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Realizing a hybrid competitive strategy and achieving superior financial performance while internationalizing in the high-technology market

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ABSTRACT

Previous marketing research has called for enhanced understanding of the antecedents contributing to realization of a competitive strategy leading to superior performance. In particular, this research has been inconclusive about the conditions under which a multinational corporation (MNC) can realize a 'hybrid' competitive strategy. Our study examines the achievability and performance of a hybrid strategy compared with a single strategy as firms internationalize in the high-technology market. The evolutionary theory of the MNC and the resource-based view were applied. Our empirical results indicate that realization of a hybrid competitive strategy is dependent on both the globalization phase of the high-technology MNC and its key resources. We also found that hybrid strategies mediate these contextual factors and thereby contribute to superior financial performance.

1. Introduction

In marketing research, the importance of investigating competitive strategies has been recognized as a particularly interesting research avenue (Day & Wensley, 1988; Morgan, Kaleka, & Katsikeas, 2004). Nevertheless, firms internationalizing in the high-technology market are finding competitiveness more challenging to achieve than ever before. The new environment is characterized by globalization of markets, diffusion of information and communication technologies (Piscitello & Sgobbi, 2003), and decentralized MNCs and intra-firm networks (Eng & Ozdemir, 2014). Within this context, the creation, exchange, and diffusion of knowledge have become important for generating ownership advantages (Dunning, 2009). While industrial marketing literature has examined the importance of resources (Morgan et al., 2004) and external networks (Ford & Håkansson, 2013), less attention has been given to the role of internal corporate networks (Bond, Houston, & Tang, 2008). Recent research has found that knowledge integration in intra-firm networks is essential, particularly in the highly competitive high-technology markets (Eng & Ozdemir, 2014; Tsai & Hsu, 2014). Firms that are able to take advantage of the knowledge acquired in different parts of the world and integrate their operations globally may achieve significant global synergies in their marketing (Gabrielsson, Gabrielsson, & Seppälä, 2012). In the global high-technology market, evolution of an MNC through the various phases of globalization is expected to have implications for corporate competitive strategies and subsequent performance (Cavusgil, Yeniyurt, Janell, & Townsend, 2004; Kaleka, 2002). In particular, there is preliminary evidence that firms need to achieve differentiation and cost advantage simultaneously (Hughes, Martin, Morgan, & Robson, 2010; Spanos, Zaralis, & Lioukas, 2004), but that there is a lack of knowledge about how this should be achieved.

Almost three decades of debate have not conclusively determined the conditions under which a firm can realize a combined 'hybrid' competitive strategy instead of a 'single' (or pure) generic competitive strategy of either differentiation or cost leadership. Here it is important to define hybrid strategy as competitive behavior that simultaneously emphasizes both a differentiation advantage and cost leadership and to distinguish it from the 'no-emphasis' approach, which refers to the lack of a clear emphasis on any particular strategy (Spanos et al., 2004). Porter (1985) originally postulated that a firm must make a choice between differentiation advantage and cost leadership. If it does not, it will face the risk of being stuck in the middle; it will lack competitive advantage and perform below average. Researchers have been sharply divided with respect to this issue (Campbell-Hunt, 2000). The advocates of Porter's view have in fact found empirical evidence that firms applying a hybrid strategy underperform their rivals that follow a strategy of either pure cost leadership or pure differentiation (Aulakh, Kotabe, & Teege, 2000; Kim & Lim, 1988; Thornhill & White, 2007). By contrast, other researchers argue that a combination of differentiation and a

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low-cost position may lead to superior performance (Hill, 1988; Miller & Dess, 1993; Murray, 1988; Pertusa-Ortega, Molina-Azoriín, & Claver-Cortés, 2009, Spanos et al., 2004). The above discussion suggests that research is highly inconclusive with regard to both the conditions in which firms are able to realize hybrid strategies and to their implications for performance (Campbell-Hunt, 2000; Li, Zhou, & Shao, 2009). Here the high-technology markets, which feature great uncertainty and dynamism, are an interesting sector. Because of this uncertainty and dynamism, the prosperity of firms operating in this industry will require a well-developed competitive strategy that is aligned with their resources and globalization phase (Hughes & Morgan, 2007).

