Interpreting Competitive Advantage : Evidence from Existing Literature

S. Shyam Prasad [1]

Abstract

The importance of competitive advantage cannot be overemphasized. Every firm strives to gain some advantage in the market that they operate. A vast amount of research has gone into the different aspects of competitive advantage, and yet, a universally accepted definition has not emerged to date. Definitions that have appeared are few and far between. Only one paper focused on its measurement, though the author did not find any instance of it having been used in the industry or academia. Therefore, the objective of this paper was to collate different perspectives of competitive advantage existing in the extant literature and present the current understanding of the term. The papers published in the last two decades have been taken into consideration. This article has been written carefully by selecting leading literature on competitive advantage from databases such as Google Scholar, Proquest, JSTOR, and miscellaneous sources. Also, a workable definition of competitive advantage was included in the discussion section, fulfilling the gap. This study is unique in the sense that it tries to fulfil the long-felt need for a formal, simple, and easy to interpret definition of competitive advantage.

Keywords : **competitive advantage, definition, measurement, perspective, understanding**

Paper Submission Date : December 30, 2019 ; Paper sent back for Revision : August 4, 2020 ; Paper Acceptance Date : August 18, 2020

In business management, certain terms have come to be used very often and one such term is competitive advantage' (CA) (Porter, 1985). This term is very frequently used and yet it is not understood fully (Flint, 2000). There still is a lot of ambiguity about the term (Klein, 2002). Commonly, the term competitive advantage implies that a firm is making more profit than its competitors that is more than the norm of the industry (Porter, 1980). A very common desire among the managers is to know why and how certain companies perform better than others do. With technology and globalization changing the way the businesses are done and impacting their performances (Asch & Salaman, 2002), managers struggle to find the right answer to the question. One opinion is that companies with a good strategy-fit will enable them to gain an edge over their rivals (Jia, 2020). An earlier literature review has established that there is ample variance in the way strategy is conceptualized and its units are analyzed ; the extant literature also fails to establish any one of the divergent views as the correct one (Wang, 2014). The objective of this paper is to collate different views of the concept of competitive advantage, as presented by different scholars, in the last decade and present the current understanding of it. This article has been written by carefully selecting leading literature on competitive advantage from databases such as Google Scholar, Proquest, JSTOR, and miscellaneous sources. Also, in the absence of a clear definition for competitive advantage, this paper has defined the same.

[1] *Professor (Corresponding Author),* International School of Management Excellence, Chembanahalli, Sarjapur Road, Bengaluru – 625 125. (Email : s_shyam_prasad@yahoo.com) ; ORCID ID : https://orcid.org/0000-0003-3710-3858

DOI : 10.17010/ijom/2020/v50/i8-9/154694

Literature Review

Firms need to have a competitive edge to retain their customers; hence, it is obvious that competitive advantage is the backbone of strategic management (Furrer, Thomas, & Goussevskaia, 2008). The starting point of the ubiquitous term 'competitive advantage' could well be Michael Porter's book *Competitive Advantage* (Porter, 1985), though the concept predates him. Albeit, the term competitive advantage was used without actually defining it. In one of the papers, Flint (2000) stated that the terminology used in the field of strategic management that might possibly garner the prize for the most overworked and least understood catch-phrase is 'competitive advantage.' One of the reasons may well be that its meaning is so self-evident that no one felt a need to define it formally (Coyne, 1986). The first attempt to define competitive advantage can be attributed to Ansoff (1965), who identified properties of individual product markets that give a firm a strong competitive position. Porter's (1985) book on competitive advantage was a landmark. Yet, without defining competitive advantage, he explains that if a firm can provide greater value to its customers, then the firm enjoys a competitive advantage. Due to its importance, the term has been explained and used extensively, but there is no unambiguous interpretation of it.

