STRATEGIES FOR ACHIEVING COMPETITIVE ADVANTAGE

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Abstract:
This paper is organized in three parts. A brief overview of the importance of strategies within companies, as well as literature review is presented along with traditional approaches on strategies for achieving competitive advantage, and new approaches for gaining a competitive advantage.

The main objective of the paper is to outline and discuss the relevant issues and challenges from a theoretical viewpoint related with the possible strategy formulation of companies in order to achieve a competitive advantage in a market. Therefore, the primary objectives of this study consist on the theoretical frames of strategies for achieving the competitive advantage, and considering the ways of implementing them in companies worldwide. This paper concentrates on secondary sources of research regarding the approaches on strategies for achieving competitive advantage. According to the previous literature, scholars present some traditional approaches for gaining a competitive advantage. The new approaches are also presented that inevitably will play a crucial role in the future while formulating strategies for gaining a competitive advantage. Therefore, in order to understand the determinants for strategy setting, secondary information will be collected, and the data will be compared and analyzed. Finally, the research propositions will be submitted.

Key words: competitive advantage, generic strategies, industry structure.

JEL Classification: M10, M21, M31

1. INTRODUCTION

Business strategy is all about competitive advantage. Businesses need strategies in order to ensure that resources are allocated in the most effective way. Many studies of strategies and a lot literature have been carried out that outline the importance of strategies in managing the businesses successfully.

The word “strategy” is maybe one of the most used words in business and in everyday life. In the business world there are many preparatory strategies for almost every potential activity, starting from strategies for managing the employees and to the strategies for knowledge management. In the first sight, we get the perception that a strategy is something simple which deals with the use of resources for realizing the before hand planned objectives. But in practice, strategies differ in the time aspect, and its formulation and implementation cannot be perfect. There are also frequent conflicts between long term objectives and the actual needs, especially within the organization that operate in countries in transition, like Macedonia.

When a firm sustains profits that exceed the average for its industry, the firm is said to possess a competitive advantage over its rivals. The goal of much of business strategy is to achieve a sustainable competitive advantage. According to Porter (1987), a firm can gain competitive advantage if it is able to create value for its buyers. If a firm wishes to pursue the strategy of cost leadership, it has to be the low cost producer. A firm may gain cost advantage through economics of scale, proprietary technology, cheap raw material, etc. The strategy of differentiation involves offering a different product, a different delivery system, or using a different marketing approach. And it is up to the management of the company to decide which factors it wants to emphasize in order to gain competitive advantage (Porter, 1987).

According to Henry Mintzberg, business strategies could follow one of three modes: planning, entrepreneurial, and adaptive mode. He argues that the right choice depends on contingency variables such as the size and age of the organization and the power of key decision makers. The "Five Forces" diagram captures the main idea of Porter's theory of competitive advantage. The Five forces define the rules of competition in any industry.

