THE CONCEPT OF COMPETITIVE ADVANTAGES.
LOGIC, SOURCES AND DURABILITY

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Abstract

Purpose: The main purpose of this article is to present theoretical assumptions of the concept of competitive advantages and main problems connected with the same. Most of all, the article outlines issues, which are presently discussed in the field of management sciences, including sources of competitive advantages, causal ambiguity and character of durability of competitive advantages in the contemporary turbulent business environment. In the author’s opinion, the issues have a great significant for the practice of management.

Methodology: The article has been written following a careful review of leading literature of the subject and in accordance with the logics of resource-based view.

Conclusions: The concept of competitive advantages is commonly used for the purposes of analysing above-average results of enterprises in a competitive market. However, the contemporary changes in environments of organizations make competitive advantages become more and more complex and relationships between sources of the advantages and results activities more and more inobvious.

Originality/Value: The article contributes to further discussion on concept of competitive advantages. Paradoxically, the problems are not developed sufficiently in management sciences. Due to dynamic changes occurring in environments of enterprises, it is necessary to update knowledge in this field on a regular basis.

Keywords: theory of competitive advantages, superior performance, causal ambiguity, sources of competitive advantages

Paper type: General review

1. Introduction

An article touching upon the essence of competitive advantages should start from Flint’s words, who states 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”. The extension of that phrase
into “sustainable competitive advantage” is currently an elaboration of ambiguity (Flint, 2000). Similarly, Porter notices that the phrases competitive advantage and sustainable advantage have become commonplace (Porter, 1998). A business strategy has become a synonym of searching for competitive advantages, whereas the very concept of competitive advantages is surprisingly confused (Klein, 2002).

A basic task of strategic management is to build and maintain competitive advantages of an enterprise, which should make it possible to achieve above-average results of its business activities (Cegliński, 2016a). If this is the case, development of competitive advantage is equal to achievement of success by a given organization. Despite the ongoing discussions, the concept of competitive advantage is generally accepted in management sciences. It has an unchallengeable significance for the theory and practice of strategic management.

Within the contemporary meaning, the term of competitive advantage was coined by Porter in 1985 (Porter, 1985). He made no reference to previous publications (Klein, 2002). Despite elapse of years and considerable quantity of scientific works in the field of strategic management, it is, at the least, problematic to define the term of “competitive advantage”. However, there is no purpose and it is not often found in literature. It would be much more reasonable to understand theoretical grounds, on which the concept of competitive advantages is based. Specification of the considered term narrows the area of analysis, which is not desired in strategic management.

Competitive advantage is obtained when an organisation develops or acquires a set of attributes (or execution actions) that allow it to outperform its competitors (Wang, 2014). In other words, competitive advantage is revealed, when activities of a given organization are more profitable than those of its market competitors or when it outperforms them as regards other significant results of activities (Huff et al., 2009), including, for example, the share in the market, product quality or technological advancement. Inherently, a lot of enterprises are not able to exceed such prescribed standards (Huff et al., 2009). This constitutes ascribing features of uniqueness and exceptionality to competitive advantages. Therefore, they can be treated as a sine qua non for achievement of success, i.e. realisation of strategic targets set (Haffer, 2003). A generally adopted approach to the issue is well conveyed in Grant’s simple statement - if the firm is to prosper within the industry it must establish a competitive advantage over its rivals (Grant, 2010). In the contemporary hypercompetitive and quickly evolving complex business environment it is more and more difficult to achieve this.

2. Relation between competitive advantage and firm’s performance
As Powell notices, the hypothesis of competitive advantage dominates theories of sustained superior performance. Under any leading strategy theory, sustained superior performance exists, it has specifiable causes, and these causes are tied
to the concept of competitive advantage (Powell, 2001). Theoretically speaking, it is possible to deliberate on results obtained by enterprises without using the structure of competitive advantages. For example, one can admit that each case of development of above-average results by enterprises has an individual character and cannot be generalised. However, the value of such assumptions can be doubtful. So far no one has suggested a concept, which could replace the concept of competitive advantages efficiently.

