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# Schools Thought Of Competitive Advantage

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***ABSTRACT:*** *Because of the different orientations, firms' philosophies and strategic visions are varying toward managing resources, capabilities or environmental factors, and in the way in which competitive strategies is being formulated.*
*Competition is at the core of the success or failure of firms as it enables creating more perceived value than other rivals companies, hence, 'what gives rise to competitive advantage and how can it be sustained' represents the foremost concern for both of marketing and strategic management scholars.*
*This research is an attempt to achieve an in-depth understanding for the main school thoughts that relative literature has viewed competitive advantage basing on: the positioning school and the capabilities (resources)-based view.*
***KEYWORDS:*** *Competitive Advantage, Positioning schools, Resource-based view (RBV)*
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## I. Introduction

The concept of competitive advantage can be introduced one of the most ancient concepts of strategic management, however, it stills one of the most mysterious expressions used in the management literature.
Does it mean your ability to survive? Does it mean keeping your shareholders happy? Does it mean providing benefits for your customers and stakeholders and the communities in which you live and operate? Does it mean having the largest market share? Pietersen (2010, p.34) wondered while elaborating on the comprehensive meaning of the notion of competitive advantage.
Gaining competitive advantages over rivals is at the heart of a firm's strategic planning in today dynamic and hypercompetitive environment. The creation and deployment of a sustainable competitive advantage (SCA) resulted in the achievement of superior performance, is purpose of firm competitive strategy (Hooley et al., 1999; West et al., 2010).
Firms' different orientations have different influences on the achievement of competitive advantage (Day & wensley, 1988; Day, 1990; Jaworski & Kohli, 1993; Vorhies, & Harker, 2000). Hence, a great deal of attention has been devoted to the different approaches that scholars followed while studying competitive advantage.

According to Wen-Cheng et al. (2011) there are different types of competitive advantage. The original work of Porter (1985) introduced the well-known three forms of generic competitive strategy, namely: the cost leadership strategy, the differentiation strategy, and the focus strategy.
Another viewpoint was suggested by of Prahalad and Hamel (1990) by focusing on firm`s core competencies as source of competitive advantage. Similarly, Yang (2015) indicated core capabilities as source of competitive advantage . Gray and Balmer (1998) argued that, a firm that manage efficiently its corporate reputation and image can to achieve competitive advantage over its rivals. Moreover, Alexander and Martin (2013) and Jackson and Schuler (1995) pointed out the positive relationship between firm`s success in managing its innovation and Human resources related capability and the achievement of competitive advantage.

However, it could be concluded that, previous research on competitive adventure is categorised into two main approaches: the poisoning school and the capabilities ( the resource-based view).

## II. Schools Thought Of Competitive Advantage

Many studies have been carried out on addressing how to create, how to manage, and how to sustain competitive advantage representing the most effective strategic alternative for dealing with challenges that threaten firm organisational survival (Srivastava et al., 2001). Accordingly, the success of a competitive strategy relies on identifying the key success factors which represents unique sources of competitive advantage, in addition to firm's capabilities in managing these sources of differentiation.
In light of this background, related literature focuses on two schools of thought theorising relative perceptions of competitive advantage of the firm; (1) the positioning school and (2) the capabilities (resources)-based view.

### 2.1 The Positioning School

The positioning school is a strategic analytical view which core thought is the idea of positioning the firm within the context of its industry basing largely on Michael Porter's five forces framework (1980, 1985).

The work by Hatten and Schendel '*Heterogeneity within an Industry*' (1977) represents the root of positioning school logic (Mintzberg et al., 1998). Within an economic context the interesting question the authors intended to highlight was "why did these different firms (in the U.S. brewing industry) experience different degrees of success?". The effect of changing market structure on firms' profitability (measured by return on common equity) was formulated within different eight variables model covering manufacturing strategy related aspects, marketing strategy related aspects and environment related aspects.

According to Hatten and Schendel (1977, p. 7) "the importance of market structure lies in the way it induces firms to behave. Their behaviour in changing prices, outputs, product characteristics, selling expenses, and research expenditures" as a reflection of firms performance.

In his first Harvard Business Review article *'How Competitive Forces Shape Strategy'* (1979), Michael Porter work started a revolution in the strategy field when he developed what is now a very popular framework: the five competitive forces model. More than three decades after his first work, Michael Porter's '*Competitive Strategy'* (1980) is available in 17 languages and his '*Competitive Advantage'* (1985) has been reprinted more than32 times (Aktouf et al., 2005).

From strategic viewpoint, an environmental threat represents any factor, or organisation outside a firm that has the potential to negatively impact the level of a firm's performance (Christensen et al., 1982). Thus, the objective of developing such model was to assist managers to contrast a competitive environment and to help in analysing and neutralising (Barney, 1996) these potential threats, which also can help management team to view the industry from a boarder perspective than would typically be the case (Bowman & Faulkner,1997) leading to the construction of better competitive strategies.