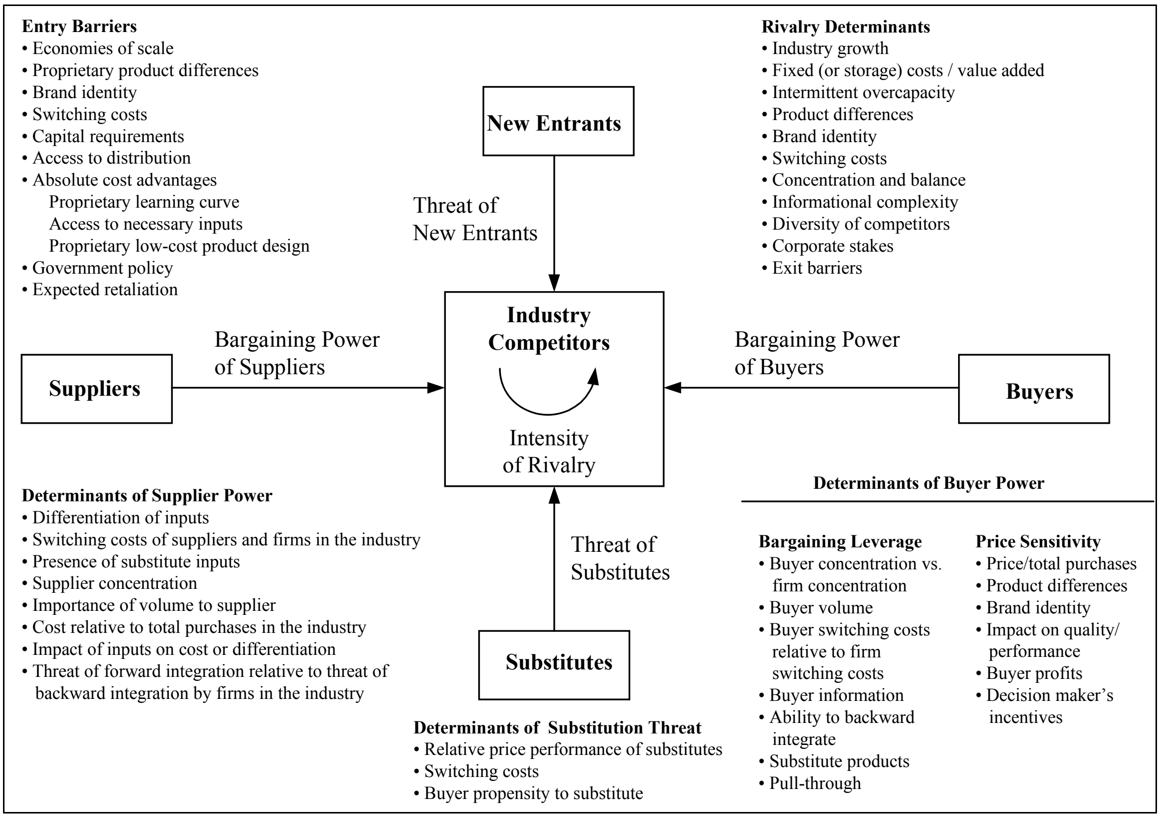

Figure no. 1. Porter's 5 Forces - Elements of Industry Structure
Source: *Porter, 1987, p. 6*

Industry structure in many cases determines who will get the advantage of grasping the value. But a firm is not a complete prisoner of industry structure - firms can influence the five forces through their own strategies. The five-force framework highlights what is important, and directs manager's towards those aspects most important to long-term advantage.

1.1 Objectives

The main objective of the paper is to outline and discuss the relevant issues and challenges from a theoretical viewpoint related with the possible strategy formulation of companies in order to achieve a competitive advantage in a market. Therefore, the primary objectives of this study consist on the theoretical frames of strategies for achieving the competitive advantage, and considering the ways of implementing them in companies worldwide.

This paper will analyze the main relevant literature and theories developed by famous strategists, mentioning some of the greatest names in this area: Igor Ansoff, Peter Drucker, Michael Porter, and Henry Mintzberg.

1.2 Structure

This paper is organized in three parts. Firstly, a brief overview of the importance of strategies within companies. Then, literature review is presented along with traditional approaches on strategies for achieving competitive advantage, and new approaches for gaining a competitive advantage. Finally, some prepositions and conclusions are presented that were derived from the literature review.

2. METHODOLOGY

This paper concentrates on secondary sources of research regarding the approaches on strategies for achieving competitive advantage. According to the previous literature, scholars present some traditional approaches for gaining a competitive advantage. The new approaches are also presented that inevitably will play a crucial role in the future while formulating strategies for gaining a competitive advantage.

The readings chosen for this paper were sourced from leading authors in the field, as well textbooks and electronic academic sources. Therefore, in order to understand the determinants for strategy setting, secondary information will be collected, and the data will be compared and analyzed. Finally, the research propositions will be submitted.

2.1 Research Questions

The purpose of this research is to find an answer to the following research questions while choosing among the best strategies in order to gain a competitive advantage:

1) What are the traditional and new approaches for gaining competitive advantage?
2) What strategies best fit with companies competitive advantage?

