THE COMPETITIVE ANALYSIS - THE APPROPRIATE INSTRUMENT TOWARDS A SUCCESSFUL DEVELOPMENT

Enida Pulaj (Brakaj), PhD candidate
University of Vlora "Ismail Qemali", Vlore, Albania
Vasilika Kume, Prof.Dr.
University of Tirana, Albania, Management Department

Abstract:
Albania is a country with a long period of economic and social transition. To many industries are growing during this period. So, the relationship between competition and challenges for a sustainable growth of firms remains a basic argument for development of policies, strategies and adapting to strategic changes. Today's competitive situation among companies, characterized by globalization, and the need to survive has lead to an urgent need for competitiveness management. The concept of competitiveness is an important element in the debate on the performance of nations, industries and firms. Also, it is vital for industries and companies to increase the knowledge and understanding of competitiveness. In order to formulate strategies for competitiveness, managers need to know what are the competitive strategies they have to use, which are the variables that affect the expected results, how are they correlate each other. In order to be able, to adapt and develop within an industry, companies have to build the appropriate infrastructure through which it is possible to understand and measure the indicators such as attractiveness of the industry, competitive rivalry, industry positioning and strategic choices. The principal aim of this paper is to make an evaluation and to analyze the issues concerning the competiveness conception. The paper is structured in two main parts related with: Understanding the competitive analysis and Strategic choices that companies use to be successful. According the purpose of this work there are following the description and comparative methods.

Keywords: Competitiveness, strategic choice, industry, development

Introduction

Today's competitive situation among companies, characterized by globalization, and the need to survive has lead to an urgent need for competitiveness management. The concept of competitiveness has been largely accepted across all industries and countries since Porter published "Competitive Strategy" in 1980. It is vital for nations, industries and company level (Moon *et al.*, 1995) to increase the knowledge and understanding of competitiveness. In order to formulate strategies for competitiveness, managers need to know what are the competitive strategies they have to use, which are the variables that affect the expected results, how are they correlate each other. There is a gap about the researches how the Albanian companies choose the strategies they have to compete. Do these businesses use any method analyzing the advantages that flow from each competitive strategy?

Understanding competitiveness and competitive strategies

While talking about competitiveness, the main question is "What is the competitiveness? In order to develop, implement and monitor any initiatives for improving competitiveness, first, there is a need for a framework through which competitiveness can be defined, measured and understood. Competitive positioning defines a firm's relative position in competitive space. It enables a firm to create a defensible position by compiling and choosing the strategies based on the firm's strengths and weaknesses, and on opportunities and threats imposed by the competitive space (Porter 1980, 1985). Competitive space such as the industry in which a firm operates, can be defined by some variables simultaneously and their different combinations (Hofer 1975). Porter argued that "Competitiveness remains a concept that is not well understood, despite widespread acceptance of its importance". Nowadays, there are many definitions for this concept. According to Lu (2006), "The competitiveness is a concept more powerful than traditional economic indicators such as profitability, productivity or market share". This definition seems to be coherent with the one presented by Flanagan et al., (2005), according to whom the competitiveness refers to an objective - a high, rising standard of living for its citizens and high, rising returns on investment to its owners respectively. On their turn, Waheeduzzan and Ryans (1996) point out that competitiveness belongs to the eye of the beholder (it means different things for different people). Besides those elements, competitiveness is also related to high productivity, profitability (Flanagan et al., 2005), innovation and value for shareholders (Momaya and Selby, 1998), among other qualities. In summary, as stated by Flanagan et al. (2007), the ultimate purpose of competitiveness is to improve and achieve a better long-term performance for firms.

Another definition is developed by Momaya and Selby (1998). Based on their definition of competitiveness in terms of financial performance, they argue that "the first component of sector competitiveness may appear quite satisfactory from the perspective of an investor; however, it can fail to recognize viewpoints of some of the important stakeholders within the industry". The industry competitiveness is given as the extent to which a company satisfies the needs of customers from the appropriate combination of the product/service characteristics such as price, quality, innovation, satisfies the needs of its constituents and offers attractive return on investment and the potential for growth" (Momaya and Selby, 1998).

