Sustainable Competitive Advantage: Towards a Dynamic Resource-Based Strategy

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Sustainable competitive advantage: towards a dynamic resource-based strategy

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Abstract
This paper introduces the concept of strategic advantage and distinguishes it from competitive advantage. This concept helps to explain the full nature of sustainable competitive advantage through uncovering the dynamics of resource-based strategy. A new classification of resources emerges, demonstrating that rents are more relevant than profits in the analysis of sustainable competitive advantage.

Introduction
The search for sustainable competitive advantage has been the dominant theme in the study of strategy for many years (Bain, 1956; Kay, 1994; Porter, 1980). The "resource-based view" has recently found favour as making a key contribution to developing and delivering competitive advantage. Within this context, the concept of "core competence" is being presented as a ready-made solution to many, if not all, competitive shortcomings per meating organisations (Collis and Montgomery, 1995; Prahalad and Hamel, 1990). Both the concept of sustainable competitive advantage and the resource-based view, however, limit organisations in understanding the full nature and dynamics of strategy for the following reasons:

• Sustainable competitive advantage is a journey and not a destination – it is like tomorrow which is inescapable but never arrives. Sustainable competitive advantage only becomes meaningful when this journey is experienced. For most organisations, however, the problem is how to identify where the journey lies. In fast-moving competitive environments, the nature of the journey itself keeps changing in an unpredictable fashion. As a result, the process of identifying the journey presents the main challenge.

• The resource-based view strives to identify and nurture those resources that enable organisations to develop competitive advantage. The primary focus of such an analysis, however, is on the existing resources which are treated as being largely static and unchanging. The problem is that dynamic environments ceaselessly call for a new generation of resources as the context constantly shifts.

Given the above considerations, organisations often fail to exploit fully the potential of both the concept of sustainable competitive advantage and the resource-based view. To reverse this situation, it is necessary to develop the competitive advantage and the resources of an organisation as a dynamic concept. This calls for rediscovering sustainable competitive advantage through exploring its origins, together with the processes that make it happen. For this purpose it is first necessary to make explicit what is meant by the terms "sustainability" and "competitive advantage" and then raise the following philosophical and practical questions:

• Can the terms "sustainability" and "competitive advantage", which can be argued to serve different purposes, be brought together in the name of unity of interest?
• Is such a unity real or a discursive, aimless marriage?
• Can sustainable competitive advantage assume a shared meaning for those who want to make it happen?

These questions sound simple but the answers are quite difficult because the purpose of an organisation can potentially be twofold. First, the organisation has to focus on its existing resources in exploiting existing business opportunities. Second, the organisation has to develop, at the same time, a new generation of resources in order to sustain its competitiveness. There is therefore a need to balance living and unborn resources. This balance, which determines the effectiveness of strategy, is achieved when organisations succeed in marrying sustainability and competitive advantage in a way that it does not become a marriage of convenience.

Competitive advantage and sustainability: the missing link
The term "competitive advantage" has traditionally been described in terms of the attributes and resources of an organisation that allow it to outperform others in the same industry or product market (Christensen and Fahey, 1984; Kay, 1994; Porter, 1980). In contrast, the term "sustainable" considers the protection such attributes and resources have to offer over some usually undefined period of time into the future for the organisation to maintain its competitiveness. Within this context, "sustainable" can assume a number of meanings depending on the frame of reference through which it is viewed. It can be interpreted to mean endurable, defensible,
bearable, tolerable, liveable, supportable, passable, acceptable, justifiable, negotiable and penetrable. For example, if the organisation is to protect its existing value added against its competitors then the term “sustainable” associates itself with “endurable” and “defensible”. Most discussions of sustainable competitive advantage focus on defensive strategies based on existing resource strengths. For example, Grant (1995) considers the sustainability of the competitive advantage along the dimensions of durability, mobility and replicability. Durability determines how long the competitive advantage can be sustained and is considered in terms of the ability of competitors to imitate through gaining access to the resources on which the competitive advantage is built. This in turn can be considered in terms of mobility, referring to the extent to which resources can be transferred between competitors together with replicability which describes the ease with which resources can be copied by competitors. An example, where durability, mobility and replicability are particularly pertinent, relates to many retailers who derive their competitive advantage through identifying, acquiring and maintaining well-located outlets in addition to the value added stemming from their services and offerings. While the importance of defensive strategies in protecting and exploiting existing resource strengths cannot be underestimated, securing the long term future of an organisation must consider how to derive unique areas of value added in the future. For this purpose sustainability has to assume a different meaning which points itself towards penetrability, for example, in terms of new breakthroughs. This is because the speed at which the uniqueness of the resources of an organisation becomes accessible dictates the speed at which the competitive advantage of an organisation diminishes. In fast-moving competitive environments, sustaining competitive advantage involves creating safe-havens from cut-throat competition by continuously creating gaps through unique resources that cannot be easily bridged by the competitors (Chaharbaghi and Nugent, 1996).