3. LITERATURE REVIEW

3.1 Understanding Strategy

The notion "strategy" in original form has military meaning and is derived as a combination of two Greek words "stratus" meaning "army" and "ageou" meaning "leadership, guidance". Perhaps, the characteristic approach about strategy is the one given by Chinese general Sun Tzu, according to him "only one excellent dominant and perfect leader is capable to develop the activity of discovery and intelligence with wisdom and primacy, can realize great achievements. The entire "army" relies on this, for any activity. This is the essential of strategy". It is obvious that this approach is very frayed, but until one measure emphasizes the strategic aspect of the function of the contemporary business organizations, where the management team among others is also responsible for providing appointed information about the movements of environmental factors. According to this information the prospective function of the organization will be developed in general.

One of the oldest definitions about strategy is the one given by the old Greek philosopher Ksenofon, according to him, strategy means to have knowledge about the business (activity) that you want to undertake. In the first sight this approach seems much blunted and like something exceeded and unimportant in the contemporary conditions of the function of business organizations and the actual strategy area and strategic management as a whole.

Although this approach includes three of the undeniable aspects during strategy analysis in fulfillment of the competitive advantage of the business organization, such as:

- Possession of knowledge related with business;
- Oriented toward the future;
- Oriented towards the company of the respective activity.

Nowadays, when strategy and competitive advantages are mentioned, it's inevitable mentioning some of the greatest names in this area: Igor Ansoff, Peter Drucker, Michael Porter, and Henry Mintzberg.

So, according to Porter the strategy represents the formation of a unique and valuable position while it includes a number of various factors, meanwhile according to Mintzberg people use the term "strategy" in some different meanings, such as:

- Strategy is a plan, a "how", a mean to help get from here to there;
- Strategy is a repeated way of performing activities;

- Strategy is a position, actually a reflection of the decisions taken for offering a specified product or service in the respective markets;
- Strategy is a perspective, actually vision and management.

The strategy represents the management and long term engagement of the company which creates advantages in the flexible environment between sources and appointed competences by fulfillment of shareholders demands (Johnson et al., 2005, p. 9).

The corporate strategies in order to be successful at work must be based on some main premises, such as:

- Competition appears in the level of Business Strategy Units. The diverted companies do not compete as integrity but the Business Strategy Units compete with each other. If the strategy does not pay the necessary importance to the success of different units, then the success is almost impossible;
- The diversion causes higher costs and different limits for the Business Strategy Units. The units are obliged to argument their decisions to the high management, they must dedicate the time necessary to synchronize their system with the other systems in the company and they must always act accordingly to company rules. These costs may be reduced, but not entirely eliminated;
- Shareholders can diverse themselves. They can diverse their share portfolios while determining for those shares that suit their preferences and their predispositions to endure a specified level of risk. (Porter, 1987, p.3)

3.2 Traditional approaches on strategies for achieving competitive advantage.

When traditional approaches on strategies for achieving competitive advantage are mentioned, it is refereed to two main approaches such as:

1) The Porter Matrix and
2) The Ansoff Matrix

3. 3 The Porter Matrix of strategy for achieving competitive advantage

One of the most referred approaches upon the strategies for achieving competitive advantage is the one given by Michael Porter who talks about generic strategies which appear in the next matrix (figure no. 2).