As already mentioned, the term of competitive advantage is commonly accepted in the world’s science. Particularly, it is visible within two leading schools – Resource-based view of the firm (RBV) and positioning school. In accordance with assumptions of RBV, resources may become a source of competitive advantage to the degree that they are scarce, specialized, appropriable (Amit and Schoemaker, 1993), valuable, rare, imperfectly imitable and have no strategic equivalents (Barney, 1991; see Figure 1). Porter states that competitive advantage grows fundamentally out of the value a firm is able to create for its buyers that exceeds the firm’s cost of creating it (Porter, 1985). More recent research in strategic management has shifted toward understanding the strategic mechanisms that can create competitive advantage and to explain the firm-level mechanisms for achieving sustainable competitive advantage based mainly on the framework of core competitive capabilities (Fiegenbaum and Thomas, 2004). Further deliberations will be based upon the logics of a resource-based view.

Flint claims, that there is no permanent competitive advantage that is ascertainable (Flint, 2000). Although the opinion may be too radical, it confirms arbitrariness of determination, whether a given object has or does not have competitive advantage in the market. One may draw conclusions relating to the same from results of strategic activities of enterprises. Most of empirical studies conclude that competitive advantages exist on the basis of observations of results of activities (ex post) only to drawn a contrary conclusion that creation of competitive advantage generates above-average results of activities.

Figure 1. The Relationship Between Resource Heterogeneity an Immobility, Value, Rareness, Imperfect Imitability and Sustained Competitive Advantage
Source: (Barney, 1991).
This relationship is presented by way of a simple implication: \( p \rightarrow q \) (if \( p \), then \( q \); if an enterprise achieved permanent above-average results of activities, the enterprise has 1 or more competitive advantages) (Powell, 2001). It is the most commonly used relationship in a strategic analysis, which is often adopted as obvious with no reflexion. It is assumed that observation of above-average results of activities of an enterprise allows to state that it has at least one competitive advantage. The matter may be further complicated by introduction of competitive disadvantages to the analysis, i.e. some widely understood disadvantages or inconveniences connected with activities of an enterprise. In my opinion, adoption of the assumption that an enterprise has achieved above-average results, because it has competitive advantage and does not have any competitive disadvantages would be too far-fetched. It is because there is a complex problem of mutual relations between advantages and disadvantages. Effects of the category may, but do not have to, cancel each other out.

A large problem connected with this relationship is causal ambiguity. Generally speaking, causal ambiguity relates to situations, in which causal relationships are not obvious. There will be several comments made on this issue. King and Zeithaml have distinguished two kinds of causal ambiguity such as characteristic ambiguity and linkage ambiguity. The characteristic ambiguity is ambiguity inherent to the resource itself. However, the linkage ambiguity they understand as ambiguity among decision makers about the link between competency and competitive advantage (2001). The latter relationship can be applied successfully to all resources of an enterprise, which comply with requirements of the resource-based view, which means that they may become a source of competitive advantages.

Ambrosini and Bowman are right in stating that if both managers and competitors do not fully comprehend the causes of the firm’s competitive advantage, because it is created by tacit, difficult to express and codify activities, then this advantage is likely to be sustained because managed imitation cannot take place (2010). On the other hand, causal ambiguity also prevents a firm from learning from its own experience and from improving its performance over time (McEvily et al., 2000). Conversely, when causal ambiguity is reduced, a firm’s performance advantage may erode (McEvily et al., 2000). The indicated issue is relatively often encountered in business practice. Theoretically, specific solutions or even whole business models of market leaders are particularly exposed to copying by competitors. However, such activities are rarely effective due to causal ambiguity between sources of competitive advantages and results of activities. Usually it is not really clear to what a firm’s success should be owed.

At this point it is worth outlining a relationship between competitive advantages and strategic risk. Fiegenbaum and Thomas have presented interesting observations relating to the same. According to the theoretical development in
their paper, successful firms take risks, seek and achieve competitive advantage, gain high returns and then manage risk to maintain high return but at lower risk levels. Unsuccessful firms, on the other hand, may take risks but cannot build a competitive advantage and hence achieve low returns (Fiegenbum and Thomas, 2004). One should agree with the quoted researchers. A risk is an inherent element of business activities and any aversion to this risk leads to stagnation of a firm’s development. Obviously, optimization of a firm through decisions made and activities taken in order to achieve acceptable risk levels by a given entity should be evaluated as positive (Jajuga, 2007).

