2 Competitive Advantages

◆Why is one corporation capable of achieving a higher performance than others?

1. Sources of Competitive Advantages: Two Perspectives—Inside or Outside

1.1 History of Studies and Two Perspectives

◇"Strategic theories" developed along with problematic concerns of U.S. business community.

◇The history of studies on management strategies was firstly regarding company-wide strategies, and then competitive strategies.

■Movement of American Industries/Problematic Concerns

-1960s: Industries, having grown to maturity in 1950s, generalized a diversification of their business lines.

・Interest in "company-wide strategies" centered around diversification strategies (Ansoff. *Corporate Strategy,* 1965: strategic planning procedures)

-1970s: Interest in administrations (resource allocation) of diversified businesses

・Method of "PPM"

-1980s: Decline in U.S. industries' competitiveness; Interest in recovering competitiveness of an individual business

・Rise of "competitive strategies" (Porter. *Competitive Strategy Theory*, 1980)

・"Functional strategies": Particular importance attached to manufacturing strategies (key to regaining the competitive edge for the U.S.)

-1990s: Interest in resources which bring about competitive advantages to corporations (sources of competitive advantages)

・"Resource-based strategy theories" (strategy theories noting the "inside" of corporations, to be described later)

■ Two Standpoints Regarding "Difference in Corporate Performances" in Strategy Theories

(1) Emphasis on outer factors: Explanation with the "positioning"

(2) Emphasis on inner factors: Explanation with the "resources/capability" inside corporations

1.2 Standpoint of Emphasizing "Outer Factors" (Positioning)

◇To seek important factors for a corporate success (=sources of competitive advantages) outside the firm (environments)

・The positioning of the firm in good circumstances (superior positioning) ingenerates a high accomplishment.

◇"Industry Structure Analysis" (Porter, 1980)

・Tool to analyze an "attractiveness level of industries"

◇Strategically most important point:

・To take up the firm's stand in the <u>environment that is most convenient</u> to achieving its objectives

■What is a "convenient environment"?

・Situation where an outer power constituting a barrier to achieving one's objectives is weak
-Small number of competitors
-Being protected by laws and regulations
-Friendly relations with customers and suppliers, etc.

1.3 Standpoint of Emphasizing "Inner Factors" (Corporate Resources/Capability)

◇To seek important factors for a corporate success inside the firm (organizational capability/ managerial resources)

・Being equipped with superior organizational capabilities and managerial resources ingenerates the firm's high accomplishment.

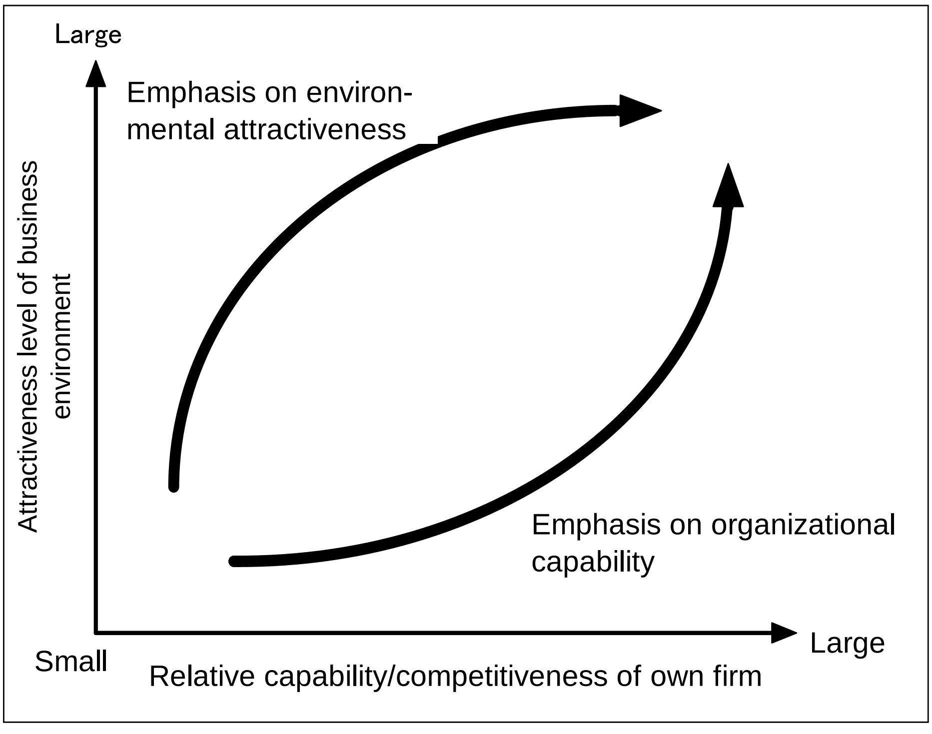
・"RBV: Resource-Based View of the firm"
-Since the mid-1980s: Wernerfelt (1984), Barney (2002)
-Procurement/accumulation of resources that are indigenous and hardly imitable provides the organization with competitive advantages.
-To focus on, "What are the resources that bring about competitive advantages?"

