# THE IMPACT OF GENERIC COMPETITIVE STRATEGIES ON ORGANIZATIONAL PERFORMANCE. THE EVIDENCE FROM ALBANIAN CONTEXT

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**Abstract**

One of the main questions that guide researches in management field is why some companies are different and obtain good performance compare to other companies. Nowadays, there has been a growing intensity of competition in all areas of business and this has resulted in greater attention to analyse competitive behaviour under different competitive strategies application and environmental dynamics and complexity. The purpose of this paper is to examine the relationship between competitive strategies and organizational performance. Testing the applicability of Porter`s generic strategies in construction firms we can explain the differences in the performance and comprehend how generic strategies can give them a performance advantage over the rivals. Simple random sampling technique was used to select a sample of 110 companies. The data was be collected using questionnaires and analyzed using ANOVA statistical model. This paper reports findings on the relationship between the Porter`s generic strategies (cost leadership, differentiation) and firm performances. The study found significant positive effects of cost leadership, differentiation and focus strategies on performance. The results of this study would assist the managers to design better competitive strategies they have to compete. According the purpose of this study there are following the qualitative and quantitative methods.

**Keywords:** Competitive strategies, construction industry, competitiveness, organizational performance

## Introduction

How the companies compete between each other and which are the competitive strategies they use, are the most important questions raised during industry analysis and firms behavior explanation. Understanding the behavior of the firm, serves as input to improve practices of competition (Ormanidhi & String, 2008) realizing a high performance and sustainable competitive advantage. The term "generic strategy" refers to the broad scope of use and the ability to create competitive advantage regardless of industry, type and size of organization (Herbert & Deresky 1987). According to Porter's argument (1980) concerning the competition, companies can choose generic strategies for a better competitive position within the industry through the integration of two dimensions: the field (company's decision to extend activities) and the type of competitive advantage (firm decision method how to develop a competitive advantage). However, we cannot develop the unification of the strategy selection process as the profitability of each company depends on the ability to choose the strategy that best fits with the company.

## Literature Review

*Cost leadership or "low-cost"* strategy put emphasis on organizational efficiency. This strategy involves the process through which the company is able to produce or distribute goods and services at a lower cost than competitors within the industry. Porter defines strategy of cost leadership as trading standard products (Porter 1985) combined with aggressive pricing (Porter 1980). Cost leadership strategy is proposed by Porter (1985), as a successful way to achieve sustainable competitive advantage by reducing and controlling the costs. Some of the ways to realize low cost strategy and achieving the required performance are: economies of scale, control and reduction of administrative costs, the curve of experience, technology.

*Differentiation strategy*. Differentiation refers to the development of a unique product or service (Porter, 1985). These products are seen as such when compared with competing products because of the distinguished features. There are many ways and dimensions by which firms can differentiate themselves (Thompson *et al*, 2008) and their product from rival companies.

*First*, the company`s image and customer perceptions are important elements (Allen & Helms, 2006) during differentiation strategy because the perceived difference or distinguishing features make the customer more sensitive toward the buying process.

*Second,* the differentiation created by the relationship between the company and buyers through product personalization and adaptation to the buyers` characteristics.

*Third,* differentiation can be achieved by focusing on connections between departments or other company's relationships such as mix product, distribution channels and after-sales services.

Firms that differentiate their product/service successfully set a higher price than competitors to justify the high costs of being unique or different. According to Porter (1985), the advantages that benefit firms implementing differentiation strategy refers to the realization of higher income compared to competitors due to brand loyalty, quality and lower demand elasticity of consumers.

*The focus strategy.* Another strategy proposed by Porter (1985) is the strategy of focusing. Through focus strategy, the company aims to serve the customers in a narrow market segment (Davidson, 2001; Porter, 1980, 1985, 1987, Cross, 1999; Hlavacka et al., 2001) through low cost or differentiation (Porter, 1980). Developing the studies about Porter`s competitive strategies, Thompson *et al.*, 2008 declare that a focused strategy aimed at securing a competitive edge based on either low cost or differentiation becomes increasingly attractive as more of the following conditions are met:

· The target market niche is big enough to be profitable and offers good growth potential.

· Industry leaders do not see that having a presence in the niche is crucial to their own success.

· It is costly or difficult for multi segment competitors to put capabilities in place to meet the specialized needs of buyers comprising the target market niche and at the same time satisfy the expectations of their mainstream customers.

· The industry has many different niches and segments, thereby allowing a focuser to pick a competitively attractive niche suited to its resource strengths and capabilities.