3. Sources of competitive advantages
A key issue for managers are sources, from which advantages of enterprises managed by them result and sources, from which, new competitive advantages may potentially result. This issue has been discussed in the literature from the very introduction of the term of “competitive advantage” to management sciences. At this point the author will make an attempt to present fundamental sources of competitive advantages as presented in the world literature. A catalogue of sources of competitive advantages in accordance with the resource-based view is, generally, unlimited. Scientists have already indicated a lot of various sources of competitive advantages as well as suggested various typologies of the same. However, there are some categories, to which more attention is devoted in the literature.

As markets become more turbulent and unpredictable, so speed of response through greater flexibility has become increasingly important as a source of competitive advantage (Grimm et al., 2006). It results from the same definition of business strategy that it is to serve better adjustment of an organization to its environment, which becomes more and more turbulent. This is not a new issues in the literature. The concept of dynamic capabilities, which, in fact, develops the resource-based view of the firm (cf. Eisenhardt and Martin, 2000; Teece et al., 1997; Teece, 2007) is, to a great extent, based on the issue.

There is still no consensus on the conceptualization of key features of dynamic capabilities, although scholars in the field express urgent need for a coherent theory and model of dynamic capabilities (Barrales-Molina et al., 2013). In effect there is no agreement reached in the world literature as to how dynamic capabilities should be understood and analysed. Generally speaking, dynamic capabilities perspective focuses on how firms can change their valuable resources over time and do so persistently (cf. Ambrosini and Bowman, 2009). Several chosen definitions are presented in the table below.

In my opinion, the third definition stating that a dynamic capability is the capacity of an organization to purposefully create, extend, or modify its resource base (Helfat et al., 2007) explains best the essence of the same. Presently, the
interest in the issues, including, among others, opportunities to operationalize dynamic capabilities, has been growing intensely. Dynamic capabilities can take a variety of forms and involve different functions, such as marketing, product development or process development (Easterby-Smith et al., 2009).

Most existing work explores a particular dynamic capability in isolation (Bingham et al., 2015) and most contribution are theoretical and study the concept, nature and role of dynamic capabilities, the mechanisms for their creation and generation, and their results (Barrales-Molina et al., 2013). As the field evolves, theoretical work is converging around two main tenets of the dynamic capabilities view: (1) dynamic capabilities contribute to organizational performance and (2) the value of dynamic capabilities is more pronounced in environments characterized by rapid technological change (Fainschmidt et al., 2016; cf. Peteraf et al., 2013; Helfat and Peteraf, 2015; Salvato and Rerup, 2011). On the other hand, some scholars noticed that dynamic capabilities promote economically significant change not only in more dynamic environments and in new ventures, but also in less dynamic environments and in large established firms (Bingham et al., 2015; cf. Helfat and Winter, 2011). Rindova and Kotha argue that the top management team and its beliefs about organizational evolution may play an important role in developing dynamic capabilities (Rindova and Kotha, 2001).

Many questions remain unanswered concerning the underlying mechanisms of developing processes and effects or outcomes associated with dynamic capabilities (Barrales-Molina et al., cf. Barreto, 2010; Easterby-Smith et al., 2009). One of the criticisms of the dynamic capabilities concept is that they are difficult to measure.

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<th>Authors</th>
<th>Definitions of dynamic capabilities</th>
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<tr>
<td>Teece, Pisano and Shuen (1997)</td>
<td>Dynamic capabilities are the firm’s ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments</td>
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<tr>
<td>Eisenhardt and Martin (2000)</td>
<td>Dynamic capabilities are the firm’s processes that use resources – specifically the processes to integrate, reconfigure, gain and release resources – to match or even create market change. Dynamic capabilities thus are the organizational and strategic routines by which firms achieve new resource configurations as markets emerge, collide, split, evolve and die</td>
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<td>Helfat et al. (2008)</td>
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<td>Oblój (2014)</td>
<td>Dynamic capabilities are abilities permitting building and rebuilding competitive advantages in a turbulent business environment, as a result of creating new resources, sourcing them from environment, exploitation and usage in an innovative way and eliminating</td>
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empirically (Easterby-Smith et al., 2009). That’s true, but it should be noted that the latest publications pay much attention to the relation between dynamic capabilities and firm’s performance (Fainschmidt et al., 2016; Karna et al., 2015; Laaksonen and Peltoniemi, 2016) and to measurement of dynamic capabilities (Pavlou and El Sawy, 2011; Barrales-Molina et al., 2013; Wang et al., 2015). Therefore, probably, the problem will lose significance.