Porter's five forces model is seen as analytical strategic purposes framework (Ciobanasu, 2012) uses analytical tools to find out where the company is positioned and how to define it.

In line with **positioning school** perception, the key to evaluate particular player's profitability understands of its *positioning* in its industry. To the contrary of the resource-based view (RBV) of the firm (Wernerfelt, 1984; Barney, 1991; Grant, 1991; Peteraf, 1993) which concentrating on firm's internal capabilities and resources in achieving competitive advantage, Porter's (1980) five forces framework represents a contrary academic viewpoint giving more attention to the external environmental variables in which most forces comprising the model "refer to competition from external sources" (Ciobanasu, 2012, p.10).

As a representative of positioning school thoughts, Porter's five forces approach assumes that, firm achieves competitive advantage in low cost or differentiation by defending its attractive market and keeping competitors off balance through pricing strategies or strategic investment (Day, 1994). Here too, a firm evaluates its overall competitive environment basing on five aspects in order to develop its particular competitive strategy. Porter (1985) named five forces that determine industry attractiveness and long-run profitability and affect firm performance in differentiating its products, image and position from rivals: (1)the threat of entry of new competitors (new entrants), (2) the threat of substitute products (services), (3)the bargaining power of buyers, (4)the bargaining power of suppliers, and finally, rivalry between existing competitors.

According to Porter's work (1980, 1985), overall cost leadership, differentiation and focus, present different generic competitive alternatives and visions. Moreover, Porter (1980, p. 41) stressed that, a firm has to adapt a certain competitive strategy, at least, but to the contrary, firm who has not clear orientation, is "stuck in the middle" firm, a state which reflects an extremely poor strategic situation in which firm possesses no competitive advantage.

Cost leadership strategy attempts to gain a competitive advantage primarily by reducing costs of production and distribution. Cost leadership is more appropriate for competitors who are distinguished from others by the considerable market share that enables to reduce costs. In order to reach targeted reduced price, firm focuses on operations and materials management mainly to enhance efficiency which in turn resulted in low costs.

On the other hand, by adopting differentiation strategy, firm will concentrate on establishing long term customer-firm relationship depending on product (service) high quality, distinct innovation and marketing programmes. In addition, focus strategy was the third generic strategic suggested approach in which firm's focusing its attention on as narrow specific segment of a market and "tailors" its strategy to serving them advantageously to the exclusion of others (Porter, 1985).

Although positioning approach provides a structured and easy-to-understand powerful strategic analysis view, but in today's dynamic environment which is influenced by the rapid technological progress and the stiff competition, Porter's thinking has been criticised because of the simplicity and stability (Mann et al., 2009) of the *perfect market* the model assumes.

In his work '*Towards a dynamic theory of strategy'* (1991) Porter indicated the dynamicity of market forces that affects the process by which competitive positions are created, however, Porter's original work (1980) (five forces model) still being criticised by its inadequacy to absorb the new business models. Thus, the dynamicity of market stills a major limitation criticises of Porter's five forces framework.

**Fiugrea1: Porter's Five Forces Model**


**Source: Porter (2008)**

The framework is applicable under stable conditions (Datta, 2009) and assumes a static market structures (Moran & Ghoshal, 1999). Although Porter's five forces model is supposed to appropriate both industrial and services sectors, however, Porter's analysis model was "intended for industrial firms" (Sheehan, 2005) and need to be modified when applying within other contexts.

Moreover, Porter's five forces model focuses on considering and analysing the external competitive environment as a main requirement for building firm's competitive advantage (Ciobanasu, 2012) in which the competitive strategic analysis [positioning] of a business in a given industry is being determined without inquiring into the business's fit (in terms of its capacities, its resources, its abilities, etc.) (Aktouf, 2005, p.79).

### 2.2 The Capabilities (Resources)-Based View

Fuelled by the resource-based view of the firm as a contemporary and promising theory, strategic thoughts of competitive advantage has shifted over the past 20 years from the industry level to the firm level (Foss, 2011).

The main criticism made about positioning approach was its inadequate explanation for "what drives organisation's performance and what determines this performance" (Henry, 2011). Accordingly, as a radical perception for positioning approach, **the resource-based view (RBV)** of firm assumes that, organisation's performance is determined –basically– by the efficient deployment of firm's resources and competencies.

