

UNIT 185 – UPSC - Competitive advantage of a firm

Competitive advantage is extensively used in many areas. A competitive advantage is an advantage gained over contestants through providing customers greater value, either by lower prices or by giving extra benefits and service that justify similar, or possibly higher, prices. For manufacturers involved in niche marketing, finding and nurturing a competitive advantage can mean increased profit and a venture that is sustainable and successful over the long term. According to management literature, "A firm is said to have a competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors" (Barney, 1991: 102).



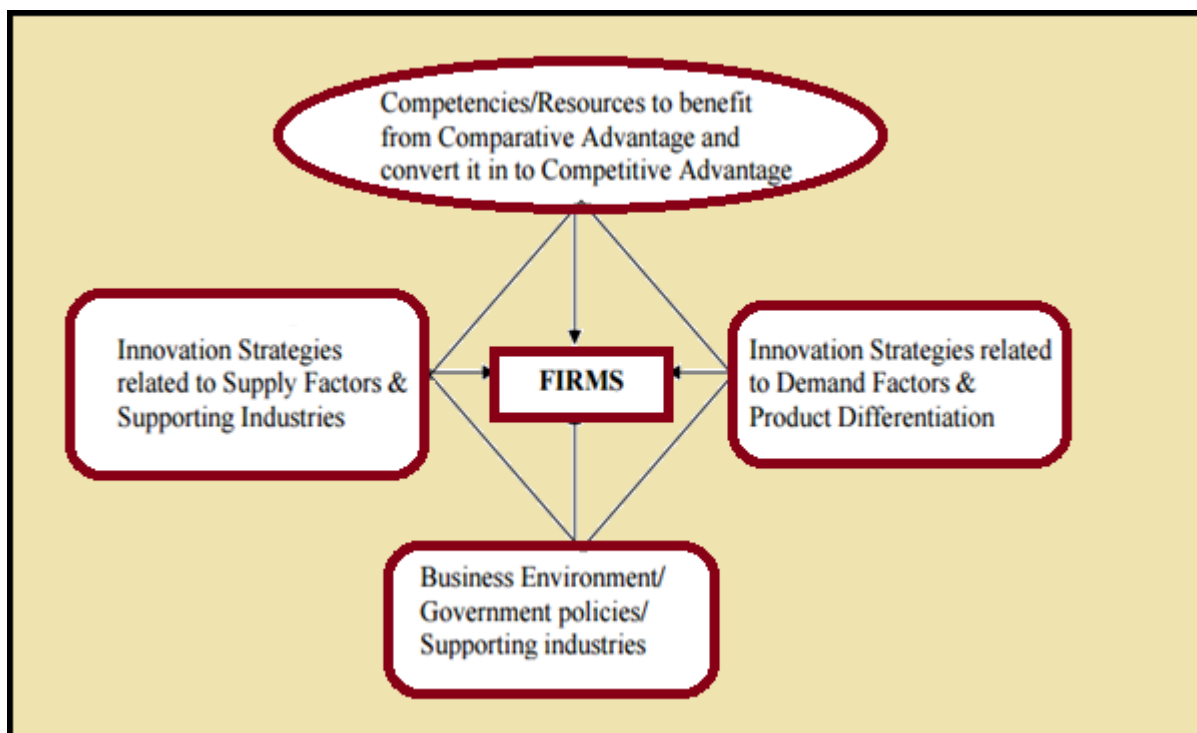
Management scholars explained competitive advantage as strategic advantage one business has over its rivals entities with in its competitive industry. It is a theory that seeks to address some of the criticism of comparative advantage. A company gain competitive advantage over its competitors when its productivity is greater than the average profitability and profit growth of other companies competing for the same set of customers. Peteraf defines competitive advantage as "sustained above normal returns" (1993). She defines imperfectly mobile resources as those that are specialized to the firm and notes that such resources "can be a source of competitive advantage" because "any Ricardian or monopoly rents generated by the asset will not be offset entirely by accounting for the asset's opportunity cost". There are numerous ways to gain competitive advantage such as offering lower prices, offering clearly superior products at above average prices, delivering products more quickly and offering superior customer service, including after sales service.

Several authors focused on the determinants of competitive advantage of the firm such as exceptionality, value, incapability to be imitated, and inability to be substituted (Barney, 1991); important potential resources classified as financial, physical, legal, human, organizational, informational, and rational (Hunt and Morgan, 1995); ability in developing superior core competencies in combining their skills and resources (Prahalad and Hamel, 1990), a set of dynamic capabilities of possessing and allocating and upgrading distinctive resources. The reason of enterprise have a competitive advantage are many such as Customer satisfaction and loyalty increase, Increase of profit, Increase of market share, bring market performance. The resources and capabilities of a firm are the vital concern to formulate its strategy. The

resource based theory approach to strategy formulated understands the relationship between resources, capabilities, competitive advantage and profitability. It has been documented that there are four factors which are advantageous for the firm to increase their depth such as strategy, competitive advantage, capabilities and resources (Grant 1991).

