

## What is Competitive Advantage in the Field of Strategic Management?

### What is Competitive Advantage ?

It is a truism that strategic management is all about gaining and maintaining competitive advantage. The term can be defined to mean “anything that a firm does especially well when compared with rival firms”. Note the emphasis on comparison with rival firms as competitive advantage is all about how best to best the rivals and stay competitive in the market.

**Competitive advantage accrues to a firm when it does something that the rivals cannot do or owns something that the rival firms desire.** For instance, for some firms, competitive advantage in these recessionary times can mean a hoard of cash where it can buy out struggling firms and increase its strategic position. In other cases, competitive advantage can mean that a firm has lesser-fixed assets when compared to rival firms, which is again a plus in an economic downturn.

### What is Sustained Competitive Advantage ?

We have defined what competitive advantage is as it relates to strategic management and the sources of competitive advantage differing from firm to firm. However, a firm can have a source of competitive advantage for only a certain period because the rival firms imitate and copy the successful firms’ strategies leading to the original firm losing its source of competitive advantage over the longer term. Hence, **it is imperative for firms to develop and nurture sustained competitive advantage.**



This can be done by:

- Continually adapting to the changing external business landscape and matching internal strengths and capabilities by channeling resources and competencies in a fluid manner.
- By formulating, implementing, and evaluating strategies in an effective manner which make use of the factors described above.

The fact that firms lose their sources of competitive advantage over the longer term is borne out by statistics that show that the top three broadcast networks in the United States had over 90 percent market share in 1978 which has now come down to less than 50 percent.

## The Advent of the Internet and Competitive Advantage

With the advent of the internet, competitive advantage and the gaining of it has become easier as firms directly sell to the consumers and interlink the suppliers, customers, creditors, and other stakeholders into its value chain. Because of the removal of intermediaries, firms can reduce costs and improve profitability. Essentially, the internet has changed the rules of the game and hence sources of competitive advantage in this digital era are now about how well firms utilize the digital platform and social media to gain advantage over their rivals.

## Closing Thoughts

Finally, competitive advantage has to be earned, gained, and defended as the preceding discussion shows. Hence, those firms that are agile and responsive to changing market conditions and whose internal capabilities are aligned with the external opportunities are those who would survive in the brutal business landscape of the 21st century. As can be seen from the characterization of competitive advantage, it is ethereal and subject to change and hence firms must always be on the lookout for newer sources of competitive advantage and be alert for competitors' moves

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# Human, Social, and Intellectual Capital as a Means of Competitive Advantage

## Introduction: Why Should Firms and Nations Invest in Human, Social, and Intellectual Capital

We often hear economists and management experts exhorting nations and firms to invest in human, social, and intellectual capital. These calls range from asking governments to set aside substantial amounts of money to educate and skill the workforce as well as asking the firms and governments to create a web of social relationships in addition to moving up the value curve by investing in research and development. Before we launch into a discussion about how these measures would benefit nations and firms, we should first define what is meant by human, social, and intellectual capital.

In the same manner in which financial capital and physical infrastructure are the factors of production, a skilled workforce is a vital component and determinant of a firm's success. This means that firms need workers who are educated and skilled and are employable and efficient. Economists and management experts talk about this human capital. In the same manner in which an educated and skilled workforce raises the productivity of firms, nations also benefit from having a ready pool of workers who are skilled and capable. Just as firms need to hire these workers, it is upon the nation to provide them the basic education and skills both through subsidized education and through the provision of skills through vocational training or teaming up with the private sector in a PPP (Public Private Partnership) model to impart education to the workers.

Next, social capital is what is the result of the networks of relationship between individuals, communities, and the ties that bind them in the broader society. You might ask as to why it is important for firms and nations to have social capital in addition to human capital. The answer is that just as the firms need educated and skilled workers, the broader society to be healthy and well functioning needs workers and individuals to be tightly knit into the fabric of society. This social capital leads to less crime, more productivity, more efficiency, and the formation of communities that are self-sustaining and which are incubators of physically, mentally, and emotionally healthy and intelligent individuals.