Similarly, there is a growing body of strategic management literature highlighting the role of internal capabilities, resources and distinctive skills in creating an inimitable competitive advantage for both manufacturers and services providers (Wernerfelt, 1984; Dierickx & Cool, 1989; Grant, 1991; Barney, 1991; Hamel & Prahalad, 1994; Sunder et al., 1993; Day, 1994; Long & Vickers-Koch, 1995; Matthyssens & Vandenbempt, 1998; Hooley et al., 1999; Esper et al., 2007; Nath et al., 2010). The gist of the above studies was on addressing '*how the deployment of distinctive organisational resources, skills and capabilities can gain sustainable competitive advantage*'?

'Why firms are different' is the central statement that RBV revolves around. Spearheaded by the work of Wernerfelt (1984), Grant (1991) and Barney (1991) **the resource-based view (RBV)** of firm is viewed as one of the most influential and cited theories in the field of management. RBV perception has been employed in the academic literature as a mean for understanding the mechanism of building competitive advantage by exploring the role of key resources, identified as intangible assets and capabilities, in achieving the superiority (Clulow et al., 2007, p. 19). The RBV offers an appropriate tool for analysing firm's resource position (Wernerfelt, 1984) and provides a theoretical base regarding the link between the deployment of firm's distinctive resources and the achievement of competitive advantage which in turn resulted in firm's superior performance (Hooley et al., 1999).

In line with resource-based view (RBV) perception, the basis for creating a sustainable competitive advantage is drawn from firm's distinct capabilities that comprise a bundle of valuable, rare, inimitable, and non substitutable resources (VRIN) (Barney, 1991). Thus, RBV central proposition stresses that firm in order to achieve a state of sustainable competitive advantage (SCA) it must acquire and control these VRIN resources and capabilities (Kraaijenbrink et al., 2010, p. 350).

The resource-based view (RBV) fundamental difference distinguishes it from other perceptions stems from the notion that RBV is seen as an attempt "to look at firms in terms of their resources rather than in terms of their products" (Wernerfelt, 1984, p. 179), the logic which was embedded in a substantial body of further studies providing a powerful theoretical perspective (Peng, 2001).

Furthermore, RBV represents an inside-out view (Ulrich & Lake, 1990; Day, 1994; Long & Vickers-Koch, 1995; Connor, 2002) where its perspective emphasises that, competitive advantage is achieved through managing firm's unique existing resources. In other words, firms have to approach their competitive strategies from "capability perspective rather than the [outside-in] market position" (Hamal & Prahalad, 1994).

It is of crucial importance to emphasise that although RBV perception pushes the focus on firm's internal resources, skills and capabilities in achieving competitive advantage, however, external environment and its related capabilities have not been neglected. In addition to the crucial role of inside-out capabilities "there has to be a matching outside-in capability" to enable firm senses and exploits its external opportunities (Day, 1994, p.41). In that vein, literature critiques the exaggerated tendency of positioning school propositions toward external factors for analysing competitive position (Sheehan, 2005; Ciobanasu, 2012). On the other hand, 'boundary-spanning marketing organisation theory' (MOR) adopts the cross functional understanding (Workman et al., 1998) in defining the organisational activities where all groups are involving [internal interaction] in value-creating processes–simultaneously– giving a great attention to the interactions of the firm with its environment and any other factors [external interaction] (Hult, 2011).

'Boundary-spanning' notion is rooted to Day's work '*The capabilities of market-driven organisations'* (1994) in which he recommends the balance usage of organisation's in–side out and outside–in orientation capabilities naming three categories that the organisation's capabilities can be sorted into depending on the orientation and focus of the defining processes: inside–out capabilities, outside–in capabilities, and spanning capabilities. Similarly, Wade and Hulland (2004, p.111) offered the following explanations for Day's (1994) suggested category: (1) *the inside-out capabilities* tend to be internally focused (e.g., technology development, cost controls) and are deployed from inside the firm in response to market requirements and opportunities. (2) *Outside-in capabilities* are externally oriented, represent firm's link with its external environment aiming at anticipating market requirements, creating durable customer relationships, and understanding competitors (e.g., market responsiveness, managing external relationships). (3) *Spanning capabilities* are needed to integrate the firm's inside-out and outside-in capabilities.

Furthermore, RBV considers firm as a unique collection of resources and skills. Addressing these critical and advantage–creation resources such as, valuable, rare, inimitable and non substitutable resources (Barney, 1991) from other basic resources is firm responsibility (Clulow et al., 2007). Consequently, with regard to firms inside–out view, "firms focus on their distinctive, hard–to–imitate core capabilities, rather than portfolios of products and markets" (Long & Vickers-Koch, 1995). Thus, decision makers should concentrate investments in these unique internal resources and capabilities (Day, 1994; Vorhes & Harker, 2000) in order to raise its performance.

