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Strategic Change

Managing for competitiveness: a proposed model for managerial focus

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- *The word* competitiveness *is used extensively in management discourse concerning national economic performance, international economic performance comparisons and at the level of the firm.*
- *It is a word of elusive meaning. Indeed, it is used in so many different ways that there must be serious doubt that the word has any concrete meaning at all. This is regrettable because it could make a valuable contribution to our thinking about economic policy and the management of business.*
- *This paper considers the concept of competitiveness at the level of the business unit and proposes an interpretation, which will be of value to practising managers in their efforts to improve the economic performance of their businesses.*

The meaning of competitiveness

It is axiomatic within the capitalist system that businesses survive and thrive through successful competition. If this is so, it is obviously of importance that managers know what the ingredients of competitiveness are so that they can be acquired. Indeed, the search for these ingredients will be the primary function of managers. But simply to say this is not very helpful if we cannot say with any degree of precision what it means to be competitive. Already we have used the terms *competitiveness*, *competition* and *competitive*, three words referring to a concept that has yet to be defined. This clearly leads to a great potential for confusion. For example, some might define *competitiveness* as a condition, whereas others might define it as an attitude. *Competition* might be defined as the pressure facing any particular business or it might be seen as the activity of the company in the marketplace. *Competitive* may be defined in a variety of ways. It could describe the state, or condition, of an industry or a firm. It could describe an approach to business. It could be seen as a measure of performance.

An important question is *where does competitiveness come from?* Does it come from inside the firm, from its own resources, or is it achieved through positioning in relation to an external environment? There is scope here

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for paradox. For example, we might find that an industry is fiercely competitive because it consists of many small uncompetitive firms, none of which has any market power. On the other hand, we might think of a company like Microsoft, which many people would probably describe as a highly competitive company, operating in a way which is, according to the US government and legal system, anti-competitive. As a society, therefore, we could be faced with the paradox that we want competitive markets but uncompetitive companies.

The central question arises: *who decides if a company is competitive?* A number of answers to this might be proffered. For example, governments might define a company as competitive if it conforms to the criteria contained within competition or anti-trust law. Managers might define competitiveness in terms of market share and growth. Shareholders may judge competitiveness in terms of profits and capital growth, whilst other stakeholders may have views of competitiveness based on other values such as care of the environment, social contribution, enlightened employment policies and so on. It is clear that the definition will vary with differing points of view and with the nature of the viewer's interest in the performance of a business.

That we need definitions of these words is beyond challenge. Competition is the bedrock of the market system and the single most important component of the superiority of the market economy over the planned economy in terms of the efficient allocation of the productive resources of the economy. It is this fact which conditions this definitional issue. If competition defines the credentials of the system it would be as well to know what it means.

The definition furthermore needs to be one which will enable firms to become competitive or to improve their competitiveness. In other words an *ex ante* definition is required. Too many definitions in the field of management describe properties of organizations after they have achieved success. They are *ex post facto* definitions that are off little to help to managers faced with challenges of their own in their unique circumstances. The purpose of this paper is to suggest a practical concept of competitiveness that practising managers could find of instrumental value in improving their companies business performance.

In considering this purpose it will be helpful to state some premises upon which this discussion of the issues will be conducted. The following three premises are intended to provide a reference point for the perspective adopted here:

Premise 1 Profit is the principal objective of business activity.

Premise 2 Competitive businesses are driven by a 'will to win' in the marketplace. Winning is measured in profits.

Premise 3 Profit and profit opportunity are created by entrepreneurial activity.

Literature

The range of literature within which the concept of competition figures is enormous, extending across the fields of economics, law and management. The concept of competition is fundamental to the study of economics. At the micro-economic level the entire theory of the firm is expressed in terms of competition. The spectrum extends from monopoly (no competition) through oligopoly and monopolistic competition to perfect competition (a theoretical ideal). Within the tradition of market or capitalist economics competition has been a Holy Grail ensuring the most efficient allocation of scarce resources. Within the tradition of the planned or Marxist economies, competition has represented the demon of wasteful duplication.

The search for competitive advantage is a central objective for practising managers. This objective can be and has been, defined in a variety of ways. Market share, growth, profitability, technological advance and others have all been bases chosen by managers. Within the management field the literature of strategy is the body of writing for which

> *The search for competitive advantage is a central objective for practising managers*

sustainable competitive advantage is an abiding focus of attention.

