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Sustained competitive advantage based on high quality input

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ABSTRACT

It is often observed that some firms perform better than others within a population of firms producing the same products. In this paper, potential sources for creating sustained competitive advantages are addressed. According to the resource-based view of the firm, this phenomenon is rooted in heterogenic firm resources and immobility of key resources. This paper reports the findings from an empirical study of the Norwegian seafood industry. By analyzing internal financial statements in a period of 12 years it is revealed that some firms perform over average compared to its competitors. These firms are said to have a competitive advantage. Based on this observation it is analyzed how firms act to cope with input uncertainty. The firms are grouped according to their relative performance, and it is found that the best performing group is supplied with high quality fresh fish. The paper discusses implications of the findings, both managerial and theoretical.

1. Introduction

In the strategy literature, there is an ongoing debate linking strategic choices to financial performance of firms. According to Porter [37,35], a firm can gain competitive advantages by adapting to its business environments. Barney [3,4] on the other hand, claims that there may be considerable performance differences between participants in the same industry because the players hold various resource portfolios which form the basis for sustainable advantages.

In recent decades, the business environment has been subject to greater uncertainty in several industries. Driving forces such as globalization, technology and innovations have catalyzed the development of structural turbulence [10]. The environment can change rapidly, and the firms' resource portfolios will vary. What some businesses consider as threats, others may view as possibilities. This leaves room for different strategic adjustments.

A good example of this is the Norwegian fish processing industry, particularly the part that produces fillets of white fish, i.e. cod, haddock, and saithe. The structural changes have been brutal, and many see this part of the industry as "a coherent crisis" [16,20]. Financial losses and apostasy has characterized the industry. The number of fillet firms from the glory days of the 1970s and until 2013 was reduced from approximately 100 to 10.

At the bottom is an inherent challenge related to fish biology. The species' migration patterns and accessibility have made it profitable with a seasonal fishing. Moreover, technology and logistics solutions have changed the competitive conditions for Norwegian fillet companies. International players with low labor costs have joined in the battle for frozen raw material and lifted what once was a local market for raw materials to a global market [5,7]. The changes in the competitive conditions have been difficult to deal with for Norwegian fillet companies. A petro-driven economy with high costs and a strong currency has also contributed negatively to the competitive position of an already pressured industry.

Never the less, previous studies have revealed that among the remaining companies there are some that deliver better financial results over time than others [12,26]. Rooted in the literature and previous studies and empirical observations, this study addresses whether there remains firms in the Norwegian fish processing industry positioned in front in terms of financial performance. If this is the case, the intention is to reveal key attributes that can be sources for competitive advantages for the best companies.

The article continues by reviewing the strategy literature that sheds light on why some firms perform better financially than others. Next, research design and choice of empirical setting is presented. Finally, results are highlighted followed by a discussion and conclusion.

2. Theory

This article focuses on whether, and if so, why some companies perform better than others do. Different theoretical approaches attempt to explain profitability variations. One approach is

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studying characteristics of the competitive arena [37,35], while another approach emphasizes internal attributes of the company [3]. The approach chosen explains the profitability differences between firms by combining these two perspectives. Such an integrated perspective is methodologically challenging because it requires thorough contextual knowledge about both the competition arena, and what attributes each firm in the industry possesses.

The positioning school, with roots back to classical economics and industrial organization, is a theoretical approach that has received much attention since the 1980s. Here it is argued that strategic choice and performance is essentially contingent on characteristics of the industry, which the company is a part of. A fundamental assumption is that the main driver of profitability is at the industry level. To identify the potential profitability of an industry often five forces are studied—(1) rivalry among competitors, (2) threats from intruders, (3) threats from substitutes and the bargaining power of (4) suppliers and (5) clients [36].

The positioning school is based on implicit assumptions from the neoclassical tradition that firms are homogeneous in terms of the resources they possess and the strategies they choose. A company can achieve extraordinary profit (super profit) by either being cost leader, or differentiate itself—that is to produce goods and services that reap a price premium.

The *resource-based perspective* emerged as a rival to the positioning school and its explanation of competitive advantage. The positioning school was criticized for assuming that firms base their strategic decisions on the same information about the competition arena and that this information is interpreted alike. Moreover, environment theory assumes that all firms in the population have equal access to resources [3]. As a consequence, companies implement identical strategies so that differences in profitability will be eliminated over time.