1.4 Validity of Two Standpoints

◇Debate continues between the subcultures "Outside" and "Inside" in the academic community.

◇Only that, in order to really explain a firms' competitive advantages, both standpoints are valid and complementary to each other.

■Two Routes to Achieve Objective



Source: Fujimoto (2002). *Easy Economics*, Nihon Keizai Shimbun, Inc.

◇Ultimately, it is ideal for a real corporation to seize the possession of both <u>own high capability</u>

<u>and an attractive business environment (position)</u>.

(1) Approach from the outside to inside: Subculture to "emphasize the business-environmental attractiveness"

(2)Approach from the inside to outside: Subculture to "emphasize organizational capabilities"

1.5 "Inside and Outside" Perspectives in History of Management Strategies

(1) Beginning (the1960s－)

◇Originally in the area of researching the management strategy, the analysis captured the inside and outside perspectives as the "two wheels" with respect to competitive advantages.

■Andrews (1971): Inside and outside

・Combination of an attractive business environment (outside) and the proprietary capability (inside) is a basis of the strategy formulation ("SWOT framework").

■PPM (Product Portfolio Management): Inside and Outside

・To analyze strategies with respect to relative competitiveness derived from the capability (inside: relative market share) and to the attractiveness of business environment (outside: market growth rate), by situating each on the vertical axis and horizontal axis, respectively.

(2) Skew Toward "Outside" Perspective (End of the 1970s－)

◇Porter (1980): Emphasis on "outside" perspective

・*Competitive Strategy*

・"It is strategically important for a firm, upon achieving its objective, to locate itself in a convenient environment (positioning)."

・Porter's argument exerts a significant influence over the academic community and practical businesses (even now).

(3) Return to "Inside" Perspective (Latter Half of the 1980s－)

◇Resource-based view of the firm (Resource-Based View: RBV)

・Attention once again to the "inside", partially due to anti-Porter implications

・Interest in Japanese corporations of the mid-1980s

・Analysis on managerial resources that bring in competitive advantages (conceptual)

・Interaction with analyses on "organizational capabilities" in the research area regarding the innovation/new-product-development administration (experimental study)

・Clark and Fujimoto (1991)

2. Advantage Based on Positioning

■As the source of competitive advantages, to consider, "How to occupy an advantageous position in competitive environments".

2.1 Two Types of Competitive Advantage Originated from Positioning

(1) Advantage Originated from Industry Structure

◇Situation where all corporations competing in an industry benefit from its "structure"

・Competitive condition inside the industry

・Relationship with the outside of the industry

→Analysis tool: "Industry Structure Analysis" (Porter)

- "5 competitive forces": How attractive (profitable) is an industry?
- "3 fundamental strategies": What position does one occupy in an industry?

(2) Advantage Originated from Diversity within Industry

◇Situation where a corporation (group of corporations) that holds certain specific footing works to its advantage

・"Strategic group"

-Mobility barrier

(What are differences that come about in the "strategic group"?)

2.2 Rent: Strategy Emphasizing Positioning and One Emphasizing Resource/Capability

(1) Concept of Rent

◇Rent = Profit above certified value (Abnormal Profit), one's profit exceeding that of others'; Essentially represents land rentals

・Management strategy intends to seek after Rent in a long term.

・Sources of Rent are in variety:

Monopoly Rent: Rent can be obtained as an industrial monopoly/oligopoly progresses, allowing the price to be set higher.

Richardian Rent: Rent which is procured by the relative superiority provided by the possession scarce resources

Entrepreneurial Rent (Schumpeterian Rent): Rent to be obtained by providing new products/market opportunities through entrepreneurial activities

(2) Rent by Organization's Outer Force (Positioning) and One by Its Inner Force (Resource/ Capability)

◇Positioning is a strategy to acquire competitive advantages by locating a firm in an attractive industry/environment

→Positioning is a strategy to pursue Monopoly Rent.