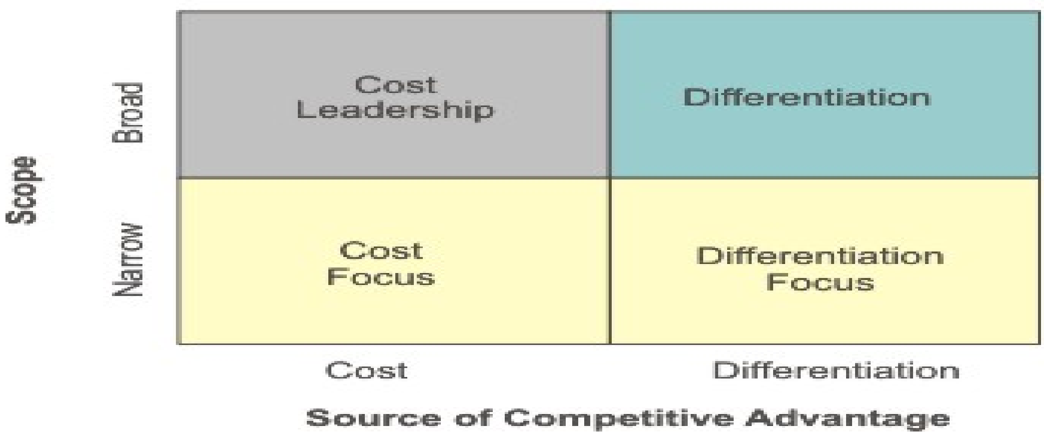

Figure no. 2. Porter's Generic Strategies
Source: *Porter: 1987, p. 12*

The purpose of the strategy for managing costs is for the organization to have lower costs than his competitor. So, in this strategy with great importance is the work efficiency. In fact the company tends by producing bigger amounts of a standardized product to use the advantages of the level economy and the experience curve. Usually the company tries to give the product some essential characteristics so that it is suitable to a higher number of potential consumers. For this strategy to be successful the company has to have a non stop research for a way to lower costs in every aspect of its function. This strategy is successful when the business company has a bigger participation in the market and in the cases when it has easy and secure access in the respective sources. This strategy is very attractive for companies, which is obvious if we take into consideration the fact that the low costs offer the company better opportunities to make profit and to be very resistant in case it enters in a war of prices with a competitor. The companies that usually practice this strategy produce products with a low level of diversification knowing that low prices will attract potential consumers.

Finding the way of how to produce with lower costs may be the most important question for the company managers. Some of the ways to lower producing costs are the investments, actually the implementation of new producing technologies, product design in the way that it enables producing with lower costs, reducing costs for distributing products, finding cheaper inputs etc.

We think we should distinguish the strategy of managing costs and managing prices even though both of them are very close to each other. In fact, cost leading strategy is based on the products that are intended to be produced with lower costs compared to competitors. If a business company decides to use this priority in order to set lower prices to its products compared to the competitors, then we will deal with a price leading strategy. On the other hand, beside lower costs, the company may sell its products with the same price as it is offered by the competitors, trying in this way to create greater difference between incomes and expenses in favor of cash. Several extreme cases wherein companies decide to sell a product with lower price compared to competitors, despite the fact that the obtained income does not cover product costs, should be taken into account.

Except many advantages of this strategy, it also has many disadvantages as well. A major disadvantage of the cot leading strategy is pointed out by Hill, Jones, 1992, p.149:

- Competitors may lower their product costs by using cheaper labor force. This is not strange, if the difference of salaries in various countries is taken into account. Thus, salaries in USA are six times higher compared to those of Mexico or South Korea;
- Copying or imitating competitors;
- The risk of customers changing their taste, while a business company is focused on lowering the prices.

The purpose of the differentiation strategy is to create a product or a service, which will differ from the products or services that are provided by the competitors. So, we are talking about a strategy which is focused on product differentiation. This strategy can be attained in different ways. For example Procter & Gamble always point out that its products are made of natural ingredients, whereas Sony always claims the high quality of its TV sets. We should not leave aside the psychological factors as well. For example one who wears a Rolex makes an impression of a wealthy person with a good taste and who pays attention to the quality. On the other hand, there are many companies that run their business successfully by pointing out the need for security, respectively by using the fear that people experience by the physical insecurity. Therefore, we can say that there are unlimited possibilities for product differentiation.

A company that wants to implement this strategy should first of all have research and development skills, close relations with distributors, creative staff, high image and marketing skills, etc. This strategy implies the invention of a unique product, which will be accepted by a group of customers, who will be willing to pay even high prices for it.

Generally, the differentiation strategy can be applied in several ways: by providing better products and services, by providing better after sale services, as well as by a better image of the company. Therefore, the differentiation between fashion design companies like Channel or Ralph Lauren is made by their well known image; Ritz claims the high quality of its services, whereas Toyota always points out the high quality of its vehicles.