### 2.2.1 RBV Critiques

After two decades of the work published by Wernerfelt *A Resource-based View of the Firm* (1984) highlighting the RBV as a powerful strategic analysis view, it is arguable that RBV has "reached maturity as a theory" representing "one of the most prominent and powerful theories" for understanding organisations' strategic positions (Barney et al., 2011). However, various critiques have been voiced on the resource-based view (RBV). While RBV defines firm's unique resources as these "heterogeneous in nature and not perfectly mobile" resources (Barney, 1991) it stresses resource immobility and resource heterogeneity to ensure the importance role of uniqueness in maintaining superiority. In addition, RBV posits that when theses "immobility resource and heterogeneity resources are bundled strategically; a firm's competitive advantage can be long lasting" (Wan et al., 2011). In that vein, a criticism of resources based arguments is concerned with *generalising* about uniqueness associated with RBV (Lockett et al., 2001). In other words, given its focus on resource uniqueness heterogeneity, RBV critics argued that the assumption of firm heterogeneity caused a methodological restriction for any potential for generalisation.

McGrath (1996, p.22) indicated the paradox when generalise idiosyncrasy resources not processes pointing out the difficulties to generalise about the value of a given resource while "it is it is fairly straightforward to generalise about the processes".

The central proposition of RBV assumes that building competitive advantage primarily relies on the deploying the bundle of firm's VRIN resources while the causal ambiguity linking between resources and performance is central tenet of the RBV too. Causal ambiguity as a core element of the resource-based view (RBV) indicates the uncertainty that "stem from nature of the causal connections between actions and results" (Lippman & Rumelt, 1982, p. 418). In other words, it relates to ambiguity between the acquired resources and achieved performance as a fundamental barrier to imitation and an important requirement for sustainability.

Consequently, as a methodological critique [*causality*], causal ambiguity hinders outside researchers (Truijens, 2003) as much as rivals ability to analyse the sources of competitive advantage.

In addition to RBV criticisms as being 'static' (Rajala, 2009) and neglecting its context (McGrath, 1996), some authors (e.g. Makadok, 2011) have criticised the RBV exclusive causing of competitive advantage for profitability. "Competitive advantage is not the only causal mechanism by which profit can be generated rivalry restraint, information asymmetry, and commitment timing" are other sources of profit as conceded by (Makadok, 2011, p. 1316).

Fuzziness concepts used by the RBV (e.g. resources, competences, capabilities, strategic assets, dynamic capabilities, routines etc.) is seen by many as being tautological (Amesse et al., 2003). Hence, an often-recurring critique is its associated *tautology and unfalsifiability* (Priem & Butler, 2001; Lockett et al. 2009). RBV defines VRIN resources as those resources (assets, capabilities, organisational processes, firm's attributes, information, knowledge, etc.) that enable the firm to conceive and implement strategies to improve its efficiency and/ or effectiveness (Rose et al., 2010). Thus, it offers a circular reasoning without a clear explanation where competitive advantage comes from (Kirsch, 2004).

Another side critiquing RBV is its lacks *substantial managerial implications* (Kraaijenbrink et al., 2010) or "*operational validity*" (Priem & Butler, 2001 a). RBV is considered ultimately as a theory about how to generate "rents" from resources (Peng, 2001) however "it is silent on how this should be done" (Connor, 2002; Miller, 2003 cited in Kraaijenbrink et al., 2010) and RBV managerial implementation related issues should be given more attention (Peng, 2001) by researchers. To the contrary, Barney (2001, 2005) underestimated this aspect of criticism and pointed out that the lack of managerial implications dose not really threaten the RBV theoretical position. However, Barney admits RBV sufficient focus on processes and implementations but at the same time he explains that, since RBV is a theory highlighting the effect of VRIN resources in achieving SCA over competitors. Thus, explaining managerial implementations is not the aim of RBV as Barney argued.

## III. Conclusion

Although a significant amount of research has been done studying competitive adventure, it remains poorly defined and operationalized. This study has proposed for achieving an in-depth understanding of competitive advantage and exploring the main philosophies that scholars adopted while studying the competitive advantage.

Providing a precise definition of competitive advantage is a difficult task. Competitive advantage has been defined basing on various orientations and backgrounds. However, a comprehensive evaluation for previous literature on competitive advantage pointed out two main schools that competitive advantage research could be categorized basing on: the poisoning school and resource-based view. While the poisoning school represented in Porter's generic strategies describes how a company pursues competitive advantage across its chosen market scope in which cost leadership, differentiation, and focus function as three primary ways enabling companies to achieve a sustainable advantage. On the other hand, resource-based view (RBV) focuses on the resources available to a firm as the root for obtaining a competitive advantage. According to this approach a firm should look inside the company to find the sources of competitive advantage instead of looking at competitive environment for it.

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