But the source of Rent is not limited to this.→Strategy to pursue another Rent?

◇Strategy to seek for Rent provided by scarce resources (Richardian Rent)

→Strategy to emphasize inter-company resources (Resource-Based View)

3. Resource-Based View of the Firm

▼Wernerfelt, B. (1984), A resource-based view of the firm, *Strategic Management Journal*, *5, pp.* 171-180

▼Barney, J. (2002), *Gaining and Sustaining Competitive Advantage, 2nd ed.*, Upper Saddle River, N.J.: Prentice Hall

▼Takahashi, Nobuo & Shintaku, Jyunjiro. (2002), Formation of Resource-Based View, *Akamon Management Review, 1(9)*, pp.687-703

3.1 Corporate Resource/Capability and Competitive Advantage

■Procurement/accumulation of resources that are indigenous and hardly imitable provides the organization with competitive advantages.

◇For Certain Corporation:

-If it leverages an environmental opportunity and has the resource to reduce threats;

-While competitive firms possessing the same resource are just a few;

-And if such a resource are tough to be imitated or its supply is inelastic;

-This corporation gains the competitive advantage.

◇Fundamental Assumptions

-Heterogeneity of resources

A corporation is a bundle of resources, and a different corporation possesses another different bundle of resources.

-Fixedness of resources

Certain kind of resources takes high cost to imitate, or its supply is inelastic.

◇Variety of Resources

-Financial resource

-Material resources: factories, facilities, locations

-Human resources: managers, workers, technicians

-Organizational resources: administration system, corporate culture

◇Difficulty in Imitation: Sustainability of competitive advantage

When certain corporation holds some resource to provide it with the competitive advantage at some point of time, if its competitor can easily get hold of the similar resource, this corporation's superiority is of a temporary nature.

→The strategic focal point is to pursue managerial resources which bring about the sustainable competitive advantage, namely, to <u>seek the managerial resources that are hard to be imitated</u>.

3.2 VRIO Framework

▼Barney, J. (2002). *Gaining and Sustaining Competitive Advantage*, *2nd ed*. Upper Saddle River, N.J.: Prentice Hall, Chapter 5

◇Framework to analyze whether or not an organizational capability/managerial resource can become the sustainable competitive advantage

V: Value　R: Rareness　I: Imitability

◇Value:

Is this resource useful in responding to environmental opportunities and threats?

◇Rareness:

Have competitors already possessed this valuable resource?

◇Imitability:

If a firm not possessed of this resource tries to obtain it, how much cost does it need to pay?

Value	Rareness	Imitability	Competitive Advantage
No	No	High	Disadvantageous
Yes	No	High	Equivalent
Yes	Yes	High	Temporary
Yes	Yes	Low	Sustainable

	Easy to Imitate	Hard to Imitate
Eccentric	**Equivalent**	x
Rare	x **Temporary advantage**	**Sustainable advantage**

Foresight

◇Low “imitability” does not mean there is absolutely no possibility of imitation.

-It means it takes time and cost.

-In case of technology, one can consider a dissemination curve. A technology that provides a temporary advantage is to necessarily become widespread swiftly. On the other hand, a technology that ingenerates a competitive advantage is slow in its dissemination speed. Even the latter, however, comes to be dispersed in a hyper-long term and no longer constitutes a source of the competitive advantage.

-In general, one can consider that there exist “resources which are easy to be imitated and eccentrically located” and “ones which are hard to be imitatde and rare”.

3.2.1 Value

◇Resource's "value" is key.

◇Change in value

-While resource does not change per se, its value can change depending on social/economic conditions.

-Consumer preference, industrial structure, technology

-Oil shock: Change in preference from big cars to small ones

-From vacuum tubes to transistors, IC

-Liner bulk container: Change in the loading technology

-Information technology: From hard to soft, services

◇Corporate response

- Procurement/accumulation of new resources

-New utilization of conventional resources: Related-type diversification

3.2.2 Rareness

◇In case certain resource is rare, one can at least gain a temporary competitive advantage.

◇Information system itself often comes to be imitated. (low rareness)

-As supplied by vendors in package

-POS is easy for imitation.

-ATM network in banks

-ERP package (SAP)

3.2.3 Imitability

◇Possessed of resources that are valuable, rare, and hardly imitable (high cost of imitation), a corporation can obtain the sustainable competitive advantages.