The evolutionary theory of the MNC (Kogut & Zander, 1993) and the resource-based view (Barney, 1991) emphasizing the necessity of certain resources have been investigated largely in isolation despite the fact that both contribute to our understanding of corporate competiveness. Hence they are examined in this paper in an integrated manner. Barney and Wright (1998) have recognized this by including the organizational aspect in the VRIO (value, rareness, imitability, organization) frame. It has been argued that MNCs, which have a specific organizational structure and operate in a global context, follow an evolutionary globalization process in which they build up their competitive advantage from knowledge-based resource transfers (Kogut & Zander, 1993). The resource-based view makes further stipulations for the resources needed to provide a sustainable competitive advantage and to attain superior financial performance (Barney, 1991). We follow Barney (1991) and argue that such resources need to be valuable, rare, non-imitable and non-substitutable, and call them 'key resources.' Hence both the globalization and the resources of an MNC become central to financial performance. It is expected that the earlier conflicting research results with regard to the conditions under which a hybrid strategy is superior may have been caused by neglecting these two perspectives. We argue that there is a neglected area warranting further understanding; namely the impact of the evolution of multinational corporations (MNCs) and their key resources on the realization of hybrid strategies and on the improvement of financial performance within the high-technology markets. There has been little research on the role of competitive strategy, particularly hybrid competitive strategy as an intervening construct between the impact of MNC evolution and key resources on financial performance in high-technology markets. In line with the concept of fit as a mediator (Venkatraman, 1989), some initial studies have argued that competitive strategy may have an intervening effect between the contingency factors and performance (Claver-Cortés, Pertusa-Ortega, & Molina-Azorín, 2012). Hence, the main research question of this study is as follows: Does a hybrid competitive strategy offer MNCs with key resources the means to achieve superior performance during global expansion in high-technology markets? This can be broken down into two more specific research questions:

(1) What are the impacts of the globalization phase and key resources of MNCs (contingency factors) on realization of a hybrid or a single competitive strategy in high-technology markets?
(2) How does realization of a hybrid strategy rather than a single competitive strategy mediate the relationship between contingency factors and performance in high-technology markets?

To determine the impact of the globalization phase and the resource base of firms it would be worthwhile to study firms in a 'test laboratory,' which would include firms in various globalization phases and with different types of resource base in an industry where the characteristics of the high-technology market are pronounced. The limited home markets, low trade barriers, and large open markets of small and open economies (SMOPECs) such as Sweden, Finland, Denmark, Norway, Israel, and New Zealand (Benito, Larimo, Narula, & Pedersen, 2002) have effectively forced firms to globalize their activities in many industries (Fan & Phan, 2007; Laanti, Gabrielsson, & Gabrielsson, 2007). Sweden and Finland, two SMOPEC countries with relatively similar conditions and important high-technology markets in ICT (information and communication technology), were selected for empirical examination. Earlier studies have found that this field is an important high-technology industry (Hughes & Morgan, 2007). ICT is a highly globalized industry and for this research, we regard firms originating in SMOPECs operating in the ICT industry as appropriate for such an empirical investigation. Here ICT companies are defined as producers of telecommunications equipment, personal computers, software, and related components.

This research contributes to a multidisciplinary understanding by integrating the evolutionary theory of the MNC (Kirca et al., 2011; Kogut & Zander, 1993) with the resource-based view (RBV) (Barney, 1991; Morgan et al., 2004) to provide an understanding of the conditions under which a hybrid competitive strategy can be realized and superior performance achieved in the high-technology market. We extend the examination of the conditions in which hybrid competitive strategies are superior to the global high-technology context by incorporating two important contingency factors: the MNC globalization phase and the existence of key resources. While earlier research in high-technology marketing has emphasized the importance of cross-functional collaboration to improve firm competitiveness (Tsai & Hsu, 2014), we stress the importance of integration of activities across countries. Moreover, we apply a novel approach, that of studying how a hybrid versus a single competitive strategy mediates the relationship between the contingency factors and financial performance. The study concludes by suggesting that integration of two theories stemming from earlier work of Penrose (1959), namely the evolutionary theory of the MNC with regard to the superiority of a hybrid versus a single competitive strategy and the resource-based view, provides the missing link that resolves the controversy in earlier research. Numerous scholars (Kogut & Zander, 2003) have called for integration of these two theories. In the global high-technology market domain, MNCs need key resources and the capacity to transfer and utilize them across their subsidiary network if they are to attain a hybrid competitive advantage and ensure superior performance.

2. Theoretical background

We now turn to a review of the theoretical perspectives relevant for understanding how competitive strategy is realized and firm performance achieved in high-technology markets and of the insights provided by the evolutionary theory of the MNC and the resource-based-view.

2.1. Competitive strategy and performance

Marketing research has highlighted that competitive strategy has an important influence on performance (Day & Wensley, 1988; Morgan et al., 2004). However, the debate around the implications for performance of selecting a hybrid strategy rather than a single competitive advantage has been inconclusive (Campbell-Hunt, 2000; Li & Li, 2008). Porter (1985: 19–20) recognizes that firms can simultaneously achieve cost leadership and differentiation advantage only under certain specific conditions, for example when all competitors are 'stuck in the middle,' a condition which rarely exists and is subject to constant change in the case of highly competitive and global firms. Although other researchers have suggested that factors such as firm size (Wright, 1987), level of market homogeneousness (Murray, 1988), and concentration (Li & Li, 2008) may be more important, they have been unsuccessful in reaching agreement about them. While research has largely addressed the hybrid competitive strategies of US firms (Spanos et al., 2004), attention has recently shifted to competitive strategies in emerging markets such as China (Li et al., 2009). Nevertheless, the results appear highly inconclusive with regard to both the conditions in which hybrid strategies can be achieved and to their implications for performance (Campbell-Hunt, 2000, Li et al., 2009).