Here it is the literature of strategic management that will be considered. However, this literature is vast. A number of themes may be identified (McKiernan, 1997) to help classify the approaches of the strategy literature:

1 Planning and Practice
2 Learning
3 Positioning
4 Resource-Based View (RBV)

Taking these briefly in turn:

1. **Planning and Practice** The planning and practice school reflects the earliest view of the discipline that strategy could be created on a rational basis essentially as a design for the deployment of corporate assets to exploit identified environmental opportunities. The essential source of strategic success was external to the organization and the key to successful exploitation lay in the matching of the organization's competences to external openings. The antecedents of this approach were largely military and reflected the practice of large hierarchical firms (usually American) in the 1960s and 1970s. The emphasis is on systematic forecasting, information gathering and planning procedures. It may be seen to some extent as in the tradition of scientific management. Writers in this school would include, *inter alia*, Taylor (1911), Gilbreth (1912), Fayol (1949), Barnard (1938), Steiner (1969), Andrews (1987) and Ansoff (1965).
2. **Learning** The learning school argues that the complexity of the business environment renders planned strategy virtually impossible, particularly in increasingly volatile market conditions. The learning perspective emphasizes the unpredictability of the environment and argues that strategic success will be achieved more informally. Such ideas as bounded rationality and logical incrementalism are associated with this school and the process of strategy making is as much to do with the power, values and expectations of management groups and the adventitiousness of environmental developments as it is to do with planning processes. Principal contributions to this tradition will be found in the writing of such figures as Senge (1990), Lindblom (1968), Quinn (1980), Cyert and Marsh (1963), Weick (1969), Simon (1947) and Beer (1979).
3. **Positioning** The positioning school sees successful strategy emerging from an understanding of market structure and the opportunities it affords for firms to create differentiated positions. In essence this view has developed from the concept of monopolistic competition. The successful firm is responsive to the structural forces within its industry, which provide the limits of its freedom of action. Thus the driving force for success is *'outside-in'* and a successful firm positions itself accordingly. The literature tradition here will include Chamberlin (1933), Robinson (1969), Porter (1980, 1985), Kotler (1967), Levitt (1975), Hofer and Schendel (1986) and Ohmae (1983).
4. **Resource-Based View (RBV)** The RBV is essentially an *'inside-out'* approach to developing successful strategy. The firm is not the reactor of the positioning school but can find strategic success through the development, acquisition and deployment over time of scarce resources and skills which are unique either in themselves or in the way they are combined with each other. The view claims its inspiration from classical microeconomics. It is the acumen and experience of managers and their ability to create unique advantages in the marketplace which are difficult, if not

impossible, for other firms to emulate or compete away, which lay the foundations for value creation and sustained competitive advantage. This tradition is found in the writing of such as Penrose (1959), Wernerfelt and Montgomery (1988), Amit and Schoemaker (1993), Peteraf (1993), Dierickx and Cool (1989), Rumelt (1991), Scmalansee (1985), Powell (1996), Collis (1994), Barney and Griffin (1992), Kay (1993) and Alvarez and Barney (2000).

Overview of literature

In summary therefore, the literature approaches the subject of competitive advantage from a number of perspectives. There is a tension between *inside-to-outside* and *outside-to-inside* views and explanations. However, there remains a sense of absence of any real understanding of the nature of *competitive advantage*. Flint (2000) and Klein (2002) have recently considered the meaning of the term competitive advantage within the discourse of strategic management and have found an unsatisfying situation of tautology and circularity. Connor (2002), in focusing on the literature of the RBV, has found a disappointing lack of applicability to the needs of practising managers. If these are fair assessments and a contribution to the art or science of management is to be made, then it is this central concept of competitive advantage and its substance that should be the focus of attention.

Locus of competitiveness

The locus of competition itself needs to be considered and understood. Fundamental microeconomics tells us that a firm is an entity, which converts inputs into outputs through some transformation process. It can then be said that the performance of the firm will be dependent upon its activities in product markets, factor markets and transformation processes. Namely, the selection and management of its production function. Furthermore, the firm competes in an industry but more usually within a sector or perhaps a segment of a market. Consequently competition in product markets will be a function of how well the firm's products satisfy customers. The companies that outperform others in the market will be those that set the standards of customer satisfaction. Firms that merely seek to match the leaders may survive but will probably not attain superior market power.

