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Competitive Strategy - a critical review of the core academic arguments (LITERATURE REVIEW)

INTRODUCTION

Essentially, strategy is about setting a coherent and broadly understood long-term direction for a business (Johnson, Whittington, Scholes, Angwin & Regnér, 2014). The most basic ideas of strategy consider the application of strength against weakness, in an attempt to ensure that the most promising business opportunities are exploited (Rumelt, 2012). This simple concept highlights one of the key issues surrounding the evolution and effectiveness of strategy – the fundamental requirement to tie strategy concepts to the implementation of a series of interlinked actions that support it (Henry, 2011). Rumelt (2012) seeks to articulate this challenge in his discussions around 'good' and 'bad' strategy, whereby the setting of goals becomes the primary objective rather than solving business problems through the effective focussing of resources and actions (Mintzberg, Ahlstrand & Lampel, 2009).

This challenge is further exacerbated when it is considered that a business does not function in isolation, as it has to reflect the demands and expectations of the broader operating environment within which it exists (Drucker, 1995). As a consequence, successful strategy requires the ability to adapt in order to reflect and (ideally) anticipate changes in the market (Alvesson & Willmott, 2012). To be able to do so on an enduring basis means that a company should be prepared to change everything about their business with the exception of their core values and beliefs (Stacey & Mowles, 2016).

ATTEMPTS TO DEFINE STRATEGY

These challenges are reflected within the core academic texts given the range of definitions applied by theorists when seeking to set the context for their arguments and philosophies around strategy (Grant & Jordan, 2012). Chandler (1963) focusses on the internal linkages needed when he proposes that strategy is about the determination of the long-term goals and objectives of a business and then subsequently adopting course of action (and allocating resources) in order to achieve them. In taking this viewpoint, Chandler focusses on the development of a logical business flow moving from the determination of business objectives and then ensuring that resources are allocated and prioritised to meet them (Johnson et al, 2014). In developing his thinking on strategy, Porter (2004) argues that it is about being different with the need to create the corporate ability to deliver a unique mix of value (as perceived by customers and consumers) that sets an enterprise apart from its competitors. In taking this view, Porter introduces the importance of the operating context for a business and the deliberate choices required to exploit the potential opportunities that environment can present (Jenkins, Ambrosini & Collier, 2016).

Mintzberg (2007) considers strategy as an evolving pattern that results from a stream of corporate business decisions which may be more short-term in nature. In this way, Mintzberg allows for the gradual emergence of a coherent strategy on a more ad-hoc basis, where the values and beliefs of a company shape the incremental decisions made and ultimately set the corporate direction required (Johnson et al, 2014).

The range of theories that exist around strategy and its supporting concepts can be encapsulated into key 'schools of thought' that highlight the inherent tensions in this three perspectives (Chandler, 1963; Porter, 2004; Mintzberg, 2007). These perspectives are essentially:

The Boundary School. Strategy seeks to identify the operating parameters of a business and how success can be shaped by either working within them or consciously choosing to compete in a new market.

The Dynamic Capabilities School. Using strategy to create a collective learning process within an organisation in order to develop and maintain distinctive competences that deliver a competitive advantage. With the evolution of the knowledge based economy, this focus on internal talent is proving particularly critical for modern businesses (Nonaka & Takeuchi, 1995).

The Configuration School. Setting strategies that move a business from one operating paradigm to another, often in an effort to respond to evolving market demands and expectations.

(Volberda & Elfring, 2001).

STRATEGY PERSPECTIVES AND THE TIME DYNAMIC

Each school of thought seeks to outline a different perspective on strategy, but when considered from the viewpoint of corporate success (i.e. examining strategies that have delivered a distinct competitive advantage) a number of common factors can be identified (Grant & Jordan, 2012). Successful strategies appear to possess the ability to articulate a clearly recognised goal which endures over time and the corporate commitment to remain focussed on achieving that goal (Henry, 2011). That success is predicated on a comprehensive and accurate understanding of the competitive environment being faced, so that the strategy adopted reflected and exploited the operating context (Rumelt, 2012). Effective strategies are built upon an objective appraisal of the corporate resources base, ensuring that the business is able to exploit the internal (resource) strengths it possess whilst also protecting areas vulnerable to competitive pressures (Grant & Jordan, 2012). Ultimately, these three factors are brought together (through effective leadership) so that the strategy articulated is actually implemented and a business environment is created that responds well to change requirements (Stacey & Mowles, 2016).