One of the few formal and explicit definitions is, "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 player" (Clulow, Gerstman, & Barry, 2003, p. 221). Another definition is, "Competitive advantage is whatever value a business provides that motivates its customers (or end-users) to purchase its products or services rather than those of its competitors, and that poses impediments to imitation by actual or potential direct competitors" (Christensen, 2010, p. 21). Competitive advantage has also been defined as the degree to which a firm has the competency to defend its position in the market through its unique management decisions and making itself superior to its rivals (Marinagi, Trivellas, & Sakas, 2014). Though some authors have attempted to define the term competitive advantage, these definitions do not seem to have been universally accepted. Thus, it leaves us back at the starting place with a search for a clear definition of the term 'competitive advantage.'

It follows from the above definitions that competitive advantage enables a firm to earn more profit than its competitors, generate higher revenue, and sustain itself in the market. Therefore, creating sustainable competitive advantage is vital and may well be a priority for any firm. Hence, many studies have attempted to understand and clarify how some companies excel in the market (Barnett & Burgelman, 1996). The suggestions are varied. Some are of the view that a better "fit" between the firm's strength, and the macro environment provides a competitive advantage (Veliyath & Shortell, 1993). Later studies, focusing on the internal resources of the firm (resource-based vew (RBV)), postulated that competitive advantage can be achieved from organizational capabilities (Barney, 2000 ; Teecee, Pisano, & Shuen, 1997). Barney originally conceived the VRIN (valuable, rare, inimitable, and non-substitutable) framework to determine if a resource is a source of sustainable competitive advantage. He later evolved it VRIO (valuable, rare, inimitable, and organized) by changing the last characteristic from 'non-substitutable' to 'organized' as he recognized that the firm should also be capable of utilizing the resource to capture its value. It is clear from the above that resources play an important role in creating competitive advantage. Thus, they should find a mention in the definition of the term. Therefore, it becomes imperative here to look at the different sources of competitive advantage. However, the mere presence of resources alone will not lead an organization to a competitive advantage. It will depend on how the resources are put to use, that is, the process followed by the organization in exploiting the resources.

Sources for Competitive Advantage

Competitive advantage is driven by the dyad/network routines and processes (Dyer & Singh, 1998). Few others contend a market-based view of the strategy as a determinant of competitive advantage (Peteraf & Bergen, 2003). An emerging idea (McGrath, 2013) is that in the present business environment, which is highly hyper competitive, one cannot gain a long term competitive advantage. It can only be transient. Some explain that it is a competitive advantage that causes a firm to perform differently from others (Ceccagnoli, 2009). Johnson, Whittington, Scholes, Angwin, and Regnér (2014) in their book *Exploring Strategy* interpreted competitive advantage as a process that is superior to the processes adopted by the competing firms to achieve its assigned objectives. One pointer that emerges from the above discussion is that the competitive advantage is a process that places a firm at an advantageous position relative to the competitors. The process followed by a firm or an organization becomes its character, or its property, or broadly its culture.

The existing literature identifies that competitive advantage can be achieved through organizational resources, capabilities, competencies, assets (Barney, 2003), and other sources (Sigalas, Economou, & Georgopoulos, 2013). Many studies have shown that organizational slack also influences a company's performance; however, the results are mixed and causal relationship between slack and performance remains unclear (Carnes, Xu, Sirmon, & Karadag, 2019). Huang and others integrated both industrial organization theory (IO) and RBV perspectives in the analysis of competitive advantage and recognized that competitive advantage can be of temporary or sustainable nature (Huang, Dyerson, Wu, & Harindranath, 2015). Though resources yield some benefits, all of them may not produce a sustained competitive advantage. Further, some resources may be uncertain in their ability to produce a competitive advantage.

Competitive advantage can also be achieved through human resource management (HRM) systems. A model by Becker and others showed how HRM systems will result in increased performance, productivity, and creativity in the organization leading to better profit and growth (Becker, Huselid, Pickus, & Spratt, 1997). Another model explains that other HR practices also result in improved individual performance and increased profitability and better return on investment (Guest, 1997). Further, AMO framework (A= abilities, M = motivation, O = opportunity to participate) also shows that employee motivation impacts the firms' performance and its competitive advantage (Purcell, Kinnie, Hutchinson, Rayton, & Swart, 2003). Besides the above, high-performance work systems (HPWS) (Posthuma, Campion, Masimova, & Campion, 2013) and high-performance human resource practices (HPHRP) (Kehoe & Wright, 2013) also come up with links between HRM practices and organizational performance. Thus, it is observed from the above models that good HRM systems and practices also lead to competitive advantage. This strengthens the argument that more than possessing resources, it is the application of them that results in an advantage over the competitors.