All firms are competing in factor markets. With the factors of production in relative short supply it is axiomatic that successful businesses will be those which have ensured a continuing inward stream of the key factors of production, namely, land, labour and capital. This indicates the importance of the firm's performance in the procurement of the necessary inputs. Although not as apparent as a firm's performance in product markets, its performance in factor markets may be of central importance in determining its position against other firms. Thus firms that can acquire the best sites or key technologies, or attract the highest quality labour, or establish a superior supply chain, will gain a distinct and perhaps decisive edge in the product market.

Competitive success will also be a function of the entrepreneurial activity and management skill with which the firm transforms its inputs into outputs. Although the firm will need to compete in factor markets for the inputs to the business, the management skill and entrepreneurial flair in determining the way in which these are deployed will be a firm-specific phenomenon. This skill and flair are clearly intangible strategic assets.

Generally therefore, it can be said that competitive success by a firm will be a function of its performance in product markets, factor markets and its processes. To enhance its chances of competitive success the firm must attend to each of these areas of competitive activity and cannot afford to ignore any one of them. This will call for a balance in the firm's information, control and business prospecting activities to ensure that none of the three perspectives takes precedence to the detriment of the others. It is necessary, however, to enhance this view of competitive activity to allow for the importance of time. The concept of competitiveness needs to be formed in dynamic terms and there is a need to avoid the temptation to analyse the competitive performance of the firm from a perspective of comparative statics. To cater for this requirement it is useful to consider the idea of *meta-competitiveness*, which seeks to introduce this dynamic dimension.

Meta-competitiveness

A consideration of the ability to shift from one basis for competitiveness to another over time suggests a further dimension to the concept of competitiveness that lies behind its outward manifestation. This dimension is the capacity of the organization to change appropriately in the face of change in market or industry conditions. This may be defined in terms of the competence of strategic decision makers. It may be considered as meta-competitiveness. This competence manifests itself in the industry knowledge, insightfulness and management competence of the strategy makers and is therefore a capability which transcends particular competitive states at points in the firm's lifetime. The elements of these three capabilities are outlined as follows:

Industry Knowledge

- Understanding products and markets
- Understanding process and technologies
- Understanding external and internal environmental trends

Insightfulness

- Knowing how firm activities fit with market requirements and opportunities
- Recognizing opportunities in the environment
- Understanding the key strategic strengths of the business

Management Competence

- Planning ability
- Organizing ability
- Controlling ability

Although the actual basis for competition in markets will be changing over time, the basis of outward competitiveness will be the quality of management in the terms outlined above. Competitiveness although necessarily mutable, will be derived from institutionalized management qualities. Thus competitiveness will manifest itself in strategic results, whilst meta-competitiveness will continually seek to optimize the strategic thrust of the firm through time and will manifest itself through success combined with longevity. The relationship between meta-competitiveness, current competitiveness and strategy through time is illustrated in **Figure 1**.

Competitiveness will be derived from management qualities

Properties of a competitive firm

Managers need an understanding of competitiveness which will enable them to make decisions and take action of a tangible nature. To do this they will need some targets for activity which focus upon key dimensions of the firm's condition. These dimensions may be conceived as properties of the firm which, if developed, will improve the firm's chances of achieving competitiveness. A model of these key properties is proposed here and summarized in **Figure 2**. For ease of reference the model is described by the acronym **FADIAC**.

Fit

By this it is meant that the organization has:

- Appropriate resources
- Functioning autonomic systems

The appropriate resources will take the form of the business assets required to maintain or win additional business in the served markets