◇Direct imitation

-A firm's certain competitive advantage sustains when a cost required to imitate certain resource is <u>higher</u> than the one this firm at an advantageous position had to pay for obtaining the same resource.

-"Time compression diseconomy"

Law of diminishing returns: outcome/input factors

Education, R&D, brand awareness

◇Substitution

To use a substitute resource so as to attain the result similar to that of a firm in an advantageous position

Human communication → Information system

◇Factors to make the imitation difficult

1) Historical Condition

If there is a first-mover advantage regarding the accumulation/acquisition of certain managerial resource, or its accumulation process is path-dependent, latecomers face difficulty to imitate—or need to spend a long time for the accumulation of—this resource.

2) Ambiguity of Causal Relationship

When there conceivably are plural managerial resources constituting the sources of the competitive advantages, and the cause-and-effect link among each managerial resource and competitive advantage remains ambiguous, there is no way to identify resources for imitation at all.

3) Social Complexity

In case certain managerial resource to constitute the competitive advantage is supported by human relations and an organizational culture within certain organization, the imitation is not easy. An example of this is activities of such small groups as QC activity.

4) Institutional Condition

Case in which an imitation of specific resource is institutionally restricted, such as by patent

4. Various Topics Regarding Source of Competitive Advantage

4.1 Theory on First-Mover Advantages

▼Lieberman, M.B. and Montgomery, D.B. (1988). First-mover advantages, *Strategic Management Journal, 9*, pp.41-58

4.1.1 First-Mover Advantages

A pioneer corporation is capable to gain a rightful excess profit.

◇Formulation process of “first-mover advantages”

1) Attainment of a first-mover opportunity

Foresight and luck

2) Conditions for “first-mover advantages” to become sustainable for a long term

①Technological leadership

: Case where a leadership can be obtained in terms of product technology or process technology

: Experience curve

: Patent

②Preemption of scarce resources

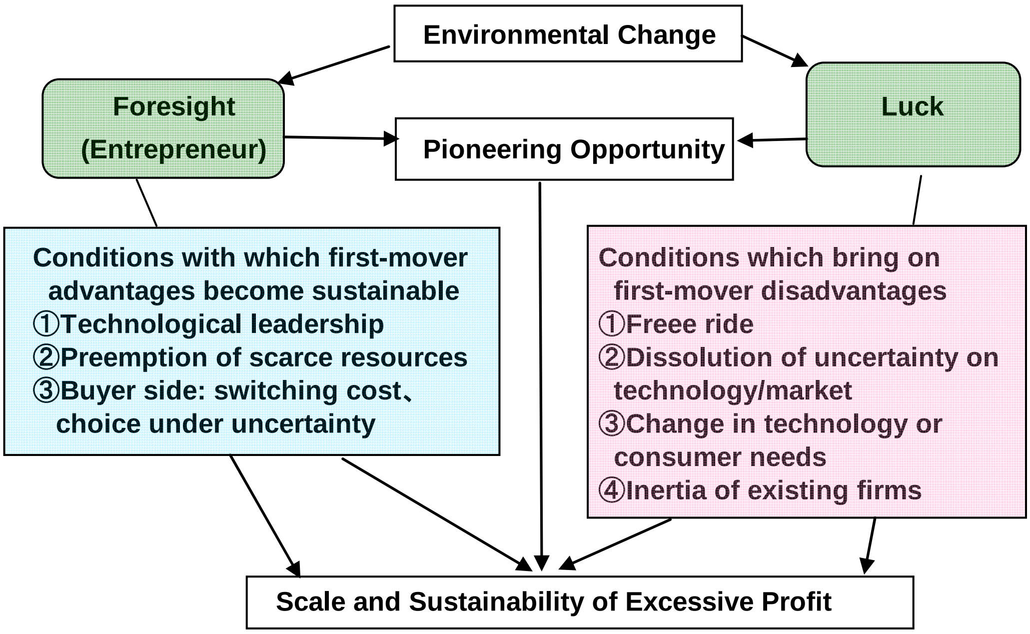
First-move investment in input facilities

③Buyer side: Factor of switching cost

: Site location and product-specific space

: Factory and production, choice in uncertainty

→It is rational not to switch from the brand first purchased.