Competitive advantage, particularly by retailers, can also be gained by providing unique customer shopping experiences (Atulkar & Kesari, 2016). Also, many factors inside a store influence the customers (Chaturvedi, 2013). Besides a product's price, its cost of production, its quality, time taken to reach the market from its inception, its dependability, and its uniqueness, are the factors impacting the competitive advantage. Other studies have identified additional factors such as the relationship with the customers (Sehgal, 2007) can build competitive advantage. The Dynamic Capabilities View (DCV) holds that firms which discern new opportunities in the environment and reorganize their resources and capabilities to exploit the opportunities will create and sustain a competitive advantage (Teece, 2009) ; however, there is not enough evidence on which to base or how to build dynamic capabilities (Breznik & Lahovnik, 2014). Danny Miller of Montreal's Ecole des Hautes Etudes Commericales and Jamal Shamsie of New York University (Miller & Shamsie, 1996) conducted an interesting study to understand the kind of resources a firm should focus on to gain competitive advantage. They examined major Hollywood film studios for their research. Their research resulted in classifying the resources into two types : One that is based on the tangibles and property and the other as intangible and based on knowledge. Tangible resources, among other things, included exclusive contracts, a prime location, a patent, or a copyrighted brand and intangible resources included creative and technical skills that enable a firm to deliver more attractive products. In a stable environment, they demonstrated that it was advantageous to possess the tangible type of resources, as the intangible type of resources did not give any advantage. However, in contrast, possession of intangible resources was advantageous in an unpredictable environment. Lesson from this study is that each type of resources is valuable in different environments for which they were developed (Miller & Shamsie, 1996). One can discern from the above that a close watch of environment and correct use of relevant resources only will provide an edge to a firm in the market. It should be in-built in the culture of the organization to monitor the environmental changes and employ the right resources to gain a competitive advantage. This is the very reason I view competitive advantage as property or characteristic of an organization.

A recent study has established the mediating role of competitive advantage in the direct relationship between corporate social responsibility (CSR) and a firm's performance (Saeidi, Sofian, Saeidi, Saeidi, & Saeidi, 2015).

It has been demonstrated that the force with which a firm deals the market forces called competitive aggressiveness (Rauch, Wiklund, Lumpkin, & Frese, 2009) unsettles and prevents the rivals from effectively countering (D'Aveni, 1994), and thereby allowing it to compete effectively (Carnes et al., 2019 ; Connelly, Tihanyi, Ketchen Jr., Carnes, & Ferrier, 2017) and gain competitive advantage. CSR and competitive aggressiveness both can be understood as the culture of the organization.

Research on the role of advertising on competitive advantage found that the "goodwill advertising," which influences the goodwill of the customer and "awareness advertising," which manages the firm's awareness among the consumers resulted in varied strategic advantages to a firm (Doraszelski & Markovich, 2007).

In the context of green marketing, eco-friendly factors such as procurement, communication, positioning, design, packaging, pricing, and accessibility were identified as resulting in competitive advantage (Bhatti & Negi, 2018). Technology has also been considered. Though technology can initially provide an advantage, it cannot be sustained (Fiksel, 1999) since it can be copied by others.

Discussion and Conclusion

Time and again, we see that competitive advantage is being explained as providing greater value to the customer than the competitors, resulting in better performance by a firm. Many firms have also realized that a simple concept such as supply chain can provide greater value to the customers (Reddy, 2005). Better performance translates into an increased profit margin than the competitors. However, no universally accepted definitions seem to have emerged so far. Many scholars have produced highly researched and valuable literature on this subject without putting forth a formal definition. For example, in an article titled, "Competitive Advantage through Engagement", the authors established that the engagement was defined as the attitude, behaviour, and level of connectedness (a) among customers, (b) between customers and employees, and (c) of customers and employees within a firm, which leads to better performance by the firm (Kumar & Pansari, 2016). The authors did not use the phrase 'competitive advantage' anywhere in the article, implying that competitive advantage is analogous to better performance.