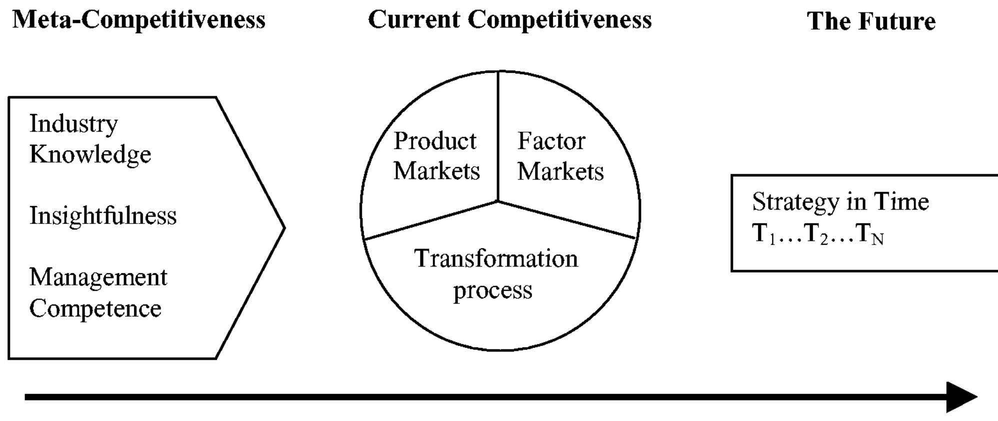

Figure 1. Meta-competitiveness and competitive strategy through time.

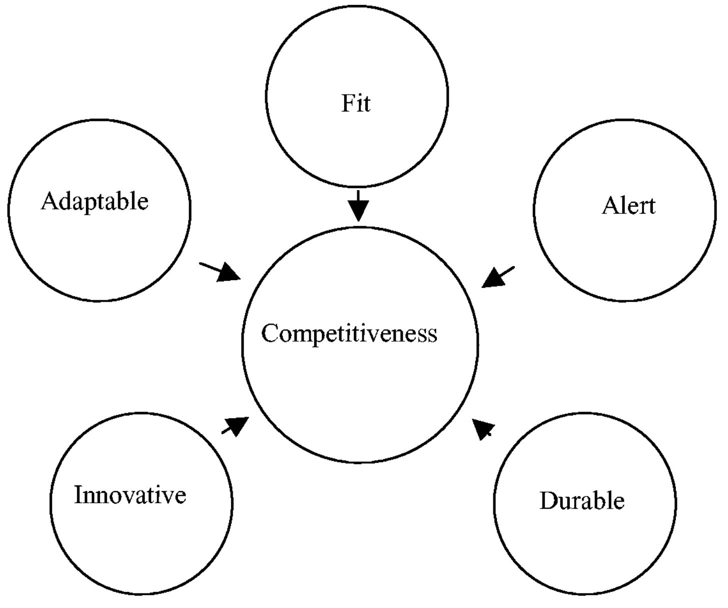

Figure 2. Properties of competitive firms.

of the organization. They will be of a standard at least the equal of the other firms in the industry. By standard is meant both the intrinsic quality of the assets and the finesse with which they are deployed by the firm. The autonomous systems of the firm are those that ensure survival unthinkingly (in the sense of needing no formal policy deliberations), and this is a function of the firm's capacity for learning and responding without the impedance of interior barriers to adaptation. This is redolent of Stafford Beer's (1979) concept of the 'Viable System' and variety management through the firm's processes of variety attenuation and amplification emanating from the balance within its organization structure between learning mechanisms and reaction mechanisms. Essentially this is a matter of organizational design and information management.

Alert

By this it is meant that the organization has:

- Intelligence
- Learning capacity

These factors are closely related to the autonomic systems of the firm. However, whereas with fitness we are largely considering design factors, with alertness we are more concerned with the immediacy and extent of the intelligence (in the information sense) gathered and the learning drawn from it. This in turn, will call for a high degree of self-reflective honesty on the part of the firm's managers. The strategic use of knowledge and information will require responsive information systems design to optimize learning opportunities.

Durable

Durability may be thought of as a measure of corporate stamina:

- Resource renewal
- Purpose

The ability of a firm to maintain its presence and operations in served markets will depend not just on having the appropriate resources but having them in sufficient depth and with continuity. We are here considering the firm's reserves of strength. Key considerations will be the maintenance and updating of key assets but also the need to maintain a continuous flow of management and other human talent to effectively deploy the key assets. To ensure that their company strength is focused effectively in the marketplace managers will need to have a clear sense of purpose in their activities. This is not to say that rigid planning is required. On the contrary, it is likely that the most effective companies will be those that are flexible and adaptable in their framing of corporate purpose and therefore, the focusing of the key assets on their most appropriate targets.

