D, product development and marketing.

Differentiation	-Strong capability in basic research. Corporate reputation for quality or technological leadership. Long tradition in the industry or unique combination of skills drawn from other businesses. Strong cooperation from channels.	-Subjective measurement and incentives instead of quantitative measures -Amenities to attract highly skilled labor, scientists, or creative people.
Focus	-Combination of the above policies directed at the particular strategic target.	-Combination of the above policies directed at the regular strategic target.

Source :⁽⁵⁾

➤ Risks in Competitive Strategies:

No one competitive strategy is guaranteed to achieve success, and some companies that have successfully implemented one of the Porter's competitive strategies have found that they could not sustain the strategy, as shown in table (3), each of the generic strategies has risks.

Table(3): Risks of Generic Competitive Strategies

Risks of Cost leadership	Risks of Differentiation	Risks of Focus
Cost leadership is not sustained: -competitive imitate. -technology changes. -other bases for cost leadership erode. Proximity in differentiation is lost.	Differentiation is not sustained: - competitive imitate. -bases for differentiation become less important to buyers. Cost proximity is lost.	The focus strategy is imitated. The target segment becomes structurally unattractive: -structure erodes. -demand disappears. Broadly targeted competitors overwhelm the segment: -the segment's differences from other segments narrow. -the advantages of a broad line increase. New focusers subsegment the industry.

Source: ⁽⁶⁾

➤ Firm Performance:

Literature on organizational performance clearly shows a general consensus among theorists there is no single universal measure that can be used to assess the overall organizational performance. Also, traditional financial measures are not accepted as the sole indicators for organizational performance. Moreover, we can hardly find an organization that is extremely successful or failed in every aspects.

Many performance indicators and models have been developed and advocated by various authors, such as: profitability, productivity, efficiency, effectiveness, adaptability, growth, innovation.

However, measuring organizational performance can be also be a problem since there is no universal recognized measure of this concept. Organizational performance can be assessed using either objective or subjective data, the objective approach refers to the financial data provided by the organization, whereas the subjective measurement calls upon the perception of the respondent. ⁽⁷⁾

Jaakkola et al (2010), suggested two performance indicators to assess business performance: financial and market performance. Here, the term business performance is used as a general performance construct to capture both market and financial aspects of performance. Financial performance literally refers to financial measures, such as margin and return on investment, whereas market performance implies measures such as market share and sales volume. ⁽⁸⁾

One of the approaches / models of assessing organizational performance that became popular and widely applied is the “ **Balanced Scorecard**”.. The tool is developed through research projects conducted by **Kaplan and Norton (1992)** where the term Balance Scorecard is used for the first time. The concept is based upon four basic perspective. The Four (4) BSC perspective are: financial perspective, internal perspective, customer perspective, innovation and learning perspective. ⁽⁹⁾

In addition, Superior financial performance is a way to satisfy investors can be represented by profitability, growth and market share value. These three aspects complements each other. Profitability measures a firm's past ability to generate returns. Growth demonstrates a firm's past ability to increase its size. Market value represents the external assessment and expectation of firm's future performance. It should have a correlation with historical profitability and growth levels, but also incorporate future expectations of market changes and competitive moves. ⁽¹⁰⁾

➤ **Relationshi between competitive advantage and firm performance:**

Merely having gained and advantage over competitors is often insufficient in the long run. Firms are able attain superior performance through different means. However, to be able to continue to retain superior performance in the long run depends on firm's ability to sustain this superior performance in the future. Not all firms are able to sustain their superior performance and hence understanding the source of sustained competitive advantage for firms has become a major area of research in the strategic management.