If a business company decides to implement a focusing strategy by differentiation, then it should possess all the options required by differentiation strategy and compete only in one market branch. Thus, if a company decides to implement a differentiation by lowering costs, then it will have to lead with prices only on the specified market branch.

The competitive skill of the companies that apply this kind of strategy, especially when we talk about focusing by differentiation, depends on the ability of the competitors in issuing or providing a better product in the market. Besides, these companies sometimes can take a lead as a result of the fact that no other company offers the same product, enabling them to "control" the customers. But, usually the focusing strategy is related to lower product costs that means less inputs should be provided, in which case their position during negotiating with suppliers is weakened. We should also never forget the fact that there are moments when the customers simply change their preferences. Therefore, during the implementation of this strategy, the companies should be extremely careful.

3.4 The Matrix of Ansoff on Strategies for Achieving Competitive Advantage

When we talk about the strategies for achievement of competition advantage we should necessarily point out the approach made by Igor Ansoff (founder of the strategic management), who based on the market and on the products, has defined four basic strategies (Figure no. 3).

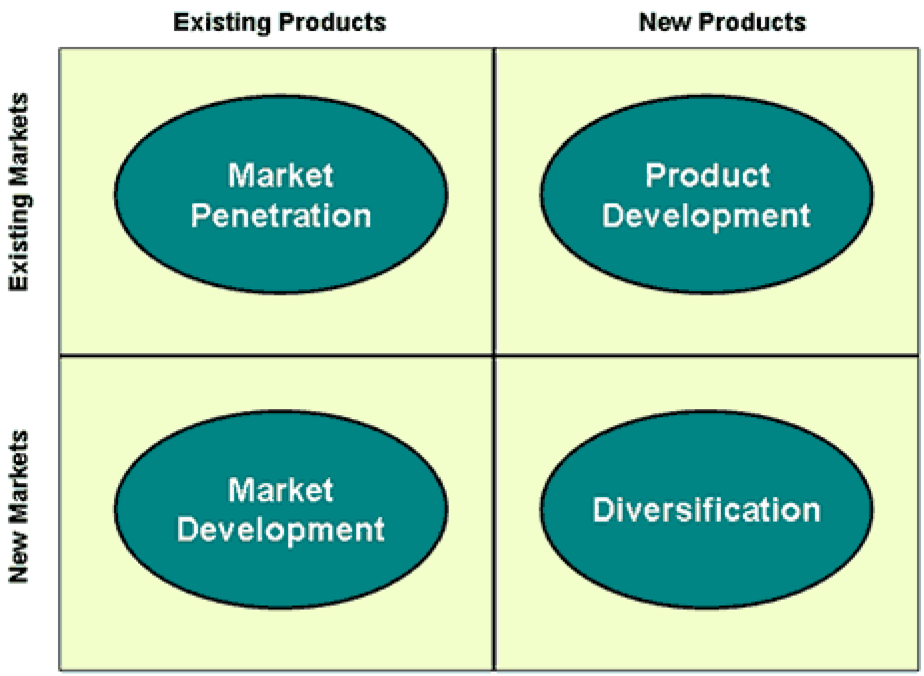

Figure no. 3. Ansoff`s strategies
Source: *Lynch, 2006, p. 462*

The market penetration strategy is a strategy in which the business corporation is tries to increase the product sales or service sales in the existing market In fact the market penetration strategy's aim is to increase the sales of the business corporation without becoming part of a new market. So, the corporation will try to pull out apart of its consumers or a part of its customers. Normally, to achieve this aim the company can have to choose among some different options including here new spending for the product promotion and for the quality increase of the product. The market developing strategy is a strategy by which a corporation is looking for new consumers for the already existing products. Normally the in this case the corporation can try to find new consumers in the present market by finding new *section* or by finding new *markets* (making geographic expansion).