There are principally five forces to develop basic foundations that includes competitors, threat of new entrants substitute products, bargaining power of suppliers and bargaining power of buyers. Companies struggle with each other and some of them protect itself against these competitive forces (Porter 1998). Porter (1990) developed a framework of competitive advantage "A Diamond of National Advantage" based on detailed case studies of firms in 100 industries in 10 industrially advanced nations (USA, Japan, Germany, UK, Switzerland, Italy, Sweden, Denmark, Sweden, Korea and Singapore) that constituted 50% of world exports in 1985. Porter (1985) highlighted competitiveness at the level of a firm in terms of competitive strategies such as low cost and/or product differentiation. The ability of the firm is to remain in competition through 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 must comprehend the current position of the firm. Porter argues that policy is a race to get an ideal position in the market and differentiate itself for targeting customer (Porter 1998).

Determinants of competitive advantage

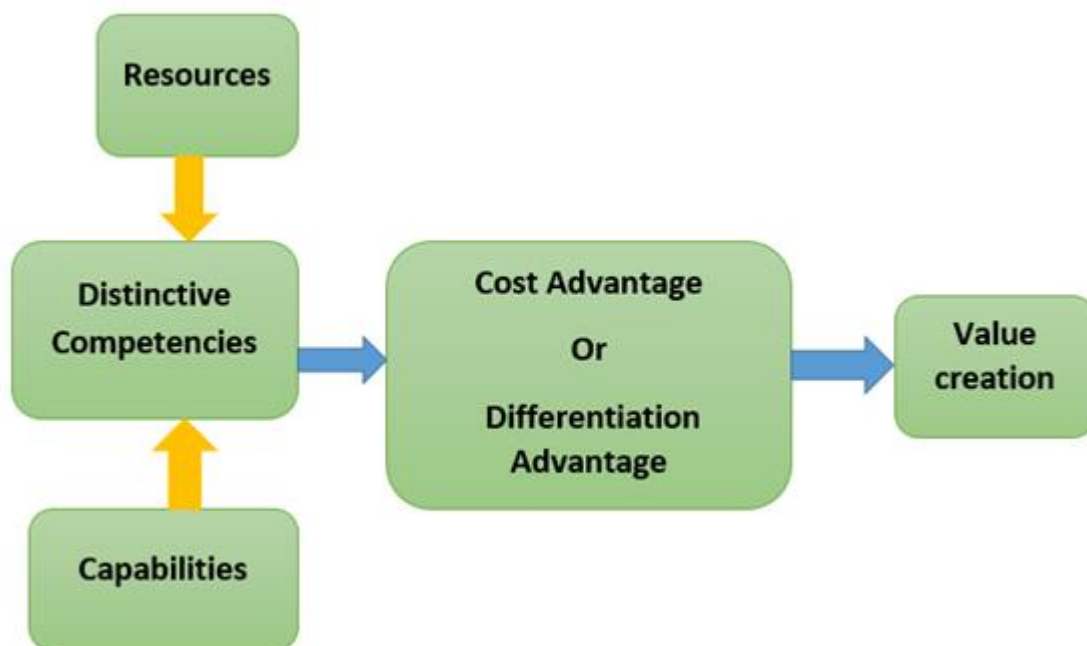


Many authors have stated that competitive advantage is obtained through the business' strengths and competencies, of which are not matched by other businesses in the market. Through these strengths and competencies, the business is able to distinguish its products and services, or considerably decrease its costs as compared to competitors. There are four factors that allow a business to gain and sustain competitive advantage. These are:

1. Efficiency: It is defined as the ability to achieve a high level of output from minimal input. An efficient business will save on resources such as materials, labour, time and so forth, while producing a high level of outputs such as products or services. This allows the business to decrease costs, and ultimately, gain a competitive advantage over competitors.

2. **Quality:** Customers are more attracted to products and services that are of excellent quality. The products and services offered to customer must exhibit attributes that satisfy the customers' needs and wants over those of competitors. High quality products and services will provide business with a point of differentiation, and therefore gaining competitive advantage.
3. **Innovation:** This process involves creating or enhancing products, services or processes. The development of new products, services and processes stem from new ideas, creativity and it has objective to provide unique product that fulfil the needs and wants of customers. Innovative products and processes enable the firm to gain significant competitive advantage as it provides business with a position to sheen and stand out from rivals.
4. **Customer responsiveness:** This attribute is related to customer satisfaction through meeting the needs and wants of the business' target customers. Customers seek products and services of a high calibre, at the lowest possible price to meet their needs, or solve a problem etc. Customer responsiveness relates to an understanding of the customers' needs and wants, and providing products and services that meets such needs in a superior way over competitors. It involves offering exclusive products and services at a low cost and of superior quality. Therefore, achieving efficiency, quality, and innovation will lead to customer responsiveness, and finally company gain competitive advantage.

Model of competitive advantage



It can be established that firm can achieve competitive advantage when it does something that the competitors cannot do. Management scholars have stated that firm gain competitive advantage when it is implementing a value creation strategies.