Sustainability is essentially dynamic with many subsets, each depending on the nature of the strategic task. For this reason, sustainability is best considered as a dynamic process rather than a static concept that is locked in time. This dynamic process, which is captured in Figure 1, shows an organisation functioning within its changing environment over time. In this model, intended strategy is concerned with how the organisation sees its environment developing and what resource configuration is best suited for that environment. It will not, however, determine what will actually happen as the outcome will also be influenced by unpredictable events such as competitive responses and changes in market values. Realised strategy is therefore the actual pattern of developments as represented by the outcome. This distinction is useful in relating strategic action to outcome while highlighting the dynamics of resource-based strategy as patterns of evolving development of resources together with the environment.

Using the model of Figure 1, sustainability within the context of competitive advantage is considered in terms of the organisation positively embracing change, constantly adapting to altered ways and new demands through introducing new resource configurations, while at the same time preserving the best of its past. Viewed in this way, sustainable competitive advantage assumes two primary pillars: resource management and resource development. The former is concerned with meeting the competition today while the latter aims to satisfy the competitive challenges of tomorrow. The main difficulty, however, lies in the inherent conflict between delivering today and tomorrow. The central focus of the former is on the present using the resources developed in the past, whereas the primary concern of the latter is the future and the resources that will have to be developed for future competitiveness. Without considering both the present and the future there is no context for sustainability. In resolving this conflict, the concept of competitive advantage will not suffice. A new concept is required which helps organisations to develop the ability to remain competitive in the future while exploiting existing opportunities. This concept which is referred to as strategic advantage is necessary if organisations are not to become the prisoners of their past through entangling themselves with resource management to the detriment of resource development.

### Strategic advantage

The term strategic advantage is used to describe an organisation’s dynamic and unique resources that determine its competitive renewal. Such a concept is more proactive than competitive advantage. The concept of competitive advantage is often used to describe where the organisation currently derives the ability to add more value than its competitors. It refers to the degree to which the organisation, under free market conditions, meets the demand of a product market.
while simultaneously maintaining and growing its profit levels. Competitive advantage is limiting as it is a static concept based on past rationalisation. It does not explain how it can be sustained in dynamic business environments. Strategic advantage, on the other hand, encompasses a broader perspective whereby it:

- provides the organisation with the unique ability to develop a strategic direction that creates new opportunities and shapes the future of its competitive environment.
- represents the source of resource leadership in one or more product markets.

For many organisations, the current mindset centres around the optimisation of resources. This mindset is driven by a particular technology such as those found in the car and chemical industries and in the many manufacturing plants which usually do not lend themselves to radical change. It finds an outlet in such strategies as being the lowest cost producer (Porter, 1980), exploiting economies of scale (Besanko et al., 1996) and developing new supplier relationships (Williams et al., 1994). The aim should be to develop new resources that lead to new performance standards and hence the establishment of new business opportunities. While it can be argued that the resources of some organisations are so scarce or complex that there are no substitutes, even supposedly unique resources are created by people. This implies that most resources will eventually be copied by benchmarking emulators or become obsolete through substitution in the wake of other organisations’ innovations. This is where the concept of “core competence” (Prahalad and Hamel, 1990) can potentially distract organisations as its focus is predominantly on existing rather than new resources. By identifying resources that lead to radical change, organisations can identify sources of strategic advantage. In essence, strategic advantage is the radical advantage that renews the competitive edge of an organisation in a dynamic environment. Such an advantage is the response to the steady degradation of the existing competitive advantage. Within this context, competitive advantage can usefully be seen as the optimisation of existing resources to ensure competitiveness in the existing market framework. By contrast and from a market or environmental perspective, strategic advantage moves the organisation to consider new competitive challenges and new or changing markets. It challenges organisations to direct their attention towards the substantive changes necessary for their future viability and to build these by developing new strengths.

In order to make sense of the confused battleground on which the resource-based
strategy is discussed, it is useful to classify the resources of an organisation and relate this classification to competitive and strategic advantage. For this purpose, Figure 2 provides a hierarchical resource classification. In this classification, base resources are fundamental to the organisation in the sense that it could not function without them. However, these resources are the "entry ticket" or minimum requirement to take part in a competitive environment even though they do not deliver competitive advantage. In a similar fashion, peripheral resources, while not being fundamental to the organisation, are nevertheless necessary but these can easily be hired, bought in or otherwise acquired. Organisations derive their value-added from their competitive resources. Factors that make these resources competitive include demand, relevance, scarcity and appropriability. Examples of competitive resources are idiosyncratic technologies and knowledge resources, patents, location advantage, reputation and brands. Strategic resources refer to those unique resources of an organisation which when introduced create a gap that cannot be bridged by the competition. The division between strategic and competitive resources is not exact. However, this corresponds to a division among resources which intimate an absolute advantage and those which represent a relative advantage. Roughly speaking, this distinction means resources which will change the rules as well as the nature of the game (i.e. the old game is over), and those that ensure the organisation will remain in the game as long as it continues in its existing form.

