

## COMPETITIVE ADVANTAGE IN THE ENTERPRISE PERFORMANCE

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**Abstract:** *Rapid changes in market characteristics and the technological innovations are common and faster challenges, resulting in products, processes and technologies. The competitive advantage is volatile, difficult to obtain and more difficult to maintain and strengthened with consumers who through their individual choices polarization confirms the recognition performance and award competitive advantages, thus causing the competitive ranking of companies present in a particular market. The competitive advantage lies in the focus of the performance of companies in competitive markets and innovation is a source for obtaining and consolidating it. Companies will need to demonstrate the capacity to adapt to changes in the business environment so as to maintain the held positions. This paper treats this aspect behavior that companies should adopt to get on the account of innovation a sustainable competitive advantage. I started of the work in the elaboration from the theory of developed by Michael Porter in his book "Competitive Advantage: Creating and Sustaining Superior Performance" we applied methods listed thus trying to point out possible ways of creating competitive advantage by companies. We have presented the sources of competitive advantage and the factors on which depends its creation. Walking theoretical research revealed how lack of competitive advantage leads to a lack of competitiveness of companies and the benefits that arise with the creation of this type of asset. Among the most important benefits is to increase performances. Once the competitive advantage is achieved, it must be maintained and updated market conditions and the methods that can be created a sustainable competitive advantage represent the answers to many of the companies questions are fighting for survival in an environment of fierce competition. The implementation of methods for obtaining competitive advantages, but also exist dangers, that every company should know them once they develop a strategy for obtaining a competitive advantage. The purpose of this paper is to present the importance of having competitive advantage; the ways in which it ppoate obtain and hazards that may arise with its implementation by companies.*

**Key words:** competitive advantage; companies; competition; strategies

**JEL classification:** A1, D6

### 1. Introduction

The concept of competitive advantage in the literature has been introduced by M. Porter in an attempt to identify objectives. In his book "Competitive Advantage: Creating and Sustaining Superior Performance," Porter says the goal of all businesses is getting a competitive advantage in relations with competitors on the market. This advantage can be achieved by two ways, ie selling products at a lower price, or their differentiation (M.Porter 1985). The advantages gained by companies from the use of these two methods can lead to the determination of its position in the card industry in competes. Also after acquiring a competitive advantage, the company's profits will be higher than average profits of competitors. In order to hold a competitive edge for a long time, the company must capitalize the available resources to it and this topic has to be one that we will analyze. A special attention shall be granted to the influence of the advantage over

companies. "Superiority is on how customers perceive as customers using the company can progress the idea of competitive advantage should be analyzed from their perspective". ( Bamberger 1989)

## **2. The sources of competitive advantage**

To highlight the sources of competitive advantage of a company must know the factors on which depends its creation. The most important are the internal, ie those in the "inside" of the company, such as structure, resources, capabilities and competencies of the organization. An effective organizational structure will facilitate communication between departments, thereby increasing work efficiency. A part of the internal characteristics of the organization that are essential in creating competitive advantage are: physical resources, financial, human and organizational assets that are used for its development and performance. Physical resources include assets used in business operations and organizational resources are given by the history, relationships and organizational culture. Sustainability of competitive advantage depends on the following characteristics: durability, transferability and replicability. Sustainability assumes time period in which held competitive advantage, portability: the more the resource is less transferable by both will be greater the competitive advantage sustainability and replicability of the latter, which means unable to be copied (Sadler, 2003). Just holding the necessary resources to create the competitive advantage is not enough, they should be exploited, so the company must have the ability to sell them, and create new ones. We can say about a company that has a competitive advantage when in its implementation creates a valuable addition (Clulow, 2003). The companies that use their internal capabilities to neutralize potential threats and avoid weaknesses have the chance to develop a competitive advantage.

## **3. Strategies to create a competitive advantage**

In specialized literature, besides the variants for obtaining a competitive advantage presented by M. Porter, namely the low cost and differentiation also meet proposed variants by Carlos Johnson in 2003 and in 2010, acquiring the companies of the company's flexibility and sensitivity customer reaction. According to Porter, if a company's earnings is higher than the costs, it has a competitive advantage. "Competitive advantage is given to the company's ability to increase its earnings despite the competitive pressure" (M. Porter). Through strategies to create a competitive advantage for a company we understand those activities that add value to the company. Main activities such as: accounting, marketing, product development. In terms of human capital as being important we can refer the following departments: human resources management, procurement. For bringing a default value and create a competitive advantage of the organization of these functions must all linked and that they need to use their resources in an efficient way to satisfy the demands of consumers. An important role is given to the company's flexibility is its ability to adapt to market changes. The SWOT analysis of the company plays an important role in observing and creating competitive advantage."Firms that use their internal strenghts in exploiting envirnomental opportunities and neutralizing environmental threats, while avoidind internal weakness, are more likely to gain competitive advantages than other kinds of firms" (Jay B. Barney).