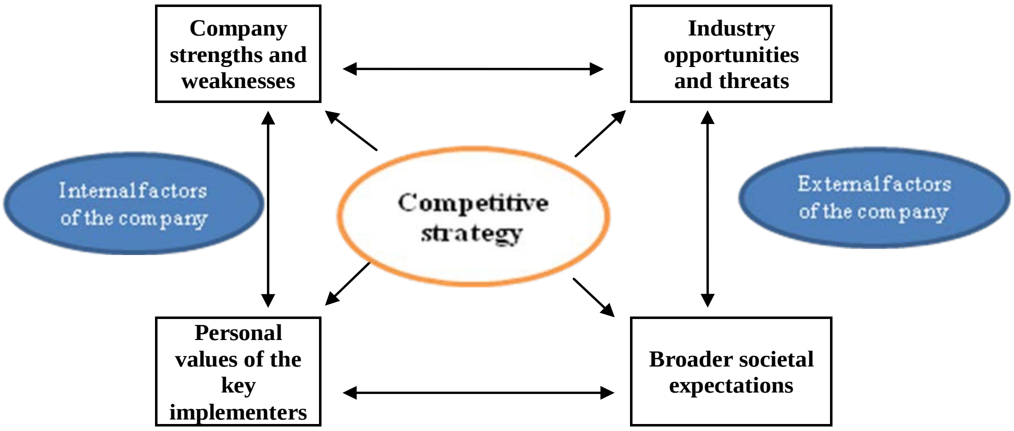
According to Porter arguments related with competitiveness, companies can adopt the generic strategies for a competitive position within an industry using the integration of two dimensions: mode and scope of competition. The m*ode of competition* refers to a firm's decisions on the method of developing competitive advantage while the s*cope of competition* refers to a firm's decisions on the breadth of its operations.

Porter states that firms can adopt one of several strategies to defend against and outperform their competitors. The most notable of these strategies are cost leadership and differentiation. Porter posits that successful firms will typically adopt no more than one of these strategies because each strategy requires total commitment from the firm. *The cost leadership* strategy implies that a firm emphasizes low cost relative to its competitors by adopting tight cost and overhead control, avoiding marginal customer accounts, minimizing cost across the departments, and conducting operations and activities in an efficient manner. *The differentiation* strategy implies that a firm offers something unique and different by its competitors, and valued by the industry, which enables the firm to put higher prices than industry average.

Porter proposes that successful firms follow one of these two modes of competition, and suggests that the firms that attempt to follow a hybrid approach, combining both cost leadership and differentiation approaches, cannot achieve above industry average performance. Firms employing a mixed strategy are expected to exhibit subpar performance compared with other firms in their industry due to their lack of focus and commitment to a single, overarching strategy for their firm (Parnell, 2006; Porter, 1980).

Thus, Porter's generic competitive strategies theory have played an important role linking firm`s competitive position and its organizational performance as well as to categorize firms by the strategies they employ. But, deciding which the most appropriate strategy is, it is needed to analyze the industry the company take part. The industry analysis model proposed by Porter takes into account the action of five forces: the rivalry among competitors, the threat of entrants and substitutes and the bargaining power of suppliers and buyers. Nowadays, the evolution of Porter theories refers to the existence of a sixth force. The sixth force would be the level of cooperation of complementary products or the role of government, which as a regulatory agent influences the sectors results. These agents were developed more at the double diamond of Porter. The importance of the industry analysis should also be emphasized because competitive, according to Porter, only offer higher gains if they are sustainable in relation to competitors of an attractive industry and have acceptable entry costs. According to Porter (1986), "Competitive strategy aims to establish a profitable and sustainable position against the forces that determine industry competition". Thus, there is a combination of external (industry level) and internal (search for competitive advantage) issues. The figure 1, clearly justify that the essence of formulating competitive strategy is relating a company to its environment from which the company generates the strengths, weaknesses, opportunities and threats. The analysis of the external and internal factors improve the company choosing the best competitive strategy.

Figure no.1 Context in which the competitive strategy is formulated



Source: Competitive strategy: techniques for analyzing industries and competitors. Porter 1980

The evolution of generic strategies

The focus of the paper besides the evaluating the competitiveness concept, deals with the conceptualization and the adoption the competitive strategies such as: the low cost strategy and the differentiation strategy proposed from Porter in his theory. According to Porter (1985), "a firm will ultimately reach the point where further cost reduction requires a sacrifice in differentiation. It is, at this point. that generic strategies become inconsistent and a firm must make a choice". This debate has centered on whether the low cost strategy and the differentiation strategy are mutually exclusive or whether they can be adopted simultaneously.