The level of analysis of the resource-based perspective is the company and its resources. Profitability differences are determined by the availability of company-specific resources at any given time [18]. A key issue is that firms have different abilities to select and implement strategies because resources can be heterogeneous and difficult to imitate. Strategic choices undertaken on the basis of valuable resources with limited mobility can therefore be sources to competitive advantage.

The literature review underpins that choice of theoretical perspective determines which factors are assumed to explain why firms perform differently. Previous empirical studies have attempted to shed light on the perspectives abilities to explain the phenomenon by measuring the impact of performance differences on the industry and the corporate level.

Schmalensee [40] found in a comparative study that the industry impact was most important. On the other hand, Rumelt [39] uncovered that business impact is significant and important for explaining profitability variations. The empirical studies therefore indicate that both industry and company-specific attributes may influence firms' financial performance. By integrating positioning school and resource-based perspective it is possible to control for numerous factors which are omitted by just using one of the perspectives. In its simplest form, by combining the two perspectives, each of them can represent one part of the SWOT framework (see Fig. 1).

The two theories both explain performance variations on the basis of competitive advantages. The model in Fig. 1 indicates that competitive advantages can be created internally (strengths/weaknesses) or on the competitive arena (opportunities/threats). The perspectives are complementary in that they attempt to explain performance variations by using different levels of analysis. Therefore, one of the perspectives does not exclude the other [3,10].

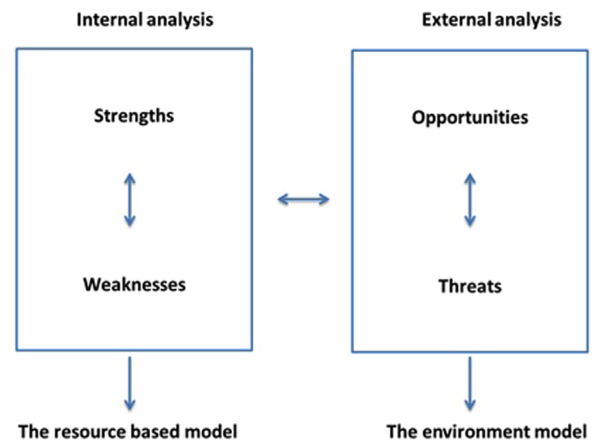

Fig. 1. The relationship between the resource-based model and the environment model for analyzing competitive advantage [3].

Both the positioning school and the resource-based perspective emphasize that the players must take into account the uncertainty of the environment when designing strategies [12]. However, the two perspectives, give different recommendations on how uncertainty can be managed. The positioning literature has a more proactive approach where the company actively attempts to control uncertainty through coordination within the value chain [37]. This is not a rigid recommendation in the resource-based perspective. According to this theoretical approach, the firm must choose strategies that balance their own capabilities against the challenges that prevail in the competitive arena [26]. Here, other approaches, such as using the market actively, can work well.

Isaksen et al. [26] have exposed that there is not a direct relationship between how uncertainty is managed and performance in the fillet industry. Both vertical integration and flexible use of the market can provide decent financial results. However, it is important to understand the competitive arena and implement strategies that exploit the company's strengths and protect against weaknesses. Often there is distance between what is considered as an optimal solution, and what is practically feasible for the business. In this case, strategic choices are a compromise between the optimum and the firm's resource constraints. With this important insight in mind, this study seeks to answer empirically the following research question:

> Do the best companies possess internal strengths that better enables them to exploit opportunities and avoid threats in uncertain external environments than the rest of the industry?

3. Research design

The research design of an empirical study utilizing the theoretical perspective outlined in this article requires in-depth knowledge of the opportunities and threats in the external environment. The design also requires the development of good measures of firms' resource position, that is, their strengths and weaknesses. Finally, a dataset of all firms in the population over a period covering the term sustained is needed.

3.1. The impact of the industry (external opportunities and threats)

Environmental theory requires in-depth knowledge of the competitive arena being studied. It is important that the environment is as similar as possible for the companies that are compared. By focusing on one single industry it is possible to control for industry impact [31] which, according to Porter [37], is crucial for firms' profitability.