The strategy of developing product aims to increase its sells in the already existing market by offering more improved products than before. The reasons for implementing this strategy are counted as follows:

- To make a better usage of the producing capacities
- To be against the new entering potential competitors
- To develop new technologies
- The corporation should keep the reputation of the biggest innovator in the market
- The general participation in the market should be protected

Diversification strategy means a situation in which Business Corporation starts to produce new products in new markets. When diversification strategy is mentioned, we should automatically make a difference among concentric diversification, conglomerate diversification and horizontal diversification.

➢ *Concentric diversification* has to do with the company entrance in an activity which is connected to its primary activity. This strategy is usually implemented in the cases where unlike the good position of the company in the market the industry itself is unattractive and so does not make enough amount of profit. For this reason the company decides that it should enter in a new activity which is also connected to the primary activity but still has a higher rate and offers bigger chances to make profit. This kind of strategy should be implemented in the case when the company operates in an industry which has low rate, when the present products are undergoing a turn down, when the corporation has financial property as well as human recourses, especially when having a management staff that have abilities to switch the company into a new business and so on.

➢ *Conglomerate diversification* has to do with turning the company into new businesses which are not directly linked with the primer activity of the company. This strategy is usually implemented by the companies which have an average or margined position in an industry which is thought to be an unattractive one. As a result, the company can choose to enter even in completely new and different industries. This kind of strategy should be used in the cases as follows (David,1997, p.57)

- When the industry in which operates the company is on the way out;
- When the company has enough resources to be a pat of other industries;
- When the company is offered to buy another company;
- When the present products market is being saturated;
- When the company has chances to undertake the anti–trust ideas because the company operates in only one industry.

➢ *Horizontal diversification* is being used in the case when present buyers are being offered new products and services. It is thought that this kind of strategy is the least risky one when comparing to the conglomerate strategy because in this case the company has information on consumers, their wants, needs and their preferences.

3.5 Modern Approaches on Strategies for Achieving the Competitive Advantages

Beside the classic thoughts on strategies to achieve the competitive advantage like the Porter's matrix and the Ansoff`s matrix which we mentioned on the text above, there are new thoughts in literature of this field; there are some new approaches of strategies that companies can use in order to achieve the competitive advantage. It is important to mention the following:

- The strategy as a compilation of simple rules, and
- The Blue Ocean Strategy

3.6 The Strategy as a compilation of simple rules.

"The Strategy as a compilation of simple rules" is a more modern approach to the strategies focused on achieving competitive advantage. In reality this approach has evolved as a need to explain the success of organizations as Yahoo.com or AOL in absence of a traditional approach to explain the strategies and strategic management in all. The essence of this strategy is to grasp and use the opportunities given at the moment to the business organizations while moving in a flexible way from one opportunity to another and always focusing on the basis of the actual movements and potential future changes of the external market factors. In this case managers concentrate on some simple rules which they follow very carefully while they are managing the company.

Like the other strategies "The Strategy as a compilation of simple rules" seeks to find a basis for differentiation of businesses. This differentiation doesn't come from activities that are closely related neither from basic competence, as in the case of traditional strategies. On the contrary it comes from focusing on important processes and the evolution of simple rules that make those processes. When from a similar process evolves a practice that results in achieving economy of scales and scope, as a result a competitive advantage may appear as in the case of Microsoft and Intel. This advantage usually last for a short period. From this prospective maybe the most important approach is the impossibility to define the duration of the competitive advantage. For this reason managers try to generate large incomes for the actual moment because the next competitive advantage may disappear.

Table no. 1. The Strategy as a Compilation of Simple Rules

Type	Aim	Example
The"WHY" rules	The main aspects of process development are emphasized, especially the answer on the question "What makes our proceses unique?"	The Akamai rules for the process of consumer service: Staff needs to be fro technical experts, questions should ne answered immediately, whereas the RD staff should fluctuate from one task to another .
Limitation rules	This helps managers what opportunities to follow and what not.	The eraly Cisco rule for acquisition Acquired companies have no right of having more than 75 workers and at least 75% of them should be engineers.
Priority rules	This enables managers to rank the accepted oppotunities	The Intel rule for allocation producing capacities: the allocation is based on the gross margin of the product.
Rules concerning with time management	This enables to syncronize mangers the new opportunities and other functioning parts of the company.	The rule for new product "Nortele": the project team should determine the date whne the product will be delivered to the consumer and the product itself should not last more tha 18 months.
Rules from getting out of business	This helps mannagers to determine when to withdraw from the start up	At Oticon if any key member decides to withdraw from the project and to be engaged in other projects then the actul project is closed.