On the one hand, it has been proposed that efficiency and differentiation are generally incompatible (Dess and Davis, 1984; Hambrick,1983; Nayyar, 1993; Parker and Helms, 1992; Porter, 1980, 1985). Hence, for higher business performance, either the differentiation or the low cost may be adopted as primary strategy, not both. Also Hambrick (1983) has excluded the possibility of firms competing with more than one strategy. Accordingly, "the characteristics of an environment limit the range of maximally feasible strategies, such that it simply is not accurate to say that all generic strategies are equally viable within an industry". Hambrick argued that the low cost strategy would be unlikely to be found in a dynamic industry environment. On the other hand, it has been argued that, for higher business performance, both the differentiation strategy and the low cost strategy may be adopted simultaneously (Buzzell and Gale, 1987; Buzzell and Wiersema, 1981; Hill, 1988; Miller and Friesen, 1986a; Murray, 1988; Phillips *et al.*, 1983; White, 1986; Wright, 1987). According to these authors, the adoption of the differentiation strategy would entail promoting higher product quality. The quality of the product would likely channels higher market demand to the firm competing with differentiation. Higher market demand allows the firm to assume greater market shares, which would lower production costs due to scale/scope economies. In other words, differentiation influences profitability indirectly by its positive effects on market share. Some of the authors which supported the second school argued that some leading enterprises tend to combine low-cost production with higher transaction costs to simultaneously achieve low cost and differentiation. Similarly, Hill (1988) has proposed that differentiation may permit a firm to achieve a low cost position. The differentiation effect in the short run leads to unit costs growth. However, if costs fall with increasing volume, the long-run effect may be to reduce unit costs". Also, Phillips *et. al.*(1983) found a significant and positive relationship between product quality and market share. Since increased market share allows lower production costs due to scale/scope economies, the study suggested that differentiation may be a fundamental way to lower a firm's cost position.

There is another step in the evolution of Porter theory which refers to Mintzberg`s changes. According to Mintzberg (2001), the generic strategies should follow a logical sequence that starts at the creation of the business, observing the demands and constraints of its specific business segments within an industry. The changes proposed from Mintzberg (2001) characterized the way a firm competes such as quality, design, support, image and prices. In other terms these elements can be defined and divided in accordance with the strategy of differentiation or cost leadership. Therefore, out of the generic strategies proposed by Mintzberg (2001), it is important to analyse the industry environment and how to compete which resemble Porter`s view (1986) to adopt competitive generic strategies in accordance with the industry competitive forces.

On the other hand, Treacy and Wiersema (1995) proposed three forms of generic strategies to achieve and maintain leadership: operational excellence, product leadership and customer intimacy. These disciplines may be understood as generic strategies, since according to them, "the choice of a value discipline shapes the company`s subsequent plans and decisions". Like Porter, they argue that no company can succeed today by trying to be all things to all people". According to them, the operational excellence is similar to Porter`s cost leadership, but it is not limited to it. In the operational excellence, there is a combination of quality, price and ease of purchase that no one else in their market can match. The product leadership represents the continuous search for the best product which pushes the company into the realm of the unknown. This approach is very similar to Porter`s differentiation strategy. The intimacy with the customer focuses on delivering not what the market wants, but what a specific customer wants. However, Treacy and Wiersema further explain their requirements: long-term vision, obsession with the pursuit of specific solutions, decentralization of decisions, valuation of results in selected customers, the long-term relationships and talented, flexible and multifunctional people. Porter only emphasizes the orientation with characteristics of differentiation and cost leadership in a business with determined focus (customer segment). For Treacy and Wiersema (1995), it does not aim to seek the lowest price or the best features, but an offer that allows the exploration of the customers. Firm`s profitability goes through the increase in the number of customers and the participation on such customers` expenses. This approach by Treacy and Wiersema (1995) is similar to differentiation, but they emphasize aspects related to the customer.

Hax and Wilde (2001) developed another step in the evolution process of the generic strategies. Based in three strategies and supported by the concepts of best product, customer total solution and the system lock-in they tend to improve the competitive strategies. The best product strategy refers to the competition based on the economics of the product, and may follow strategies of cost leadership or differentiation. According to them, if there is an ambiguous situation of cost leadership and differentiation, the position will be weakened, as advocated by Porter (1986) and supported by Treacy and Wiersema (1995). The total customer solution refers to the competition based on customers` economics which requires a deep understanding of their needs, offering a good package of products and services and an integrated supply chain, including suppliers and customers. This approach has similarities with the focus differentiation strategy from Porter (1986) and similarly to the customer intimacy strategy by Treacy and Wiersema (1995). In the system lock-in, the system is considered as a whole, not only concerning with products or consumers, but including suppliers and complementors. The purpose is to achieve success with the lock-in of agents that contribute to the value expansion (complementors), the lock-out of competitors, by attracting buyers.