The review of the extant literature shows that competitive advantage has been extensively dealt with from different perspectives ; however, its definition remains fuzzy and unclear. However, one that emerges uncontroversially in this study is that the competitive advantage is a property or a characteristic of an organization to excel under varied circumstances and resources have an impact on it. Hence, this paper suggests a definition of competitive advantage as follows :

> Competitive advantage is the property of an organization, to generate better financial returns than the competitors, through the configuration of its resources or otherwise, and achieve its set objective or objectives while maintaining a par performance from the customers' perspective.

Managerial and Theoretical Implications

In the absence of a univocal definition of competitive advantage, managers are unable to arrive at an unambiguous result of their firm's status in the given industry. The suggested definition removes this weakness. It is simple to follow and easy to interpret. It places the managers in a stronger footing in their analysis of the performance of their firm. The definition is built on the balanced scorecard, which is one of the well-established concepts in strategic management. Also, the definition clearly states that competitive advantage is the property of an organization – the property to excel and generate better results than their competitors. The definition thus closes the gap in the literature.

Limitations of the Study and Scope for Further Research

Though the paper has collated wide perspectives of competitive advantage, yet it has limitations. I considered numerous papers, particularly those works that examined different perspectives to broaden the knowledge ; however, for fear of redundancy, all the similar studies by different scholars have not been included in this study. Secondly, as with any literature review, the 'file drawer' problem has the potential to impact the views presented in this paper due to the exclusion of unpublished studies.

Besides its limitations, this review has important future research implications. First, it will extend the theoretical review of extant work on competitive advantage. Second, the mediating factors between resources and competitive advantage have not been looked into. This is a very interesting virgin area with huge research potential.

Author's Contribution

This paper was completely conceived, developed, and written by Dr. S. Shyam Prasad. Dr. Prasad extracted research papers of high repute from the sources indicated in the manuscript and analyzed them on his own.

Conflict of Interest

The author certifies that he has no affiliations with or involvement in any organization or entity with any financial interest, or non-financial interest in the subject matter, or materials discussed in this manuscript.

Funding Acknowledgement

The author declares that he received no financial support for the research, authorship, and/or for the publication of this article.

References

Ansoff, H. I. (1965). *Corporate strategy.* New York : McGraw-Hill.

Asch, D., & Salaman G. (2002). The challenge of change. *European Business Journal, 14*(3), 133 – 142.

Atulkar, S., & Kesari, B. (2016). Shopping experience of hypermarket shoppers on weekends. *Indian Journal of Marketing, 46*(11), 36 – 49. https://doi.org/10.17010/ijom/2016/v46/i11/104738

Barnett, W., & Burgelman, R. (1996). Evolutionary perspectives on strategy. *Strategic Management Journal, 17,* 5 – 19. https://doi.org/10.1002/smj.4250171003

Barney, J. B. (2003). Resources, capabilities, core competencies, invisible assets, and knowledge assets : Label proliferation and theory development in the field of strategic management. In C. E. Helfat (ed.), *The SMS Blackwell handbook of organizational capabilities* (pp. 422 – 426). Blackwell Publishing Ltd. https://doi.org/10.1002/9781405164054.ch26

Barney, J. B. (2000). Firm resources and sustained competitive advantage. J.A.C. Baum & F. Dobbin (eds.) *Economics meets sociology in strategic management* (Advances in Strategic Management, Vol. 17, pp. 203 – 227). Bingley : Emerald Group Publishing Limited. https://doi.org/10.1016/S0742-3322(00)17018-4

Becker, B., Huselid, M., Pickus, P., & Spratt, M. (1997). HR as a source of shareholder value : Research and recommendations. *Human Resource Management, 36*(1), 39–47. https://doi.org/10.1002/(sici)1099-050x(199721)36:1<39::aid-hrm8>3.0.co;2-x

Bhatti, K. K., & Negi, A. (2018). Determinants of green marketing leading to sustainable competitive advantage for retailers within the Delhi region. *Indian Journal of Marketing, 48*(8), 53–64. https://doi.org/10.17010/ijom/2018/v48/i8/130540