Source: *Eisenhardt, Sull, 2002, p. 104*

3.7 The Blue Ocean Strategy

Although the term "Blue Ocean" is new, its existence is very old. It has been and will remain a characteristic of business life. If we see the world a century ago and ask ourselves how much of modern industries at that time had been unknown? We will notice that many industries that are our everyday life like cars, song recording, aviation, petrochemical, health protection and management consulting at that time they have been unknown or in the beginning of its development. Now, if we analyze the business world thirty years ago. You will see that a hole constellation of multibillion businesses like common funds, cellular phones, production of the energy from natural gas, biotechnology, fast delivery packages, minivans, snowboards, cafes and videos either had been very rare or had not existed at all. Now try to imagine how the world will appear after twenty or fifty years and ask you how many industries that are unknown, then they would be everyday life reality. If the saying holds that History predicts the future than it's very clear that the number of such industries would be very large. (Kim, Mauborgne, 2005, p. 5)

One of the main aspects of this approach is overcoming the competition. In fact, the organization insists that it pursues its development path without any importance on the steps the competitors take. This concept is known as the Innovation of value and comes as a result of tendencies.

This strategy is based on six main principles divided in two groups, where in the first group formulating strategies take place like: reconstruction of market confines, look at the big picture and do not focus too much in numbers, look beyond the existing demand, look after the functioning of strategic process. Whereas in the second group principles take place which are related with the implementation of strategies like: exceed the main organization problems, convert self implementation in a strategy. This strategy is based on 4 main actions like: create, increase, decrease and eliminate.