The impact of generic strategies to the business performance

The performance is a multi-dimensional concept, which implies multiple performance indicators. Dess & Robinson (1984) have also studied both financial and non-financial measure of organizational performance. Although "Porter discusses performance almost exclusively in terms of return on investment" (Miller & Dess, 1993), researchers have used a wide variety of both subjective/objective and financial/non-financial measures to quantify a firm's performance. However, Allen and Helms (2002) state that performance is often measured in three dimensions – effectiveness, efficiency, and adaptability, but the measurements of these dimensions has led to very little consensus in the literature regarding the linkages between firm strategy to performance.

Despite the different strategies mentioned above, they all aim to maximize the performance of an organization improving its competitiveness in relation to its competitors in the same competitive environment (Feurer & Chaharbaghi, 1997). So, the generic strategies require a specific set of characteristics and resources. Cost leadership requires the construction of facilities for high production volumes, the pursuit of cost reductions through learning and experience, a strict control of costs and general expenses, cost reduction in areas such as research and development, technical support and sales force and a low cost distribution system. In differentiation, the firm`s reputation as a quality or technology leader, strong cooperation from channels, great marketing skills, product engineering and basic research are very important (Porter, 1986).

The results of some empirical researches suggest there are significant differences in the configuration of variables by organizations adopting different generic strategies. There are also significant performance differences across generic types.

The firm would be in disadvantage in the competition with companies that clearly go for low cost or exclusivity, as it would not be able to develop an offer cheap enough to appeal to price-sensitive consumers, or exclusive enough to attract sophisticated ones. Since costs, prices and configurations would not be adjusted to specific targets, the profit potential would be adversely affected. Porter says that for firms that achieve both cost leadership and differentiation "(…) the rewards are great because the benefits are additive (…)". In this case, however, we see the strategic choice for differentiation (premium prices) with cost leadership in the background.

Conclusion

Although some firms into an industry may be able to perform well if they primarily compete with the low cost competitive strategy such as: cost advantages, low prices, the expectations are: businesses which stress only the low cost strategy would not perform very well, whether they are smaller or larger in their industries. The justification for this expectation is that companies, which choose to compete only on the basis of lower costs and prices, would have their profit margins under pressure. Consequently, managements' abilities to implement measures to improve outputs, or augment products with superior services or to expend more on marketing activities are limited. Hence, these companies remain vulnerable to competitor moves that may draw customers away from them. A strategic tendency, in this event, might be to further lower prices, which would put even more pressure on profit margins. Consequently, long run prospects of business units which compete solely with lower costs and prices may not appear promising.

Although some firms into an industry may be able to perform well if they primarily compete with the differentiation strategy, the expectations are: businesses which stress only the differentiation strategy would not perform very well, whether they are smaller or larger in their industries. The justification for this expectation is that companies which choose to compete only on the basis of differentiation, whereas not stressing low cost operations, may be vulnerable to competitors that have lower cost positions and may offer similar outputs with a good price. It is possible that the threat of substitute products is greater for such companies.

So, the firms which simultaneously compete with the low cost strategy and the differentiation strategy to perform well, because they would likely benefit by achieving greater profit margins, whether they are smaller or larger in their industries. With the evolution of porter theories, the industry dynamics and the positions in the life cycle curves of products and businesses may allow the business continuity through differentiation, even with less attractive margins. In addition, the cost-benefit is applicable to any level of products, services and prices, and the firm must assess its relevance.

References:

Allen, R. & Helms, M., 2002. Employee perceptions of relationships between strategy rewards and organizational performance. *Journal of Business Strategies*, Vol 19 (2).pp. 115-139.

Buzzell, B.T. & Gale, B.T. (1987), *The PIMS principles: Linking strategy to performance*, Free Press, New York, NY.

Buzzell, R.D. & Wiersema, F.D. (1981), "Successful share building strategies", *Harvard Business Review.* Vol. 59(1), pp. 135-44.

Dess GG & Robinson RB Jr. (1984). Measuring organizational performance in the absence of objective measures: The case of the privately-held firm and conglomerate business unit. *Strategic Management Journal,* Vol 5, pp. 265-273.