### **3.1. Low Cost Strategy**

Companies using this strategy, aim to practice the lowest costs in the industry. In theory, if the sale price may equal the average market prices, having the lowest cost of production, the company will even find highest profits. Practicing with the lowest prices on the market requires investment in different departments of the company. There is a difference between the strategy based on low costs and one based on the optimal costs.

In adopting the strategy based on low costs, companies will compete in prices. The strategy based on the optimal cost will consider getting the best quality products at a relatively low price. The acquisition of high capacity production equipment, with which the company will produce a greater amount of material is essential and can be considered a barrier to market entry of many companies, because it represents a substantial investment. The next step would be the actual manufacture of the product, which must be executed by specialized personnel trained in the field to have fewer rejects. Must be carrying out an analysis of operating costs and identifying cost the categories with a higher share. Distribution channels must also be more efficient and take into account the characteristics of the products, for example, if the product is fragile it must be handled with care during transport of the products must be well calculated to occur fewer unpredictable situations, such as immobilization product for a longer period of time because instead of air travel, a ground transportation by the choice of company. An example of the application of this method is the Renault company. "In 2013 the Renault profit has increased by 59% due to increased sales of low-cost Dacia models. Overall a profit before taxes and exceptional items increased in 2013 to € 1.24 billion surpassing analysts' estimates of 1.06 billion euros. Revenues increased 0.5% last year to 40.9 billion euros. (Bloomberg.com). During the crisis, Renault has decided to reduce its production costs with Dacia brand cars, it has a noticeable reduction in the final price of the car. A first drawback of this method would be eroding revenues as a result of price reduction and is not compensated by increased sales volume and decrease of the profit which may arise. The methods used in diminurea costs can easily be addressed and competitors. Another trap for the companies using this method is the appearance of ignoring customer's interest, with the company's focus solely on cost reductions.

### **3.2. The products differentiation strategy**

It is the strategy that can be used in those market segments where consumer needs are not met, where there is competition, and the price is not the main feature of choosing products. The differentiation is on the company's ability to provide products that are distinct from those of their competitors. It can be called as positional advantage after its adopting would result the company's position in the industry. Companies that are able to create a competitive advantage based on differentiation requires investment in research product development, sales team is able to communicate with the products strengths. An important role in the process of differentiation is innovation, and product quality. Company's reputation in terms of quality of products is it essential, and it can not be created than using technologies in production and of course respecting environmental standards. It is very important that the product are not imitable, to be rare and valuable, non-substitutable and is specifically to the company. A study carried out by those from Global Direct in 2010, states that two-thirds of the 1,000 companies have increased spending on research development after the recession. Once implemented, the strategy based on product differentiation will be considered an entry barrier to potential competitors and that due to building a brand, getting the customers loyalty and brand association that certain features of products offered such as: quality and utility. A company can not implement multiple strategies of the competitive advantage (eg cost and differentiation) at the same time, because each of them requires special attention during the implementation and fixing the second main objective of the strategy will decrease the efficiency of the organizational processes Porter (1980). There are few cases where companies was located in an advantageous position due to rarity or because of their resources to benefit both cost-based competitive advantage and one based on product differentiation. Some authors argue that the competitive advantage based on product differentiation leads to greater financial performance of the company than the one cost-based (Caves Ghemawat 1992, Wong, 1998). One of the companies that have approached this method is Appleby

creating unique and attractive products for consumers. Its success lies in ensuring customer loyalty through innovative advertising campaigns, retail strategy used by Apple is called "Minimum advertised price" (MAP). This is a price policy which prohibits sellers or dealers charging a lower price than that imposed by Apple. There are only two super supermarkets reselling Apple products where they offer a minimum discount and the final price paid by buyers will be close to that suggested by the manufacturer. A 30% the annual marketing budget is spent in order to communicate the strategy of differentiation, ie unique products, creating a strong brand and loyal customers. In implementing the method of differentiation existing hazards also:

- adoption of a premium price that the buyer would see as too high;
- failures in signaling value of the product to the customer (marketing errors).

#### **4. The focus or market segmentation**

This method of obtaining a competitive advantage complements the one of the above, that cost or differentiation. When a company uses the method of obtaining a competitive advantage differentiation, "differentiation focus" will be used to refer to a narrow market segment receiving personalized unique products. Regarding the offered quantities they are much smaller. Customers have needs and demands of these markets different from those whom it is addressed the main products of the company and therefore the prices will be higher and the quantity produced will be much lower. And in this market segment companies will seek to practice the lowest prices, and provide the best quality. The companies that will benefit by using this method will be those capable of producing large quantities of customized products. We have to consider that we are talking about a niche of consumers and quantities will be considerably lower than those of the masses market. Another case in which companies will benefit by using this strategy is that competitors do not have the technology to manufacture or creation of products for this market. And in this narrow market segment can be created barriers to entry, but companies will be able to create shall be those who already possess some advantages such as a known brand, appropriate marketing processes, advanced production equipment, or the small target that market segment where consumers are not vulnerable to substitute products and the competition is weak. The disadvantages of using this kind of trading strategy are:

- preferences of the people within the niche in terms of product attributes translates to the majority of buyers in the sector - the segment becomes part of the overall market;
- the segment becomes so attractive that will attract a large number of competitors, causing dispersion of total profit.