Innovative

This is concerned with:

- Human capital
- Imagination

The ability to gain an edge over other firms in an industry will invariably require some form of innovation, whether that is in product or process, or both. Since innovation is a creative act it is only human intelligence and imagination that can generate it. The extent to which a firm sets out to acquire intelligence and to create an internal environment in which creativity can flourish will be a key measure of its competitiveness.

Adaptable

The adaptability of a firm will depend upon:

- Information processing
- Mutability

It is not possible to adapt to survive without the necessary information relating to the nature and degree of change required and the progress being made towards the desired change. With alertness we were concerned to ensure that the firm learns from intelligence, with adaptability we are concerned with designing and maintaining the information systems to ensure focus on key objectives and the provision of the prioritized control feedback. Clearly the capacity for change is a fundamental requirement for adaptation to new conditions. The presence or absence of barriers to change within the firm will have a direct and important bearing on the firm's ability to adapt and, therefore, survive.

Overview

In considering the five determinants in the FADIAC model above it can be seen that they address separate important questions relating to the performance of an organization as shown below:

Fit	Is the firm in a fit condition for the task facing it?
Alert	Is the firm tuned into change signals in the external and internal environments?
Durable	Has the firm the stamina to last the pace over time?
Innovative	Can the firm change strategic directions and methods?
Adaptable	Is the firm responsive to environmental forces?

The answers to such questions contain the evidence for a firm's claims to being competitive in its markets. Fundamentally the proposition is that a firm should be able to answer these questions in the affirmative if they are to be competitive.

With this in mind it is possible to use the model posited here as the basis for auditing a firm's asset endowment to establish the degree to which its condition reflects the potential for sustainable competitiveness. The model as discussed so far is expanded in **Figure 3**.

Management tasks implied by the FADIA model

The proposed model has identified those areas of the firm and its activities where management attention would need to be directed to pursue competitiveness. Such attention would underlie the achievement of the required level of meta-competitiveness, which would in turn, be the basis upon which transient states