Implementation of this strategy provides to firms the integration of a range of activities associated with differentiation and low cost in a target market niche from which the company generates higher profits.

***Combination (Hybrid) strategy***. The question that has sparked much debate and controversy is whether to apply or not simultaneously the two major generic strategies: low cost and differentiation. The collision of arguments emerged two major schools of thought regarding the conceptualization and adoption of competitive strategies. The first school of thought supports Porter arguments that an organization has to choose one of the generic strategies and devote total commitment of resources to it

(Hambrick, 1983; Dess & Davis, 1984; Parker and Helms, 1992; Nayyara, 1993, Porter, 1980, 1985).

On the other hand, several other authors have argued against Porter's assertion, and suggest their convenience of combining strategies that best suit their circumstances (Buzzell and Wiersema, 1981; Phillips *et al.*, 1983; White, 1986; Miller and Friesen, 1986; Buzzell and Gale, 1987; Hill, 1988; Murray, 1988; Wright et al., 1990, Allen& helms, 2006).

The first school of thought reasons that there is a high difference in value chain perception required for a low-cost strategy for the purpose of devoting the total commitment of resources to reach effieciency, administration and hard control of expenses. Hambrick (1983) has excluded the possibility of competing with more than a strategy. According to him, "the environmental characteristics limit the range of possible strategies, so it is not fair to say that all competitive strategies (generic) are both applicable within the industry ". Moreover, Hambrick argues that low cost strategy is difficult to implement in dynamic environments.

An opposing opinion proposes that both low-cost and differentiation strategies may be simultaneously and profitably adopted by an enterprise. According to this perspective, these strategies work as a close cycle. The implementation of a differentiation strategy promotes the uniqueness mainly through the higher product quality. However, higher quality products would presumably lead to greater market demand, allowing the company to adopt a low-cost strategy through the attainment of higher market shares and cumulative volumes of production.

A combination competitive strategy involving high level of emphasis on both cost-leadership and differentiation strategies simultaneously should be distinguished from " stuck-in-the-middle" strategy where a firm fails to successfully pursue both cost-leadership and differentiation strategies (Acquaah & Yasai-Ardekani, 2006).

**The decision to experimented generic strategies in construction industry**

In recent years, with the development of Albanian construction industry, as a major sector and contributer to the economy, the importance of the construction industry and civil engineering has became increasingly significant. Construction is a very important branch of material production and it plays an important role especially in today's conditions where the rate of industrialization of this sector is growing fast.

Construction is one of the industries which have developed considerably after the year 1991, related to the economic changes in Albania towards a market economy. The market forces and entrepreneurial initiatives, the current state of housing, the public and private needs for infrastructure and a variety of other factors brought as a result a rapid

development of the construction sector. In general, the construction industry is one of the major industries regardless the country where it is studied. This is, due to the high level of goods and services presence in the form of housing, transport and communication in our life. According to statistical data obtained from the Statistical Institute of Albania and Doing Business Reports, this industry contributed respectively 13.4% in 2008, 12.7% in 2009 (Doing Business in Albania 2012, Ernest & Young) and about 23.8% of new investment in the country. Therefore, we must admit that the created economic crisis has affected many industries and also the construction industry. This industry is heavely dependent on the government budget, especially in building infrastructure and other public facilities. According the statistics about the current situation, the construction industry has slowdown the activity and it`s contribution on GBP is approximately 9.5%.There are several reasons which explain why we have chosen the construction industry.

*First,* we must highlight the importance of this industry in terms of gross product contribution and also for the high level of employment.

Second, the construction industry has not received the proper attention in research studies of Albanian strategic management.

It has been noticed that the number of construction companies entering this industry has increased in the latest years. So, the need to survive has lead firms to an urgent analysis 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?

**Research methodology and hypotheses**

The research is focused on generic strategies implementation in construction industry. The survey is conducted mainly in Vlora city and randomly in Himara and Orikum. Simple random sampling technique was used to select a sample of 110 companies. Data were collected through the delivered questionnaires, the information taken from Chamber of Commerce & Industry of Vlora Region and Regional Directorate of Taxation database and publications. Following the purpose of the study, it has been involved all the construction companies that do business in the city of Vlora and in their construction projects portfolios are involved: infrastructure, residential buildings (living apartments and villas), industrial constructions and other buildings such as hospitals, universities, government buildings, etc. We have to accept that on these databases that involve all the construction companies are included also the micro and small companies serving as subcontractors to

provide various services such as soil excavation, iron links, carpentry services, stone and marble processing etc,.