Many studies have discussed specific skills and resources which lead to sustained competitive advantage. Discussing **the resource based view (RBV)** of the firms, **Barney (1991)** put forth the argument that not all firm resources help attain sustained competitive advantage, only resources which are rare, valuable, inimitable, not easily substitutable hold the potential to achieve sustainable advantage. Similarly, **Peteraf (1993)** points out that superior resources, limiting competition through inimitability and imperfectly substitutable resources are key to sustaining performance. Similarly, **Day and Wensley(1998)** focused on two categorical sources which help in creating sustained competitive advantage: superior skills, which refer to the distinct superior capabilities of personnel compared to those of competing firms, and superior resources, which are more tangible resource required for creating sustainable advantage. **Ghemawat(1986)** noted that the lag in the response time to imitate a

source of competitive advantage played an important role in sustaining a competitive advantage. He put forth his argument citing two different types of competitive advantage: a competitive advantage through lower pricing can easily and immediately be imitated, which a competitive advantage built through non price competition like R&D would take a few years to be imitated. ⁽¹¹⁾

➤ **Relationship between Generic competitive strategies and competitive advantage:**

Sustainable competitive advantage is defined by **Porter's(1985/1996)** as having an above average profitability for an extended period. **Porter's (1996)** first puts forth the concept of strategic positioning as being able to create a unique and valuable position through different set of activities. He notes that through strategic positioning, firms attempt to achieve sustainable competitive advantage by preserving their distinct and unique characteristics. He noted that firms attain sustainable competitive advantage by continuously outperforming rivals, which requires them to establish a difference that can be preserved. Discussing the means of establishing this difference, **Porter's** touched upon the generic strategy framework, noting that firms can establish differences either through creation of value, which allows them charge higher than average unit prices, or through greater efficiency, which results in lower average cost per unit. **Porter's(1996)** and **Later Porter(2001)** noted that although superior performance can be achieved through either adopting a cost leadership or a differentiation strategy, cost leadership which achieved primarily through operational efficiency, will not lead to sustainable competitive advantage and only a differentiation strategy which is achieved through creating a unique position through value creation, is difficult to imitate and hence results in a sustainable competitive advantage. ⁽¹²⁾

➤ **Conclusions:**

It can be concluded that the study shows the following results:

1. Competitiveness is a dynamic ability to any business organization, which enables sustainable development in business. Competitiveness is a dynamic driving force, by which firms can make quick response to the new changes in the environment.
2. The industrial organization and resource-based view of competitive advantage, Porter's generic competitive strategy, and Miles and Snow's strategic approach are fundamental theories for developing companies competitive strategies. The industrial organization and resource-based view theories explain the sources of competitive advantage and competitiveness, While Porter's generic competitive strategies, and Miles and Snow's strategic approach help companies formulate their competitive strategies in competition.
3. Companies take different competitive strategies (**Porter's generic competitive strategies**) in competition, and they can be classified as Reactor, Defender, Analyser, or Prospector according to their strategic orientation (**Miles and Snow's strategic approach**).



Contributions of research:

- This study provides a more comprehensive competitiveness indicator system for measuring companies competitiveness.
- This study becomes necessary for companies to formulate their competitive strategies, enabling them to take adequate action in responding to the changes in the market, and retain sustainable development of their businesses.
- The results of this study are useful guidelines for companies to improve the efficiency of strategic management in business.
- This article conceptualizes tests te relationship among competitive strategy and performance. The findings provide managerial implications for executives to select the proper competitive strategies to improve performance under different competitive environments. These results also contribute to the literature in strategic management.
- Finally, My study complements prior research that has documented the claim that adopting the generic strategies result in superior performance. My theoretical analysis indicate that the generic strategies help attain, through a significant positive effect on the contemporaneons performance, a superior performance.

➤ Future Research:

This research should be seen as a starting point for research in the Strategic business unit. It should that it will stimulate more interest, as well as, we suggest for future research may include:

- Investigating structural, environmental, technological and human resource variables that can facilitate and support development and sustainability of competitive advantage.
- Examining the impact of competitive strategies on business performance: the moderating effects of organizational structure and external environment on building and maintaining a sustainable competitive advantage.

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