As Afonina and Chalupsky claim, a key element to achievement and supporting competitive advantage in the condition of unstable economic and political environment are strategic management tools (Afonina and Chalupsky, 2012). This category should be treated widely, and the basis for qualifying to its collection is always a feature of their potential influence on each stage for the strategic management process (Cegliński, 2016a) (for definitions please see: Clark, 1997; Stenfors et al., 2004; Knott, 2006; Cegliński, 2016a). But on the other hand, traditional tools, such as Porter’s Five Forces or the market share-growth are less and less able to meet the demands of executives because of complexity and uncertainty of modern business environment (Schwenker and Wulf, 2013).

In accordance with the opinion of Rindova and Fombrun, a competitive advantage derives from activities that span the four domains of action. They are: markets, resources, macro-culture and micro-culture. These four domains of competitive terrain derive from two dimensions. The first dimension distinguishes the material and interpretational domains. The second divides the competitive terrain into domains of action that fall either outside or inside a focal firm (Rindova et al., 1999). They argue that competitive advantage is a systemic outcome that develops as firms and constituents participate in six processes that entail, not only use and exchange of resources, but also communication about and interpretations of those exchanges (Rindova et. al., 1999).

As research conducted by Kim and Mauborgne shows, quickly growing enterprises do not focus on competitors, but customers’ needs. They refer to the approach as “logics of value innovation”. As they claim, value innovators do not start building competitive advantages and, nevertheless, end with achieving greatest advantages (Kim and Mauborgne, 1997).

In the literature much attention is also devoted to influence of organizational learning upon development of competitive advantage. In accordance with a classic definition, organizational learning means the process of improving actions through better knowledge and understanding (Fiol and Lyles, 1985). Kim and Atuahene-Gima notice that studies on the theories of competitive advantage also suggest that organizational learning is an important source of advantage (Kim and Atuahene-Gima, 2010). Similar conclusions have been drawn by Fiegenbaum and Thomas stating that organizational learning studies have shown that firms that accumulate knowledge over time can use this knowledge as a source of competitive advantage (Fiegenbaum and Thomas, 2004; cf. Argote and Ingram, 2000; Wachowiak, 2003;
Urbancová, 2013). It is obvious that the quality of organizational learning depends mainly on human capital. Learning creates specific human capital that in turn enhances the firm’s learning performance. Superior human capital can create competitive advantage as human capital improves learning by doing, thereby reducing the firm’s cost (Hatch and Dyer, 2004). Ending this short argument, one should agree that organizational learning is a type of capability that can leverage market-based knowledge to achieve competitive advantages (Kim and Atuahene-Gima, 2010; Srivastava et al., 2001).

The ability to transfer best practices internally is critical to a firm’s ability to build competitive advantage through the appropriation of rents from scarce internal knowledge (Szulanski, 1996). This ability is conditioned upon organizational culture of a given enterprise or, strictly speaking, upon whether it will be based on organizational values favouring transfer of positive practices (Cegliński, 2016b). As Obłój rightly notes, both researchers, consultants and managers have started to see a potential source of a firm’s competitive advantage in standards and values (Obłój, 2007). An issue connected with values and getting more and more popular recently is a relation between a firm’s activities complying with the concept of corporate social responsibility and competitive advantages. As Porter and Kramer indicate, CSR can be much more than a cost, a constraint, or a charitable deed – it can be a source of opportunity, innovation, and competitive advantage (Porter and Kramer, 2006; see also: Ceglińska and Cegliński, 2015). A lot of potential benefits from CSR allow for building competitive advantages and gaining of above-average profits (Ceglińska and Cegliński, 2015; cf. Marcinkowska, 2010). Reputational capital and social capital (Saeed and Arshad, 2012) have key importance. An interesting example of company which achieved competitive advantage based on CSR activities is polish pharmaceutical enterprise - Polpharma Group. In the case of mentioned company there are two categories related with the CSR concept that are of fundamental importance – trust and firm’s reputation. Generally, it is assumed that they are the result of socially responsible activities (Cegliński and Wiśniewska, 2016).