Third, just as human capital and social capital lead to better productivity and a workforce that is efficient, the next evolutionary step for firms and nations once they have actualized human and social capital is through moving up the value chain by filing patents, encouraging research, and innovating as well as leading to the creation of an economy that is characterized by these aspects. Therefore, it is important to note that in addition to human and social capital, intellectual capital is also needed for firms and nations to forge ahead in the race to deliver and actualize superior economic value.

As can be seen from the fact that human capital leads to higher productivity and efficiency and social capital leads to emotionally intelligent workers, intellectual capital leads economies and nations into the orbit where they can be challenged only by those competitors who have mastered all the three aspects of evolutionary value creation. Indeed, one of the reasons (as we shall discuss in detail in the next section) for the relative ascendancy of the west over the east and which continues to this day is that the former have successfully invested in these forms of capital whereas the latter are playing catch-up and are now trying to emulate them in their quest for economic growth.

## Trajectories of Firms and Nations That Have Invested in These Capital Aspects

Why do Google and Microsoft in addition to AT&T, 3M, and Apple remain so profitable and competitive? Why are some firms such as these more successful in generating patents and innovating better than the rest of the competition? Further, why does Facebook generate such valuations and is considered as one of the greatest ideas apart from the Smartphones and Search Engines and the invention of the Personal Computer? The answers to all these questions lies in the fact that these firms were able to first invest in their workforce or the formation and incubation of human capital, next, they were able to leverage the college like atmosphere and the free flowing ideas generated by their workforce which is the social capital and third, these firms were able to move up the curve and indeed, continue moving up the curve to reap the benefits of intellectual capital that follows from the first two forms of capital.

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Similarly, why is the United States such a dominant force in the global economy whereas even China and India that have large populations of educated workers still are unable to challenge its dominance? The reason for this is that the United States and largely, Europe have substantially invested in educating and training apart from skilling their populations over the last century and half and hence, are now reaping the benefits of such investments. Moreover, by creating a system that encourages creativity and innovation instead of stifling them, these countries have managed to move up the value curve and stay there. In addition, whenever they felt that their economic dominance is under threat, these nations have always found better ideas to become more efficient as can be seen from the Offshoring of manufacturing to China and back office work to India. In this manner, they have retained their focus on value creation using the three forms of capital in a way in which the rest of the world is unable to do so even now.

As individuals, we too can ensure that we do our bit to accelerate the formation of these forms of capital and this is through investing in oneself, forming networks with our peers, coworkers, families, and communities so that we become more emotionally intelligent, and then by continuously improving and leaving nothing to chance or becoming complacent thereby being in a creative mode where ideas flow freely. Further, we can all become willing partners in the development of these forms of capital by making conscious choices that lead us to better outcomes for everyone concerned.

## Catch-Up and Moving up the Curve

Having considered the successes of firms that invest in these forms of capital, we now turn to how competitors and countries in the developing world can catch up the dominant firms and countries. The first step is to provide universal education without discriminating based on class, gender, or race, as well as through substantially revamping the education system so that instead of rote learning, innovation and creativity are encouraged. Next, instead of forming clan based and class based relationships alone, there must be an emphasis on forming networks where class barriers, gender differences, and ethnic and racial factors are nonexistent meaning that social capital must be incubated that is free from the narrow constraints imposed by these elements. Third, governments must invest in research and development and encourage highly skilled scientists and researchers to continue their pioneering work instead of discouraging and frustrating them, which as often happens, in Asian countries, leads to these individuals seeking employment and greener pastures in the West.

Though this section sounds like an idealist rant, some of these measures have already been put in place in China, South East Asia, and to a lesser extent in Latin America. Therefore, it is indeed the case that the firms and the economies of these nations are emerging as challengers to the Western dominance, which is not surprising considering the trajectory of value creation. Further, some Indian companies have also succeeded in actualizing these forms of capital though the overall record leaves much to be desired. Indeed, it is the case that when India starts building these assets, it can emerge as a potent force to be reckoned with.

## Conclusion

Finally, human, social, and intellectual capital differ from physical and financial capital in the sense that they can be incubated even by those with less of the latter as hard work, determination, and a culture of openness can all lead to value creation. Therefore, the clear conclusion is that we do not need Billions of Dollars in investment and just by making use of the available resources, firms and nations can indeed prosper in the same manner in which the Western countries and their peoples have enjoyed a higher standard of living