4.1.2 "First-Mover Disadvantages" = "Late-Mover Advantages"

1) Case in which a follow-on firm can get a free ride on the investment made by a pioneering corporation

・Follow-on firm, by a free ride on the business or market which has been developed by the pioneering corporation's investment, can subdue its opportunity cost. Targets of the free ride are R&D, consumer education, improvement of infrastructures, etc. (Spence, 1984; Ghemawat and Spence, 1985; Lieberman, 1987)

・According to studies by Mansfield、Shvarts、and Wagnar, what it takes for an imitator to introduce its imitation products to market is mere 70% of the innovator's time, and to imitate is as little as 65% of the innovation cost.

2) Case in which uncertainties about technology or markets come to be dissolved

・With the first mover showing up, uncertainties regarding a market or technology get eliminated, to result in an excess profit in the hands of a late mover.

3) Case in which technology or consumer needs change or transform

・If a technology change newly occurs after certain firm made an early entry, the technology developed or employed by this first mover becomes one of a generation old. And it is difficult for the first mover to recognize such a new change of technology and to take sufficient preventive measures. Also, when the first mover fails to look out for, or cannot respond to, changes in consumer needs, there arises a great chance for a later entrant. (Abell, 1978)

4) Case in which "inertia" takes place in existing corporations as accommodating themselves to

environmental changes becomes difficult

▼Schnaars, S.P. (1994). *Managing Imitation Strategies: How Later Entrants Seize Markets from Pioneers*, New York: Free Press

◇Best Practices of Imitating/Follow-on Firms (1): U.S.A. ⇒ U.S.A.

Light beer	Rheingold Co. "Gablinger's" (1966), Meister Brau Co. "Lite" (1967)	Miller Lite (1975), Natural Light (1977), Coors Light (1978), Bud Light (1982)
Mainframe computer	Atanasoff 「ABC Computer」(1939), Eckert-Mauchly 「ENIAC/UNIVAC」(1946)	IBM (1953)
Personal computer	MITS Altair 8800 (1975), Apple II (1977), Radio Shack (1977)	IBM-PC (1981), Compaq (1982), Dell (1984), Gateway (1985)
OS for PC	CP/M (1974)	MS-DOS (19981), Microsoft Windows (1985)
Spreadsheet software for PC	Visicalc (1979)	Lotus1-2-3 (1983)
Word processor software for PC	WordStar (1979)	WordPerfect (1982), Microsoft Word (1983)

◇Best Practices of Imitating/Follow-on Firms (2): U.S.A. ⇒ Japan

Product	First Mover	Imitator/Follow-on Firm
35mm Camera	Leica (1952), Contax（1932), Excta (1936)	Canon (1934), Nikon (1946), Nikon SLR (1959)
Video Cassette Recorder (VCR)	Ampex (1956), CBS-EVR (1970), Sony "U-matic" (1971), Sony "Betamax" (1975)	JVC｢VHS｣(1976), RCA produced by Matsushita Electric "Selecta・Vision" (1977)

4.2 Invisible Assets—”Informational Managerial Resources” as Source for Competitive Advantage

▼Itami,Takayuki (1984), *New Logic on Management Strategy*, Nihon Keizai Shimbun, Inc.

◇Classification of managerial resources by Itami (1984)

people, goods, money, information

◇”Informational Managerial Resources”

・Technical know-how, customer confidence, brand image, employee morale, managerial know-how, etc.

・”Invisible assets”

■Importance of informational managerial resources

(1) Resources that are indispensable, and ones that ingenerate advantages

・Three resources of people, goods and money are “indispensable.”

・Managerial resource named “information”, resulting from the combination of managerial resources of people, goods and money (necessary from the very beginning), which constitutes the source to bring about fruitful business activities

(2) Difficult to procure externally

・Money cannot but (Only way is to make one yourself.)

・Time consuming to make

→Hard to copy

(3) Simultaneous multiple usage is possible. (characteristics of “information”)

・Usage does not wear it out.

⇒Because of the three characteristics in the above, the “invisible asset” can be the “source of competitive advantages.”