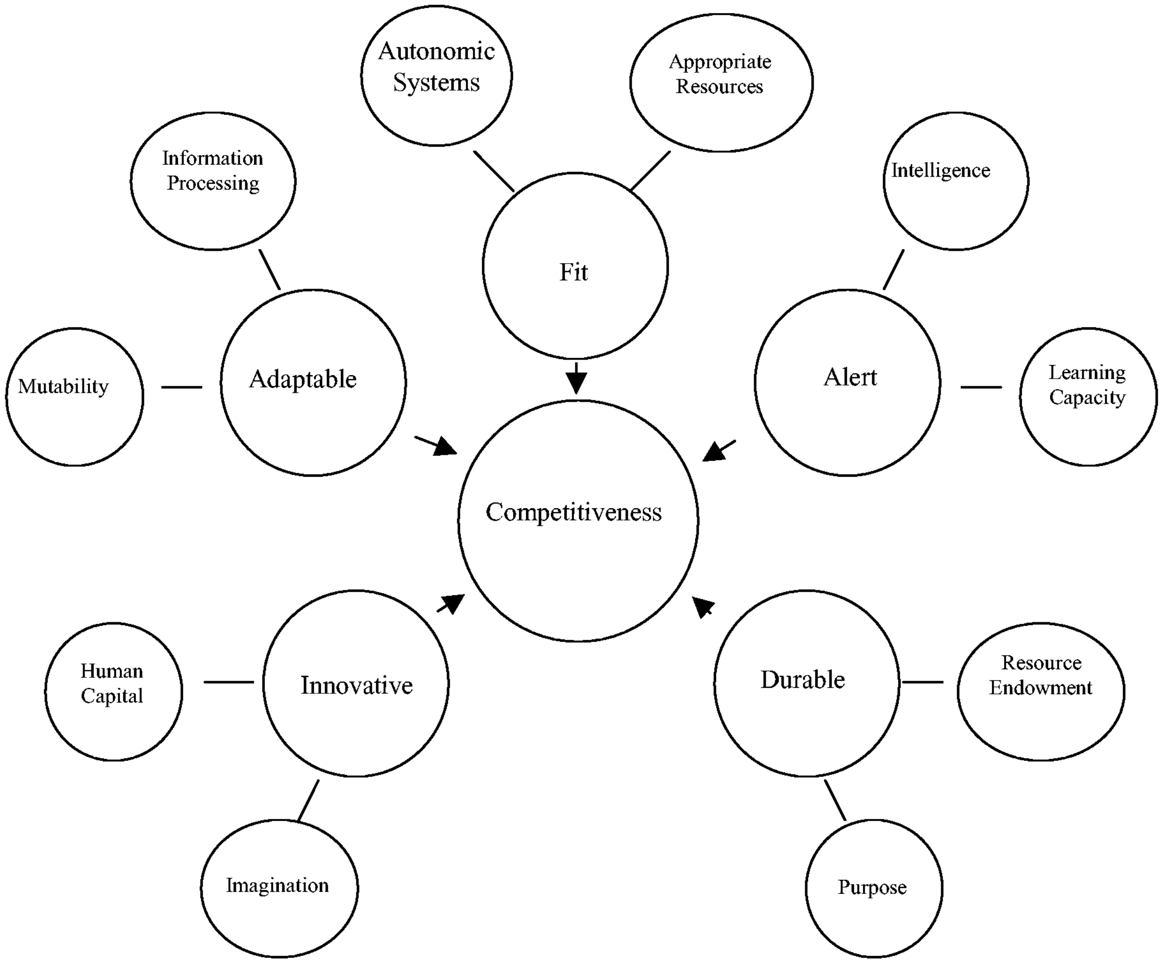

Figure 3. Properties of competitiveness.

of competitiveness would be achieved over time. However, it is necessary to take the analysis another level down before we start identifying actual tasks which would need to be undertaken if competitiveness is to be embedded in the firm. The tables in the Appendix suggest the principal foci of attention at the day-to-day management level. In each of the tables the properties of competitiveness identified above are fragmented into elements. The elements are only briefly described since the actual nature of the tasks facing management would vary from firm to firm and these elements would demonstrate local particularities. However, it will be seen from the tables that a comprehensive management task exists to ensure the structural, procedural and functional details of implanting competitive capability are undertaken systematically. The work implied would require the involvement of every level of management and would include the regular reappraisal of important policy issues underlying the firm's procedures and routines. In essence the management task is to remove barriers to competitiveness within the firm and in so doing, to ensure that existing practices and behaviours are expunged where they have outlived their usefulness and have become actual or potential barriers to organizational effectiveness. It is beyond the scope of this paper to go into further depth.

The framework indicated by the tables represents an attempt to suggest a systematic approach to *'doing the right things'*. The propositions underlying the framework are derived from first principles. In particular, the purpose of managerial activity is derived from the premises outlined above, essentially the earning of profit; whilst the substance of managerial work is the constant conditioning of the organization in a dynamic and volatile world. This will require more than simply having checklists of questions before making decisions. The framework outlined posits procedural disciplines, systems designs and organizational structures to bring about the competitive condition that is sought.

Conclusions — research

This paper has discussed the idea of competitiveness in terms which recognize both the current state of academic thinking and the pragmatic perspective of managers tasked with the search for corporate success. Although the literature of strategic management is replete with discussions of competitive advantage in high-level language — generalities and abstractions — there is little which links this level of thinking to the working experience of managers. Here an attempt has been made to consider competitiveness in more prosaic but more practical terms in order to suggest some guidelines along which managers might consider how they can conduct an organized, managed search for competitive advantage and the capacity to extend it over time. The thrust of the argument is that attention to organizational design and management behaviour in the light of an understanding of the product and factor markets, and the process bases of competition will be the foundation upon which the chances of competitive success will be optimized. This emphasis upon a probabalistic approach to achieving competitive advantage, it is suggested, is the best that firms can adopt. In the final analysis the achievement of competitive success is not deterministic.

The achievement of competitive success is not deterministic

Myriad uncontrollable variables in factor and product markets and technological moves in competitors' production functions will actually determine which firms succeed and which fail. Responsible managers, though, will be those whose behaviour in the light of available data is the most rational, thus providing a better probability of being in a condition to succeed. They would be ill advised to wait for successful competitive strategies simply to emerge.