Based on different opinion about combination of strategies and the impact that it has on performance the main question is: "Is the combination strategy the new trend of competing in the business world, nowadays?

To analyze the data collected through the questionnaires, we used the analysis of variance (ANOVA) as a statistical method to test the performance`s differences due to the strategic orientation of firms, as well as multiple regression analysis to test the effects of each chosen strategy on company`s performance.

The hypotheses based on relationship between the strategic orientation (competitive strategies) and performances are:

*$H_1$.There will be a positive relationship between the implementation of generic competitive strategies and firm performance.*

*$H_2$ Firms that implement a combination strategy perform better than those which adopt only one pure strategy.*

This paper reports findings on the relationship between the Porter`s generic strategies (cost leadership, differentiation) and firm performances. The results of this study would assist the managers to design better competitive strategies they have to compete.

**Results and discussion**

Based on analysis of independent variables, the strategy of low cost and differentiation strategy were emphasized respectively with 6 variables (6 items or strategic dimensions for each strategy in compliance with the specifics of construction industry) measured by Likert`s scale from 1-5 (1 = *very low*, 2 = *low* , 3 = *moderate* , 4 = *hig*h , 5 = *very high extend*). The items used to measure the competitive strategies, were determined from the previous studies (Nayyar, 1993; Kotha & Vadlamani, 1995; Allen & Helms, 2006; Pertusa-Ortega *et al*., 2009; Parnell, 2011).

Due to the large number of strategic dimensions as independent variables, it is created a no metric variable which serves to represent the four strategic types: the low-cost strategy, differentiation, integrated (combination) strategy and stuck in the middle. The realization of this variable was made possible by finding the median value of the results for each group of items from each company that took part in the study.

Firms that have above median value of low-cost items and below median value of differentiation items were classified as firms emphasizing cost leadership strategy.

Firms that have above median value in differentiation strategy and below median value in low cost were classified as differentiators.

Firms that perform above median value, respectively for low cost and differentiation factors, were classified as firms applying combination of competitive strategies. Meanwhile the companies, whose score was below median value in both low cost strategy and differentiation, were classified as stuck in the middle. The distribution of companies classified to each of these groups is shown in the table below:

Table 1.Distribution of companies classified by strategic orientation

| Strategy | Frequency | Percent | Cumulative percent |
|---|---|---|---|
| 1.Combination strategy | 40 | 36.4 | 36.4 |
| 2.Low cost | 32 | 29.1 | 65.5 |
| 3.Differentiation | 25 | 22.7 | 88.2 |
| 4. Stuck in the middle | 13 | 11.8 | 100 |

The table 1 shows that there are there are four groups classified by applied strategies. Despite the limited items (strategic orientations) included in the questionnaire, what is to be concerned about the above table`s results is the number of companies which do not have a defined strategic focus. We used analysis of variance (ANOVA) and multiple regressions to test relationship between strategic types and performance and also the performance difference due to strategic orientation.

From the summary table of the model used, we see that coefficient of determination; $R^2$ is equal to 0.652 (65.2 % of the dependent variable in the model is explained from independent variables- competitive strategies).

Table 2 Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .808[a] | .652 | .642 | .449 |

a. Predictors: (Constant), Differentiation, low cost, combination strategy

This result is satisfactory and shows that a significant proportion of the variance of the dependent variable "overall performance of the company is explained by the regressors in the model namely integrated strategy, differentiation and low cost. Although $R^2$ is a general indicator of the goodness of fit across variables included in the model, it does not share the impact of each strategies on firm`s performance as a dependent variable. The separate relation between variables is explained in the summary table of coefficients (see table 3). To assess whether this regression model is valid or not, we used ANOVA analysis. The model is statistically significant because the F value is 66 225. It is much greater than critical value 2.69 [F (3, 106)] and 0.05 significance level ($p = 0.000<0.05$). As a result, the value of $R^2$ is not the result of chance; independent variables are 'able' to explain the variation in the dependent variable.

As may be seen from the table 3, all the standardized coefficients are different from zero. They have a significant impact on overall performance because the *p* value is lower than the significance level *(sig. < 0.05)*. All betas coefficients are positives (with a significant contribution to the model) which means that there a positive relationship between generic competitive strategies and firms performance. So, hypothesis H1 is accepted.