Breznik, L., & Lahovnik, M. (2014). Renewing the resource base in line with the dynamic capabilities view: A key to sustained competitive advantage in the IT industry. *Journal of East European Management Studies, 19*(4), 453–485. https://doi.org/10.5771/0949-6181-2014-4-453

Carnes, C. M., Xu, K., Sirmon, D. G., & Karadag, R. (2019). How competitive action mediates the resource slack–performance relationship: A meta-analytic approach. *Journal of Management Studies, 56*(1), 57–90. https://doi.org/10.1111/joms.12391

Ceccagnoli, M. (2009). Appropriability, preemption, and firm performance. *Strategic Management Journal, 30*(1), 81–98. https://doi.org/10.1002/smj.723

Chaturvedi, R. K. (2013). Modeling store characteristics as antecedents of impulse purchase. *Indian Journal of Marketing, 43*(2), 27–36. https://doi.org/10.17010/ijom/2013/v43/i2/34049

Christensen, H. K. (2010). Defining customer value as the driver of competitive advantage. *Strategy & Leadership, 38*(5), 20–25. https://doi.org/10.1108/10878571011072048

Clulow, V., Gerstman, J., & Barry, C. (2003). The resource-based view and sustainable competitive advantage : The case of a financial services firm. *Journal of European Industrial Training, 27*(5), 220–232.

Connelly, B. L., Tihanyi, L., Ketchen Jr., D. J., Carnes, C. M., & Ferrier, W. J. (2017). Competitive repertoire complexity : Governance antecedents and performance outcomes. *Strategic Management Journal, 38*(5), 1151–1173.

Coyne, K. P. (1986). Sustainable competitive advantage – What it is, what it isn't. *Business Horizons, 29*(1), 54 – 61. https://doi.org/10.1016/0007-6813(86)90087-x

D'Aveni, R. (1994). *Hypercompetition: Managing the dynamics of strategic management.* New York : Free Press.

Doraszelski, U., & Markovich, S. (2007). Advertising dynamics and competitive advantage. *The RAND Journal of Economics, 38*(3), 557–592. https://doi.org/10.1111/j.0741-6261.2007.00101.x

Dyer, J. H., & Singh, H. (1998). The relational view : Cooperative strategy and sources of interorganizational competitive advantage. *The Academy of Management Review, 23*(4), 660–679. https://doi.org/10.2307/259056

Fiksel, J. (1999). Competitive advantage from sustainable technologies. *The Military Engineer, 91*(601), 41– 42.

Flint, G. (2000). What is the meaning of competitive advantage ? *Advances in Competitiveness Research, 8*(1), 121–129.

Furrer, O., Thomas, H., & Goussevskaia, A. (2008). The structure and evolution of the strategic management field: A content analysis of 26 years of strategic management research. *International Journal of Management Reviews, 10*(1), 1–23. https://doi.org/10.1111/j.1468-2370.2007.00217.x

Guest, D. E. (1997). Human resource management and performance : A review and research agenda. *The International Journal of Human Resource Management, 8*(3), 263–276. https://doi.org/10.1080/095851997341630

Huang, K.- F., Dyerson, R., Wu, L. - Y., & Harindranath, G. (2015). From temporary competitive advantage to sustainable competitive advantage. *British Journal of Management, 26*(4), 617– 636. https://doi.org/10.1111/1467-8551.12104

Jia, J. (2020). Strategy literacy: Seeking competitive advantage. In, *The corporate energy strategist's handbook* (pp. 15–24). Switzerland AG : Palgrave Macmillan. https://doi.org/10.1007/978-3-030-36838-8_3

Johnson, G., Whittington, R., Scholes, K., Angwin, D., & Regnér, P. (2014). *Exploring strategy, text & cases* (10th edition). Edinburgh Gatel: Pearson Education Limited.