#### **5. Outsourcing the competitive advantage**

The reasons why majority of companies choose to outsource some of the ways to obtain a competitive advantage are usually financial ones. Outsourcing certain activities will allow the company to focus on flexibility, development and quality. Indeed, the specialists outside the firm can perform certain activities better or cheaper. If once the outsourcing process has made by a differentiation of products or services when competitive advantage is lost. Therefore companies before outsource activities should keep aware of the benefits of outsourcing and by added value brought products or services. Outsourcing works best when it facilitates access to the adoption of new technologies and reduce spending takes place. Accelerate the decision making is with outsourcing and coordination costs are reduced, which will allow the company to focus on main activities.

## 6. Sustainability of the competitive advantage

To qualify for the competitive advantages created as much time, companies must consider the following main characteristics of it: durability, transferability and replicability. Sustainability is the date time in which the benefits will be used effectively created, transferability is the date their property to be used only by the company that created them and the replicability meaning unable to be copied by competitors. Replicability occurs when competitors are able to create identical copies of products / services offered by the company, giving consumers a lower price. These three characteristics have an influence on the competitive position of the company. Because of their companies produce changes in the market positions. The company's ability to estimate the gains which it will get from exploiting its resources is an important factor in creating sustainability. Long-term competitive advantage owned by a company that is subjected to depreciation and its ability to imitate rivals. The speed with which they will depreciate however depends on the characteristics of company resources and capacity competition. The company's potential is less subject to impairment than its resources as performing companies are able to maintain it by replacing some resources even the staff. The company's ability to maintain competitive advantages obtained depends on the speed with which competitors will outperform and speed to which they fail to get the responses you want from these problems. First one is the finding out the competitive advantages of the company in the cause and how were these achieved? The second issue by resources and potential of the company, how could accumulate resources the company competitors to imitate its successful strategy? To imitate competitors want to know what skills are determined the competitive advantage of the company's success, then they will have to determine their replication resources is often necessary. Obtaining a competitive potential by coordinating a large number of resources is more difficult to understand and imitated by competitors, than one that relies solely on a single holding resources. The competitors will not be able to copy resources to obtain the competitive advantage of companies whose market position is well established and older. In retail, the competitive advantages that are obtained by the practice by some players in overtime or electronic outlets the opening can be easily copied by competitors. Is harder to copy specificities of companies from organizational routines. For example, Google's ability to motivate employees and Silcotub Tenaris ability to work iron, representing the companies' routines based organizational culture. Some abilities seem simple however are difficult to copy. The benefits of customer service offered by Xerox are a skill that is not located in a specific department, however is present throughout the company part of the organizational culture. Creating sustainable competitive advantages can derive from the sale of intangible goods owned by the company such as patents, copyrights, brands but the knowledge gained of certain employees. It is risky for a company to depend on the skills of certain employees because eventually they will be able to negotiate added value contribution to the company. The degree of control exercised by the company and the balance between it and the individual employee depends on the relationship between individual skills and organizational culture. For example, the ability of drug companies to use their recent studies on the production of nutritional supplements as a competitive advantage. This is due to the research team that was used as a corporate asset and not just some enlightened minds of some individuals. If the individual's contribution to company productivity is identified, and it offers a productivity skills similar to other companies when it is in position to negotiate the contribution. But as it is less identifiable the individual contribution and skills as it is used in specific operations of the company with both the added value will be higher.

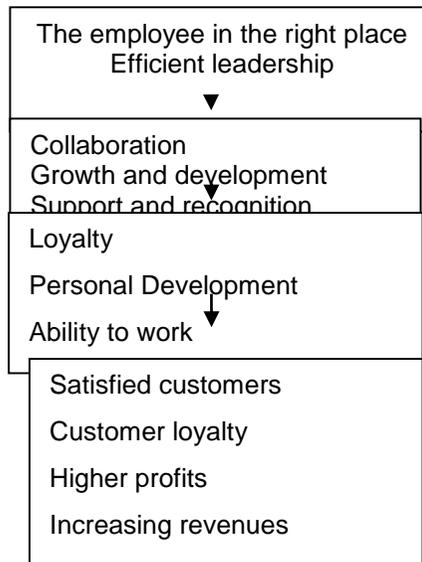
## **7. Employee engagement: the key to realizing competitive advantage**