Table 3 Coefficients[a]

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. | Collinearity Statistics | |
|---|---|---|---|---|---|---|---|
| | B | Std. Error | **Beta** | | | Tolerance >0.1 | VIF<10 |
| 1 (Constant) | **2.846** | .124 | | 22.868 | .000 | | |
| Integrated | **1.979** | .143 | **1.275** | 13.812 | **.000** | .385 | 2.594 |
| Low cost | **1.748** | .148 | **1.063** | 11.841 | **.000** | .407 | 2.455 |
| Diferenttation | **1.714** | .153 | **.962** | 11.169 | **.000** | .443 | 2.259 |

a. **Dependent Variable: Overall organisation performarmance**

To test the second hypothesis which explains the differences in performance among groups, analysis of variance was conducted with strategies as independent variables and performance as dependent variable. The ANOVA analysis was repeated several times depending on performance measures such as RoA, RoE, RoS and overall performance keeping unchanged the significance level 0.05. The Post Hoc test obtained from ANOVA analysis helped us to understand the difference between performance expressed in objective terms (ROE, ROS) and subjective terms (realization of objectives and overall performance). The results of Post Hoc tests are gathered in table 4. We can see that that there is a positive and significant difference between integrated strategy and pure strategies low cost or differentiation. Firms pursuing an integrated strategy perform better than the ones adopting only one type of strategy when RoS, objective realization and overall organizational performance are independent variable. Despite the current result, firms that are pursuing low cost and differentiation strategy perform better than firms implementing integrated strategy when the evaluation of performance is conducted through RoA and RoE. This conclusion seems to be another research which support the Porter`s theory on generic strategies. According to Porter, the strategies couldn't be implemented mutually because the firms must be oriented in one competitive advantage generated from cost leadership, differentiation in Albanian context.

Table 4. Multiple Comparisons

| Dependent Variable | (I) Dummy strategy | (J) Dummy strategy | Mean Difference (I-J) | Std. Error | Sig. | 95% Confidence Interval | |
|---|---|---|---|---|---|---|---|
| | | | | | | Lower Bound | Upper Bound |
| Performance evaluation (ROS) | Combination strategy | Low cost | .219 | .116 | .062 | -.01 | .45 |
| | | differentiation | .310* | .125 | .014 | .06 | .56 |
| | | stuck in the middle | 1.904* | .156 | .000 | 1.59 | 2.21 |
| Performance evaluation (ROA) | Combination strategy | Low cost | -.563* | .171 | .001 | -.90 | -.22 |
| | | differentiation | -.520* | .184 | .006 | -.88 | -.16 |
| | | stuck in the middle | 2.077* | .230 | .000 | 1.62 | 2.53 |
| Performance evaluation (ROE) | Combination strategy | Low cost | -.338* | .167 | .046 | -.67 | .00 |
| | | differentiation | -.340 | .180 | .062 | -.70 | .02 |
| | | stuck in the middle | 1.562* | .225 | .000 | 1.11 | 2.01 |
| Objective realization & development of company's management | Combination strategy | Low cost | .525* | .160 | .001 | .21 | .84 |
| | | differentiation | .120 | .172 | .488 | -.22 | .46 |
| | | stuck in the middle | 1.169* | .216 | .000 | .74 | 1.60 |
| Overall organization performace | Combination strategy | Low cost | .231* | .106 | .032 | .02 | .44 |
| | | differentiation | .265* | .114 | .022 | .04 | .49 |
| | | stuck in the middle | 1.979* | .143 | .000 | 1.69 | 2.26 |

*. The mean difference is significant at the 0.05 level.

## Conclusion

Albania is a small country which has passed a long and difficult transition period. The construction industry has experienced significant developments during recent years. Decentralization of the country, the development of other related industries, and the high level of remittances were some of the main factors that influenced many industries including the construction industry. Construction industry is an important sector in the economy of the countries. It has a significant share of their GDP and employs hundreds of thousands of people continuously. The construction is one of the industries which, although, the steps of evolution, it dated early in the history of humankind.

Today's competitive situation among construction companies has lead to an urgent need for competitiveness management. Some of the most

important questions regarding the competitiveness are: How do firms compete in markets? How do they develop strategies?

This research work has the main purpose to analyze the viability of generic competitive strategies and their impact on firm performance.

*First*, we approved that there is a positive relationship between competitive strategies and performance.

*Second*, there are, still, some companies that do not have a clear strategic orientation.

*Third*, not in all cases the combination strategy is more successful than other pure strategies. In my opinion, Albanian companies are destined to be successful when the priority is toward low cost orientation.

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