4.3 Organizational Capabilities

▼Fujimoto, Takahiro (2003), *Capability Building Competition*, Chuokoron Shinsha

4.3.1 What Are Organizational Capabilities?

Pattern of combination and application of resources embodied in an organization (bundle of routines)

■Characteristics of Organizational Capabilities

(1) Attribute peculiar to each corporation

(2) System of behavior or knowledge possessed by the entire organization

(3) Hard to be imitated by competitive firms

(4) Necessary to build in a step-by-step fashion

4.3.2 Layered Structure of Organizational Capabilities

■Example: Toyota’s Organizational Capabilities

▼Fujimoto, Takahiro (1997). *Evolution Theory of Production System*, Yuhikaku Publishing

(1) Static Capabilities

・Organizational routines that comprise Toyota-style system

-Kanban system, TQC, continual improvement movement

-Purchasing control by the long-term dealing and multiphase ability rating

-Personnel control in the form of fostering multiskilled workers

-Swift product development by the front-loading of the problem solving

(2) Improvement Capabilities (Routine-type innovative capabilities)

・Problem-solving capabilities of the entire organization

- Nearly one million suggestions for improvement per annum
- Problem-finding mechanism to necessitate on-site problems to come to the surface
- Thorough education of all employees regarding the standardized problem-solving methods

(3) Evolutionary Capabilities (Capabilities to innovate routines)

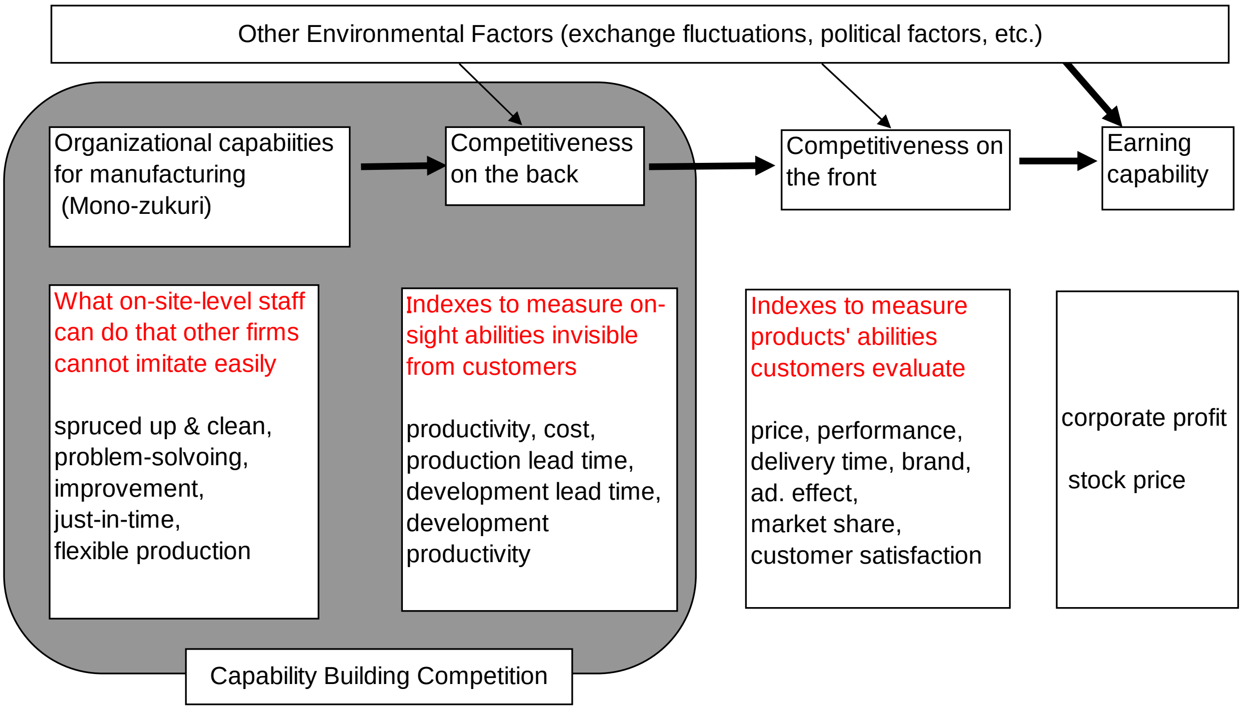
・Routine-type static capabilities, non-routine-type innovative capabilities that facilitate improvement capabilities

-To embody what one learns from both failures and successes

4.3.3 Organizational Capability and Competitiveness

▼Fujimoto, Takahiro (2003). *Capability Building Competition*, Chuokoron Shinsha

■Organizational Capabilities and Performances of Manufacturing (Mono-zukuri)



Source: Fujimoto, Takahiro (2003), *Capability Building Competition*, Chuokoroan Shinsha; Diagram 2-3 touched up by Writer

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