Ending this part of the article it should be noted that characteristics of a market, in which the analysed firm operates, is a significant issue. It is because it may turn out that none of the firms have developed any competitive advantage. The reason for this is not necessarily weakness of competitive struggle or failure of the managerial staff, but, to put it straight, absence of the need to develop the advantage (see for example: Waring, 1996). However, this issue seems rather disputable. It should also be remembered that competitive advantages have a relative character and depreciate with time. Due to dynamic changes in the environment, some of their features cease to be attractive (Urbanowska-Sojkin et al., 2007). At this point it is worth mentioning a phenomenon of so-called “paradox of success” (Audia et al., 2000). A natural tendency of firms, which
become successful and, consequently, become leaders in the market, is continued use of the resources, which proved successful in the past. Upon elapse of some period of time it turns out that firms tends to lose their ability to recognize appropriate moments for implementation of necessary changes. Firms should not remain static after achieving success.

4. The problem of sustainability of competitive advantages

Starting from introduction of the term of competitive advantages in strategic management, it is assumed that there are competitive advantages of sustainable character. Generally, this assumption is not subject to change. However, one may note modification of the approach to the analysed issue as suggested in the science, including temporariness of competitive advantages, which has been discussed for some time. To put it simply, it is a matter of response to a question, whether competitive advantages can, generally, achieve the status of “sustainable” or only “temporary” advantages.

As indicated at the beginning, in accordance with the resource-based view, a firm can achieve sustainable competitive advantage, if it has valuable, rare, inimitable and non-substitutable resources. However, they can achieve temporary advantage, if they possess resources displaying only valuable and rare attributes (Barney, 1991; Huang et al., 2015). D’Aveni, Dagnino and Smith deliberate on appearance of the strategic field in the case of absence of sustainable advantages (2010). The assumption of temporary character of competitive advantages is supported by commonly known facts from economic life such as deepening globalization processes, dynamic technological changes, demographic problems and fashion trends. In the face of continuous change and relentless competition, strategy becomes less about building positions of sustained competitive advantage and more about developing the responsiveness and flexibility to create successive temporary advantages (Grant, 2010). The erosion of advantage occurs routinely as a result of dynamic and interactive rivalry (Sirmon et al., 2010).

Additionally, a key issue is to determine a period of time, in which competitive advantage is to be sustained in order to be referred to as sustainable. However, the period, which is determined arbitrarily, differs depending on a sector analysed. For example, competitive advantages in the technological sector are subject to relatively rapid erosion, which is difficult to slow down. Certainly, there are some methods such as patent protection, however, in the times of strong competition and dynamic development of science, such methods are not always effective. On the other hand, some of the advantages, including the advantage resulting from a firm’s location, have sustainable character as assumed, certainly as long as they comply with requirements adopted by the resource-based view. Apart from that, it is also significant whether a market is developed or not. In
the first case the advantages will be moderately temporary, whereas in the other - highly temporary (Chen et al., 2010).

Madsen and Leiblein notice that factors that affect a firm’s ability to achieve an advantage may differ from those that affect its ability to sustain that advantage (2015). As they prove, if advantage is a relative concept then studies that relate resource stocks to “absolute” outcomes say little about how resources contribute to enduring differences among firms (Madsen and Leiblein, 2015).

The briefly outlined issue of the character of sustainability of competitive advantage is still in an early stage of research. As a matter of fact, sustainability of competitive advantages decreases. The question is to what extent it will decrease and what meaning it will have for the practice of management.

5. Conclusion
The bases of competitive advantages are more complex than scholars previously thought. Despite a lot of critical comments, the theory of competitive advantages seems to fulfil the role of a dominant scientific concept explaining differences in results of competing enterprises. This will be the case at least until a better concept is suggested.

The problem of competitive advantages became more important as a result of growth of turbulence in business environment. As it seems, nowadays the meaning of ability of firms to adjust to the environment will be increasing. Therefore, such sources of advantages as flexibility or dynamic capabilities will have a leading role as well as organizational values and organizational learning, which have an immaterial character. The turbulence of organizational environment also enhances causal ambiguity between sources of competitive advantages and above-average results of firms’ activities. This status forces managers to make deeper strategic analysis than in the past.

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