Certain further research directions emerge from this discussion. One is the extent to which current ideas of competitiveness and competitive advantage are intelligible and of use to managers. Another important research focus would be the strategic information approach concentrating on the attributes of managers and firms seeking to optimize their adaptability and responsiveness to dynamic competitive developments. Furthermore the whole question of the appropriate research techniques is raised. If an 'Austrian' perspective is taken and we accept successful entrepreneurial activity as 'discovery' (Kirzner, 1997), then it would follow that there may be little of a generalizable nature that could be envisaged in terms of product or factor markets success or superior internal processes. The appropriate approaches might be action research and case study analysis rather than econometric or statistical based studies of firm attributes or proxies for them. The essential point from a management viewpoint is that existing research and literature in the field of strategic management is historically focused. It is little help to managers to be told what the success of others was based on. Any lessons from that experience will be too late because the prize will already have been won by someone else and imitative behaviour may actually make matters worse. Unless strategy researchers can focus their activities on the causative factors of competitiveness their output will be of but little historical interest. Further, since generalizable propositions about competitiveness do not appear to be possible (other than banalities) any research should be organization-specific, suggesting a participatory action research approach.

Biographical note

Tom Connor worked at senior levels in the UK motor industry for 16 years followed by 5 years in consultancy. For the past 10 years he has been at the University of Luton specializing in strategic management and strategic finance. He has published refereed papers in leading journals such as: *The Strategic Management Journal, Strategic Change, The European Business Review, The International Journal of Business Performance Management, and Corporate Governance*. In addition he has reviewed books for the *Economic Journal* and published articles in non-academic management journals. His most recent publications have considered the formulation of strategy ideas and their implementation and the balance between current customer and future market orientations in strategic decision making.

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Appendix

Fit — Question — Is the firm in a fit *condition* for the task facing it?

Appropriate resources	Functioning autonomic systems
• Identification of key strategic assets	• Organized to learn from experience
• Plan for key strategic asset acquisition covering process and timeframe	• Policies and procedures designed to embrace and exploit new knowledge
• Complementarity of key strategic assets and necessary linkages	• Information and control systems designed specifically to support selected strategy
	• Removal of all organizational barriers to internal communications

Alert — Question — Is the firm *tuned-in* to change signals in the external and internal environments?	
Intelligence	Learning capacity
• Organized to receive signals from both internal and external environments	• Free interchange of intelligence within the firm
• Data filtering processes to separate out 'noise'	• Learning environment with the absence of fear or sanction ethos
• Mechanisms for distributing intelligence received	• Organization structured to reflect market requirements
• Honesty in assessment of internal weaknesses and problems	• Effective processes for changing direction and reordering priorities
• Centrality of information systems in strategic management process	• Recording and appraisal of firm experiences

Durable — Question — Has the firm the *stamina* to last the pace over time?	
Resource endowment	Purpose
• Systematic and regular review of firm's strategic assets	• Explicit management objectives derived from the firm's strategic objectives
• Regular assessment of change in the nature of strategic assets	• Devolution of firm's strategic objectives throughout the organization
• Financial resourcing aligned with strategic asset development and deployment	• Departmental and functional plans must reflect and interpret high-level strategy objectives
• Maintenance and improvement of management talent	• Targetting of strategic assets on strategic priorities to optimize use of strategic assets
• Constant attention to input procurement improvement	• Complete understanding by people at all levels of their contribution to the firm's strategy

Innovative — Question — Can the firm *change* strategic methods and directions?	
Human capital	Imagination
• Strategically focused HRM policies	• Removal of organizational barriers to creativity
• In particular staff recruitment and development policies to reflect strategy objectives	• Avoidance of cultural barriers to creativity
• Resources concentrated on firm's key strategy-focused staff needs	• Reward systems to stimulate creativity and risk-taking
• Effective executive succession policies and plans	• People encouraged to challenge norms
• Adept at utilizing human capital in changing circumstance	• Creativity reflected in key strategic performance metrics

Adaptable — Question — Is the firm responsive to environmental forces?	
Information processing	Mutability
• Information systems designed to reflect the firm's strategy	• Organization structure to mirror strategic objectives
• Free availability of information to potential users	• Removal of organization structural rigidities as barriers to change
• Control feedback mechanisms targeted at critical strategic success metrics	• Change management processes for overcoming fear and resistance
• Information systems change when business objectives change	• Professional change management skills and procedures
• State-of-the-art information systems	