Implications and opportunities for dynamic resource-based strategy

From the above it becomes apparent that strategy is considered in terms not only of efficient and effective application of competitive resources but of the exploitation of potential capabilities provided by strategic resources. This requires understanding the relationship between strategy and rent and the requirement for the timely introduction of strategic resources.

The concept of rent was first introduced by Ricardo (1817) as part of his endeavour to abolish England's Corn Laws. He identified that land on a mountain side varied in fertility depending on whether it was in the valley or on the mountain top. Thus, when demand was sufficient to make it economic to grow corn on less fertile land, high profits were earned by anyone owning very fertile land. These extra profits were called rents because they ultimately accrued to the landlord. The argument put forward by Ricardo was that the price of corn was determined by the supply of fertile land and not the level of rents. In other words, the achievement of above-normal rates of return or rents are achieved through valuable resources that are scarce. Whether rents are generated through valuable land, location advantage, patents, monopoly, high entry barriers or innovation, the central focus of resource-based strategies is on the continual search for rents. Although rent is useful conceptually and difficult to calculate in practice, the focus of analysis for sustainable competitive advantage is best based on rents rather than profits for a number of reasons. First, profit is an accounting concept based on the artificial definition of resources. Second, using profit, quantification of assets is based on historical costs rather than a broader concept of potential usage. Third, with profit it is not possible to identify the quality of assets beyond simple numerical values.

The ability to generate rents in dynamic environments is dependent on advantage in the market. This in turn hinges on setting the standard which determines the market value against which all competing products will come to be judged. The key consideration is therefore to determine the speed at which movement is planned and introduced in destabilising market values. The speed at which an organisation moves its market requires creating and sequencing a chain of strategic resources and timing their release into the market in a manner that ensures demand and relevance. In this way, the organisation armed with strategic resources can
choose to accelerate or slow the market down, depending on the advantage it commands. Figure 3 presents the concept of the dynamic resource-based strategy which is based on the timely introduction of strategic resources in ensuring sustainable competitive advantage. An important consideration is that strategic resources can exist in their own right as the developmental opportunities which are linked with the evolving market scenarios that are available to the organisation. Implicit within the dynamic resource-based strategy model is the principle that today’s strategic resources will represent tomorrow’s potential for creating new market values that can earn a premium.

Conclusions

This paper has demonstrated that sustainable competitive advantage is the product of enjoying both competitive advantage and strategic advantage. Viewed in this way, sustainable competitive advantage represents a process that meets the competitive needs of the present without compromising the ability of the organisation to meet future competitive needs. Such a process develops organisations as a dynamic concept, encompassing the following fundamentals:

- Sustainable competitive advantage is conservation-oriented as no organisation has unlimited resources. Given such a limitation, conscious management of existing resources is necessary.
- Sustainable competitive advantage is needs-based whereby the economic activity of the organisation must be concerned with the need of the market for the goods and services produced from such an economic activity.
- Sustainable competitive advantage is future-oriented, placing itself beyond day-to-day management for the long-term development of resources to bring about strategic advantage.

Strategic advantage is the standard for corporate renewal. It is highly dependent on, and influenced by, the development and timely introduction of strategic resources. With the acceleration of competition, these must be viewed through a new paradigm because the prevailing, narrow approach of optimisation has created a tunnel vision which is not consonant with future needs of organisations. With the optimisation mindset, the resource infrastructure has largely been designed to promote stability. Clearly, competition has entered into a new era of discontinuous change. The problem of infrastructure which plagues organisations cannot be resolved effectively without a dynamic resource-based strategy, incorporating the following principles:

- Strategic resources should be regenerated faster than they are used.
- Competitive resources should be used faster than substitutes become available.
- Base and peripheral resources should be considered for divestment faster than the acceptance rate of the environment.

While these fundamental principles can be incorporated in strategy, it is always management who will make them effective. It is the dynamism of management together with their ability to formulate and implement effective resource-based strategies that are the ultimate sources of sustainable competitive advantage.

References

Application questions

1. How else can the idea of sustainable competitive advantage be explored?
2. How does your organisation measure the sustainability of its competitive advantage?
3. Are changes in the resource-base of your organisation the product of competitive crises?
4. Does your organisation have the resources to shape the future of its competitive environment?