Johnson, Whittington, Scholes, Angwin & Regnér (2015) seek to capture the time dynamic associated with the delivery of an effective business strategy by arguing that a business needs to take a multi-faceted view looking at their operations over distinct periods or horizons. There is the need to consider current activities (horizon one) and the actions and activities needed to extend and defend the core business. Looking further out (horizon 2) requires the ability to consider emerging activities and markets that could provide new sources of profit and expansion. There is also a requirement to maintain an overview of how the operating environment may change in the future and to create viable options to exploit these changes even if no immediate profit is generated (horizon 3) (Johnson et al, 2015).

Chaffee (1985) sought to capture these overlapping perspectives when attempting to articulate the main areas of academic agreement in the debate over strategy. These core tenets were outlined as being:

Strategy relates the business concerned to its operating environment and proposes a methodology or tactics to meet changes to that environment.

Successful strategy is inevitably complex because it is focussed on change and therefore introduces novel (and sometimes contentious) thinking into the business. As a result it is non-routine, non-repetitive and (echoing Mintzberg's thinking (2007)) can be unstructured. Not all strategy is deliberate in nature.

Strategy involves both action and process i.e. considering how a business implements strategy. The evolution of strategy requires the concepts outlined by the leadership to be underpinned by robust analysis that supports the strategic direction set.

Strategy, by its very nature, affects the whole business and can therefore be seen from a range of perspectives.

(Chaffee, 1985)

Mintzberg, Ahlstrand and Lampel (2009) further refined this thinking around the nature of strategy when they argued that it sets direction, focusses effort, defines the organisation and reduces ambiguity by providing consistency. It is this latter point which seems to reinforce the more simplistic definitions of strategy (i.e. setting corporate direction) as it seeks to resolve the 'big picture' issues so that the majority of personnel can focus on doing what is needed to ensure that the business remains profitable within that strategy framework (Grint, 2005). Ultimately, corporate strategy is about winning and competitive strategy is concerned with the basis upon which a company chooses to compete in the markets it has decided to operate within (Henry, 2011; Lynch, 2009). Whilst core academic texts focus on the analytical tools required to support the decision making processes required to develop and implement such strategies, it is also about framing conscious corporate actions around what not to do e.g. ending product lines and service offerings (Rumelt, 2012).

LAYERING STRATEGY TO CREATE COMPETITIVE POSITIONING

In accepting the importance of strategy in the creation of an enduring competitive advantage (Porter, 1980; Mullins & Christy, 2016), most academic texts consider how it operates at three distinct levels within a business – corporate, business and operational (Johnson et al, 2014). Again, this reinforces the definition of strategy as the mechanism setting long-term direction given how these different perspective reinforce the importance of linking implementation and delivery to both the operating environment and the corporate values articulated i.e. why they company exists in the first place (Stacey & Mowles, 2016; Lynch, 2009).

Corporate strategy is focussed on identifying the scope of the business (e.g. markets, products, services) and the broad distribution of resources to each element of the organisation (Johnson et al, 2014). In essence, it seeks to determine two fundamental issues – what markets the business is going to compete within and how it will do so (Henry, 2011). In order to capture and share the core elements of corporate strategy across a business, many entities use mission, vision and values statements in an attempt to ensure that everyone understands the strategic direction set (McKeown, 2015). The mission should aim to articulate why a business exists (capturing both customer and corporate drivers), the vision focusses on the longer-term desired end state (such as growth ambitions) whilst corporate values outline the principles and operating ethos to be followed (Henry, 2011; Slack, Brandon-Jones & Johnston, 2016). For many businesses, it is an adherence to these values that are seen to provide a key point of competitive differentiation and are therefore seen to be vital components of any business strategy (Hooley, Piercy, Nicoulaud & Rudd, 2017). The rise in importance of the corporate social responsibility agenda and the consequent (perceived) value of ethical trading practices to consumers means that many academic strategists argue that such values must always come before corporate policies, practices and goals (Collins & Porras, 1994; Blowfield & Murray, 2014). However, others take a different perspective, emphasising the need to ensure that such values must also be continually reviewed to reflect the challenges presented within a continually evolving operating environment (Rumelt, 2012; Volberda & Elfring, 2001; Thompson, 2001). This debate highlights the challenges associated with attempting to set a clear and consistent long-term corporate strategy whilst also adapting to changes in the operating environment which are essential if any competitive advantage is to be secured and maintained (Lynch, 2009).

Business level strategy –traditionally referred to as competitive strategy in most academic texts – is more directly concerned with how a business should compete within a particular market (Johnson et al, 2015). Whilst it should reflect the overall corporate strategy set, it is more carefully tailored and structured to consider the immediate local/regional impact of markets, competitors, customers and other stakeholders (Jenkins et al, 2016). In simplistic terms, one company can be stated to possess a competitive advantage over its rivals when it is able to generate and sustain a higher rate of profit (Grant & Jordan, 2012). However, this perspective does not consider the complexities presented by the operating environment and that competitive advantage can also be generated from changes in the market, particularly if the company concerned is able to respond rapidly and effectively when faced with such changes (Wall, Minocha & Rees, 2010; Sitkin & Bowen, 2010).