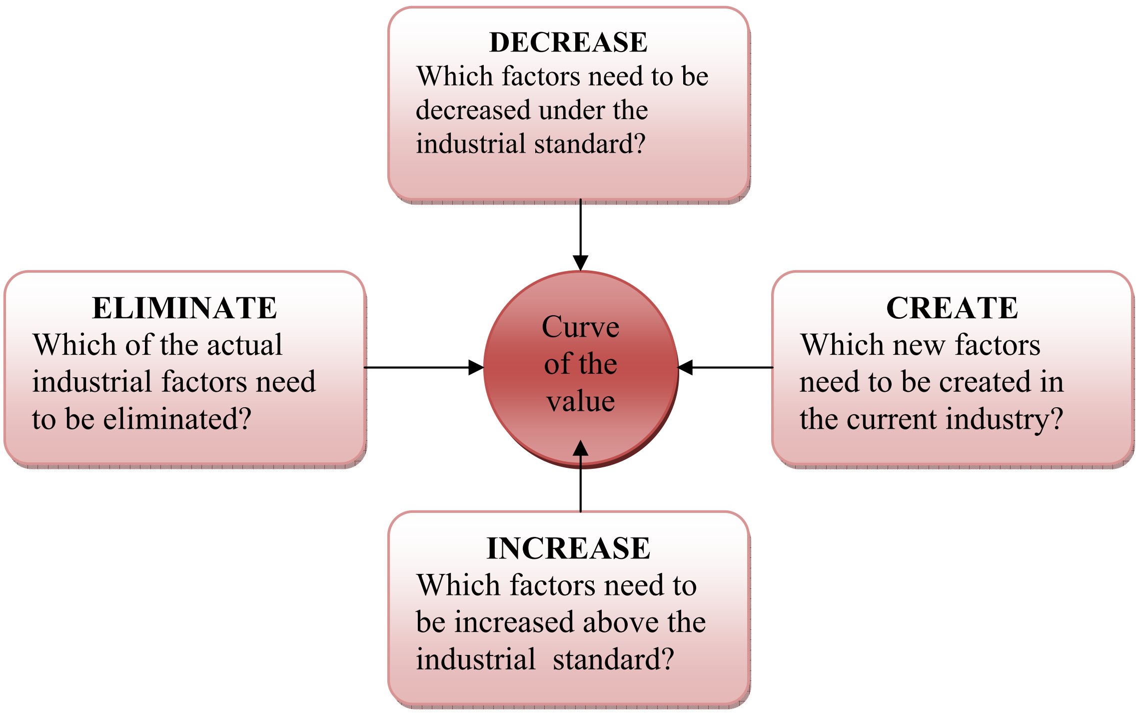

Figure no. 4. The frame of the four main actions
Source: *Kim , Mauborgne, 2005*

The strategy of Blue Ocean in many issues differentiates from traditional approach and strategies of business organizations. Thus, they look like two linked integrities which need to confront each other and in the end of this confrontation there needs to be only one winner which will gain more consumers, and there would be one loser which will lose its consumers and at the same time it will be one step closer to bankruptcy. This issue is also shown in (table no. 2).

Table no. 2. The difference between two strategic approaches

Consumer group	Focuses to offer the best services to consumer groups	defines the group of consumers in the industrial frame work(within industry)
Product or services supplied (offered)	Focus on maximizing the value of products or services within the industry	Analysis the bids of other complementary products and services
	within the strategic group	within the industry

Functional–emotional orientation	Focuses on changing the price for the current functional-emotional group	Examines the opportunities for changing the functional – emotional group
Time	Tends to adopt changes in the external factors after they are exposed	Participates in creating changes in the external environment

Source: *Kim, Mauborgne, 2005, p.79*

The strategy of ***'Blue Ocean'*** as an approach is very new, and is a little known in strategic management literatures, however, in practice it has followed and reached the development of business activities for a long time. That is why we express the conviction that in future this strategic approach will be one of the most used strategies in the literature of strategic management.

4. SUBMISSION OF RESEARCH PREPOSITIONS

According to previous scholars' research and literature review we can see that strategy formulation plays and it is an influential factor in gaining a competitive advantage for companies (Igor Ansoff, Peter Drucker, Michael Porter, and Henry Mintzberg). In regard to this, propositions are submitted as follows:

Proposition 1*: The more value a company creates the more competitive it will be.*

The crucial question in determining profitability is how much value firms can create for their buyers, and how much of this value will be captured or competed away. Industry structure determines who will capture the value. But a firm is not a complete prisoner of industry structure - firms can influence the five forces through their own strategies (Porter, 1987).

Proposition 2*: The more a firm is optimally positioned, the more it can generate return and profit.*

A firm positions itself by leveraging its strengths. According to Michael Porter a firm's strengths can position into one of two headings: cost advantage or differentiation.

Proposition 3*: The more the firm is a focus strategy, the more it enjoys customer loyalty.*

Proposition 4*: If the high risk is compensated by the chance of a high rate of return, companies' diversification may be a reasonable choice.*

Proposition 5: The more the firm is related to specific customers, the more the firm will use the product development strategy.

Proposition 6*: The more a firm differentiates its strategies, the higher its competitive advantage will be.*

Proposition 7*: The more a firm innovates and the more it follows its path, the more competitive in the long run it will be.*

5. CONCLUSION

The successful creation of a strategy is critical to company's future, because strategies must be designed to generate sustainable competitive advantages in order to have market share. Porter argues that careful analysis of the competitive arena can be done with the help of his five forces model which will help companies to select the competitive strategy that will allow them to achieve a competitive advantage in the potential market.

Competitive strategy of the firm is the roadmap that shows the way to gaining sustainable competitive advantage by the firm. Thus, competitive advantage depicts a company's competencies and its capability to survive against the factors prevailing in the firm's external environment. Therefore, gaining competitive advantage entails a set of specialized skills, assets, and capabilities for the organization.

Competitive advantage is an important concept because it defines the 'uniqueness' of an organization vis-à-vis its competitors. The strategy by which the sustainable competitive advantage is gained is known as business level strategy of the organization. The internal resources and capabilities of the organization that are a source of competitive advantage over rival firms are collectively known as the core competency of the organization.

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