Dess, G.G., Davis, P.S., 1984. Porter's (1980) generic strategies as determinants of strategic group membership and organisational performance. *Academy of Management Journal.* Vol 27 (3), pp. 467–488

Flanagan, R., Jewell, C.A., Ericsson, S., & Henricsson, P. (2005). "Measuring construction competitiveness in selected countries". Final Report. The Research Team at the University of Reading.
Flanagan, R., Lu, W., Shen, L., & Jewell, C.A. (2007). "Competitiveness in construction: a critical review of research". *Construction Management and Economics*, Vol 25 (9), 989-1000.
Feurer, R., & Chaharbaghi, K. 1997. "Strategy Development: Past, Present and Future", *Training For Quality*, Vol 5(2), pp. 58-70.
Hambrick, D.C. (1983), "High profit strategies in mature capital goods industries: A contingency approach", *Academy of Management Journal*, Vol. 26, pp. 687-707.
Hax, A. C. & Wilde, D. L. *The Delta Project*: Discovering new sources of profitability in a networked economy. New York: Palgrave, 2001
Hill, C.W. (1988), "Differentiation versus low cost or differentiation and low cost: A contingency framework", *Academy of Management Review*, Vol. 13, pp. 401-12.
Hofer, C. W. (1975). "Toward contingency theory of business strategy". *The Academy of Management Journal*. Vol. 18(4), pp. 784-810
Lu, W. (2006). A system for assessing and communicating contractors' competitiveness. Doctoral dissertation, The Hong Kong Polytechnic University, China.
Miller, D. and Friesen, P.H. (1986a) "Porter's (1980) generic strategies and performance: An empirical examination with American data. Part I: Testing Porter", *Journal of Management Studies*, Vol. 7, pp. 37-55.
Miller, A & G Dess (1993). "Assessing Porter's (1980) model in terms of its generalizability, accuracy and simplicity". *Journal of Management Studies.* Vol 30(4), pp. 553-85
Mintzberg, H. *O processo da estratégia*. Porto Alegre: Bookman, 2001
Momaya, K., & Selby, K. (1998). "International competitiveness of the Canadian construction industry: a comparison with Japan and the United states".*Canadian Journal of Civil Engineering*, Vol 25 (4), pp. 640-652.
Moon, H.C., Rugman, A.M. & Verbeke, A. (1998). "The generalized double diamond approach to international competitiveness" *Research in Global Strategic Management*, Volume 5, pp. 97-114.
Murray, A.I. (1988), "A contingency view of Porter's generic strategies", *Academy of Management Review*, Vol. 13, pp. 390-400.
Nayyar, P.R. (1993), "On the measurement of competitive strategy: Evidence from a large multiproduct US firm", *Academy of Management Journal*, Vol. 36 No. 6, pp. 1652-69.
Parnell, J. A. (2006). "Generic strategies after two decades: a reconceptualization of competitive strategy". *Management Decision, Vol 44*(8), pp. 1139 – 1154
Parker, B. and Helms, M.M. (1992), "Generic strategies and firm performance in a declining industry", *Management International Review*, Vol. 32 No. 1, pp. 23-39.
Phillips, L.W., Chang, D.R. and Buzzell, R.D. (1983), "Product quality, cost position and business performance: A test of some key hypotheses", *Journal of Marketing*, Vol. 47 No. 2, pp. 26-43.
Porter, M. E. (1980). "Competitive strategy: Techniques for analyzing industries and competitors", Free Press, New York.
Porter, M. E. (1985). Competitive advantage: Creating and sustaining superior performance, Free Press, New York
Porter, Michael E., ed. *Competition in Global Industries*. Boston: Harvard Business School Press, 1986.
Treacy, M. & Wiersema, F. The discipline of market leaders: choose your customers, narrow your focus, and dominate your market. USA: Addison-Wesley, 1995.
Waheeduzzan, A. N. M., & Ryans, J. K. (1996). "Definition, perspectives, and understanding of international competitiveness: a quest for a common ground". *The Competitiveness Review*, Vol 6 (2), pp. 7-26.
White, R.E. (1986), "Generic business strategies, organizational context and performance: An empirical investigation", *Strategic Management Journal*, Vol. 7, pp. 217-31.
Wright, P. (1987), "A refinement of Porter's strategies", *Strategic Management Journal*, Vol. 8, pp. 93-101.