Porter (2004) argued that there are essentially three generic strategies to explore when considering how best to create and sustain this essential competitive advantage. Either a position of cost leadership can be adopted (becoming the low cost provider in the market for the products or services concerned), a differentiation strategy taken forward (bringing products and services to the market that are perceived to be unique or adding distinct/particular value) or a defined focus strategy can be explored (i.e. servicing a distinct, narrow market segment and then seeking to achieve either cost leadership or differentiation within it) (Hooley et al, 2017). Porter also emphasises the perceived danger of being 'stuck in the middle' (i.e. following a business strategy that mixes these distinctive approaches) as this is seen to be exposing the company to the defined and distinct strategies of current and emerging competitors (Porter, 2004).

In contrast to Porter's view, other writers emphasise how the ability to move between distinct business strategies – and sometimes exploit them in parallel – offers a competitive advantage in the modern market environment (Grant & Jordan, 2012, Morrison, 2009). For example, speed (responsiveness) now underpins the concept of time-based competitive advantage, whereby the ability to use modern technology to service markets is driven by a more strategic focus on innovation in order to create new or novel concepts which are valued by customers (Stalk, 1988). Significant business-level strategic flexibility is therefore required to exploit new/emerging industries, new customer segments and new sources of competitive advantage (e.g. service speed) which further reinforces the importance of a cohesive overarching corporate strategy (Grant & Jordan, 2012).

Porter's view is predominately shaped by the competitive operating environment, but other arguments can be formed which place a greater emphasis in the internal resource and asset base of a company as a source of competitive advantage (Barney, 1991). A critical examination of the company's physical, human and organisational resources can identify specific attributes that support the generation of a sustainable competitive strategy (Morrison, 2009). Essentially, corporate resources must possess value (able to exploit market opportunities whilst defending against competitor threats), be rare (difficult for competitors to imitate), be difficult to imitate (such as the advantages arising from customer brand associations) and the resulting business approach must make it challenging for competitors to adopt a similar strategy using alternative resources (Johnson et al, 2015).

This resource-based view of the firm helps to establish the importance of operational strategies in helping to deliver both business-level and corporate-level strategy (Johnson et al, 2014). Operational strategy is focussed on the effective deployment of resources and business processes in order to build (and deliver) the short-term objectives that move the business in the direction required (Mintzberg et al, 2009). However, this is not just about implementation – this should be an iterative process as an effective operational strategy can provide the market intelligence and awareness needed to respond quickly to changes in the business environment thus informing business and corporate strategy (Jenkins et al. 2016; Keichel, 2010; Lynch, 2009).

DEFENDING COMPETITIVE STRATEGY

Once a competitive advantage has been established it can quickly be eroded by competitors through imitation and/or innovation (Porter, 2004). Rather than constantly revising the operational and business strategy approaches outlined (above) (which can result in an inconsistent and incoherent corporate strategy), it has been argued that it is possible to create barriers that insulate the business from the competitive pressures being faced for a period of time (Grant & Jordan, 2012). These 'isolating mechanisms' can inhibit competitors from mirroring the way in which a business sustains its competitive advantage, reducing the speed at which resource values are eroded (Rumelt, 2012).

The available literature highlights a range of mechanisms that can be employed (such as patent protection, copyrights and brand registration) (Clifton, 2009; Crane & Matten, 2010). The key attributes needed to be able to maintain these competitive barriers are the ability to identify that another company possesses a competitive advantage, the competences to diagnose the nature and features of that advantage, the drive and incentive to invest in measures that protect corporate returns and the ability to acquire the resources needed to build the isolation mechanisms required (Grant & Jordan, 2012).

Given the emergence of the knowledge-based economy and the rate of technological change and innovation, one potential approach is to attempt to secure first-mover advantage i.e. being the first company to deliver a new product, process or service to the market (Johnson et al, 2014). Whilst the innovation required is likely to demand significant resource investment, significant competitive benefits can accrue such as the ability to set market operating standards, capture any limited or scarce resources required, enhance brand reputation (being seen to lead the way in the minds of consumers) and secure/establish a customer base (by creating buyer switching costs such as contract terms) (Lynch, 2009; Wall et al, 2010). However, depending on the success of any subsequent isolation mechanisms employed there are risks associated with such a strategy (Rumelt, 2012). Competitors can seek to imitate the technological innovation that has taken place (with the costs of imitation estimated at only 65% of the costs of innovation) and they can also identify what did not work well for the innovating organisation and exploit any resulting market dissatisfaction (Johnson et al, 2015).

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