Kehoe, R., & Wright, P. (2013). The impact of high - performance human resource practices on employees' attitudes and behaviors. *Journal of Management, 39*(2), 366–391. https://doi.org/10.1177/0149206310365901

Klein, J. (2002). Beyond competitive advantage. *Strategic Change, 11*(6), 317–327. https://doi.org/10.1002/jsc.606

Kumar, V., & Pansari, A. (2016). Competitive advantage through engagement. *Journal of Marketing Research, 53*(4), 497–514. https://doi.org/10.1509%2Fjmr.15.0044

Marinagi, C., Trivellas, P., & Sakas, D. P. (2014). The impact of information technology on the development of supply chain competitive advantage. *Procedia - Social and Behavioral Sciences, 147,* 586–591. https://doi.org/10.1016/j.sbspro.2014.07.161

McGrath, R. (2013). Transient advantage. *Harvard Business Review, 91*(6), 62–70.

Miller, D., & Shamsie, J. (1996). The resource-based view of the firm in two environments : The Hollywood film studios from 1936 to 1965. *Academy of Management Journal, 39*(3), 519 – 543. https://doi.org/10.5465/256654

Peteraf, M. A., & Bergen, M. E. (2003). *Scanning dynamic competitive landscapes : A market-based and resource-based framework.* https://doi.org/10.2139/ssrn.386602

Porter, M. E. (1980). *Competitive strategy: techniques for analyzing industries and competitors.* New York : Free Press. (Republished with a new introduction, 1998).

Porter, M. E. (1985). *The competitive advantage: Creating and sustaining superior performance.* NY: Free Press. (Republished with a new introduction, 1998.)

Posthuma, R., Campion, M., Masimova, M., & Campion, M. (2013). A high-performance work practices taxonomy: Integrating the literature and directing future research. *Journal of Management, 39*(5), 1184–1220.https://doi.org/10.1177/0149206313478184

Purcell, J., Kinnie, N., Hutchinson, S., Rayton, B., & Swart, J. (2003). *Understanding the people and performance link: Unlocking the black box.* London : Chartered Institute for Personnel and Development.

Rauch, A., Wiklund, J., Lumpkin, G. T., & Frese, M. (2009). Entrepreneurial orientation and business performance : An assessment of past research and suggestions for the future. *Entrepreneurship Theory and Practice, 33*(3), 761–787. https://doi.org/10.1111/j.1540-6520.2009.00308.x

Reddy, J. S. (2005). Gaining competitive advantage through supply chain management. *Indian Journal of Marketing, 35*(6), 32 – 34.

Saeidi, S. P., Sofian, S., Saeidi, P., Saeidi, S. P., & Saeidi, S. A. (2015). How does corporate social responsibility contribute to firm financial performance ? The mediating role of competitive advantage, reputation, and customer satisfaction. *Journal of Business Research, 68*(2), 341–350. https://doi.org/10.1016/j.jbusres.2014.06.024

Sehgal, N. K. (2007). Relationship marketing: A source of competitive advantage. *Indian Journal of Marketing, 37*(3), 6 – 8.

Sigalas, C., Economou, V. P., & Georgopoulos, N. B. (2013). Developing a measure of competitive advantage. *Journal of Strategy Management, 6*(4), 320–342. https://doi.org/10.1108/jsma-03-2013-0015

Teece, D. (2009). *Dynamic capabilities and strategic management: Organizing for innovation and growth.* Oxford, New York: Oxford University Press.

Teecee, D. J., Pisano, G., & Shuen, A. (1997). Dynamic capabilities and strategic management. *Strategic Management Journal, 18*(7), 509–533. https://doi.org/10.1002/(sici)1097-0266(199708)18:7<509::aid-smj882>3.0.co;2-z

Veliyath R., & Shortell, S. M. (1993). Strategic orientation, strategic planning system characteristics and performance. *Journal of Management Studies, 30*(3), 359 – 381. https://doi.org/10.1111/j.1467-6486.1993.tb00309.x

Wang, H. (2014). Theories for competitive advantage. In H. Hasan (ed.), *Being practical with theory: A window into business research* (pp. 33–43). Wollongong, Australia : THEORI Business Research Group: Faculty of Business, University of Wollongong.

About the Author

S. Shyam Prasad has 40 years of industrial and teaching experience He has presented 22 papers in national/international conferences and has won three Best Paper Awards. He has also published a book titled *Advertising Management*.