Along with EU accession there has been a migration of highly skilled labor to countries in Europe. Thus the Romanian population has decreased in the last decade to nearly 3 million. In June 2012, of those 20 000 licensees working abroad, over 3,500 they were the IT industry. (Insse.ro) Exodus IT engineers to more developed countries, where their intelligence is better rewarded many signs of sneezing questions from IT companies from Romania. They realized the benefits of IT engineers once were benefiting from tax refund companies gone from abroad here we refer to both European companies and to those in India or China. It has become necessary to create the means for obtaining competitive advantages. In 2003 The Brookings Institute studied the main sources of market value and changes in the time. They concluded that in the year 1982 62% of the market value of a company is owed 38% of the tangible and intangible goods. Tangible goods including: machinery, products; and intangibles include intellectual property, brand, and quality workforce. In 2002, the market value occurred in 80% of the intangible goods and 20% of the tangible goods. With the development of technology has become easier to copy products, processes, quality and talent instead of a company are impossible to copy. Using human capital as a source of competitive advantage has led to the development of various programs that are stimulated and motivated employees at their workplace. The challenge of this type of program is to create situations whose purpose is win-win for both employees and the company. We have to realize that a workforce is involved; this can lead to superior financial performance of the company. The companies whose employees are "engaged" topped by up to 202% the performance of companies whose employees aren't, according to a survey conducted by Gallup in 2009. "The performance engagement of employees involved in employee programs increasing it by 20% and the chances that they leave the company is less than 87%." (Nancy R, 2007). A study conducted by Hewitt Research has shown that the involvement of the employees in companies is 60-70% the total of shareholder is 24%. At the level of involvement of the employees is between 40 and 60% total of shareholder return is 9.1%. Also in cases where the employees are involved is less than 25% total of shareholder return is negative. This means that the level of involvement of employees in the company is in close contact with their welfare.

Necessary elements for getting this type of engagement are: confidence, basic meeting the needs and dialogue with staff. The first element, trust is the most important because a company managers and executives must fulfill promises at any hierarchical level. The second element, the satisfaction of basic needs is the compensation and benefits that must exist in every competitive organization. The third element of the dialogue with staff should contain the following question: Why remain employees in the company? In dialogue with employees must discuss the reasons behind this choice. As an example we can take the company Endava, an IT company. Endava delivers business solutions and IT services particularly for large organizations from areas such as banking, insurance, electronic payments, retail, telecommunications, media and publishing. Endava is specialized in the delivery of Software Development, Digital Media, Software Testing, Application Management Software, Cloud Services and currently has over 800 employees nationwide and over the next three years is expected to reach 1,000. Endava Romania has received the funding from the state budget and the total value of the investment project is 20.7 million and includes activities to achieve custom software 'Regional Development Endava 1000+'. The project is implemented in Bucharest, Iasi and Cluj, and the company has made the creation of 500 jobs. The amount of state aid is 9.5 million.

Employee Engagement Program is implemented talent management team being present in each of the company's locations in Cluj, Iasi and Bucharest. Creative team of this program has 17 members which deal with training and mentoring new employees and their main purpose is to create an open organizational environment in which all employees are involved. Endava in 2013, it was the top IT companies in the country, namely the 3rd.

Due to lack of motivation and appreciation more and more IT engineers preferred to leave the company. In 2008 the company's turnover was Euro 3 million, Euro 4 million in 2010 and 2012, reaching a turnover of 50 million Euro. Endava used involving human capital as a source of competitive advantage, in addition to jobs created annually, the company develops and various employee engagement programs that are designed to integrate, develop, and defaults of employees, following the application of these programs as they may be most efficient and increasing the company's financial performance. The following scheme represents the steps to achieving the company's performance using the competitive advantage employee engagement programs.



**Figure nr.1:** Employee engagement factors

Source: Development Dimensions International 2009.

### Conclusions

The competitive advantage can be created by simply preserving and identifying specific opportunities and threats the company. The creation it depends on the uniqueness of each company's resources and capacity to exploit them. Is necessary to study the trends in the business sector, not just observing them. Factors that may lead to a competitive advantage can be both external and internal. The sources of creating competitive advantage are not necessary to be independent however for creating a sustainable competitive advantage they need to work together. However, the success factors of obtaining a competitive advantage lie within the company and among them we can mention elaboration of a functional management plan, capitalizing intangible assets. We can say that of the company resources and capabilities are essential to formulate strategy to obtain a competitive advantage, they can be considered and the main sources of income of the company.

### **Acknowledgment**

This paper has been financially supported within the project entitled „**SOCERT. Knowledge society, dynamism through research**“, contract number POSDRU/159/1.5/S/132406. This project is co-financed by European Social Fund through Sectoral Operational Programme for Human Resources Development 2007-2013. **Investing in people!**

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