

The Growing Importance of Changing Nature of Competition

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ABSTRACT

In this paper, an in depth theoretical overview on the central question in business strategy is provided: Why some firms outperform others? The latest approaches to the concept of competitive advantage were examined. Recent researches show that sustainable competitive advantage is becoming rarer, and that the duration of competitive advantage decreases (Wiggins and Ruefli, 2002). Sirmon, et. al. (2010) point out that competitive advantage is de facto unsustainable and that each advantage of the firm is reduced, as a result of dynamic interactions with competitors. Thus, the paper gives detailed explanation of how and why new perspectives work to unlock the potential for competitiveness. In other words, the purpose of this paper is to examine the theoretical background and insights of behaviour of the firms and the ways of sustaining competitive advantage in the context of hypercompetition, by examining the modes in which firms successfully compete, evolve and survive in times when specific advantages are not sustainable, but of more temporary nature. This extant literature review shows that still and all we face a knowledge gap in realizing the big picture of competitive advantage.

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1. INTRODUCTION

In the last two decades, process of globalization, flourishing of capitalism, privatization and deregulation, as well as the wave of technological innovations led to a significant restructuring of the economy. These trends will continue to change the way the business is done in the 21st century, given that their impact is already enormous. Many argue that the age of fast growing competition, or hypercompetition, is result of these trends. A large increase in competition among firms characterizes the new era of competition, resulting in a short time of idea development and even shorter time to make decisions. Above all, the speed at which data, information and knowledge circulate among competitors has reached unimagined levels. Firms able to respond quickly to market demands strengthen their market power and generate advantages; but those that can be even faster, will generate even greater market power and advantage over its competitors. However, there is no guarantee that competitive advantage achieved today will remain unchanged in the long run.

Furthermore, competitive dynamics is becoming more emphasized in many industries, even in those that were, until recently, considered relatively stable. There is the presence of hypercompetitive shift in various industries that are visible through the rapid increase of competitive activity, greater variability

in industry profitability, as well as severe changes in market shares (Ferrier et al., 1999, Thomas, 1996; Thomas and D'Aveni, 2009; Wiggins and Ruefli, 2005). Recent studies showed that sustainable competitive advantage is becoming rarer and that its duration is reduced (Wiggins and Ruefli, 2002). Other researchers suggest more anecdotal and rigorous empirical evidence of concatenation of temporary advantages (D'Aveni, 1994).

Thus, the purpose of this paper is to examine the theoretical background and insights of behavior of the firms and the ways of sustaining competitive advantage in the context of hypercompetition, by examining the modes in which firms successfully compete, evolve and survive in times when specific advantages are not sustainable, but of more temporary nature. Such conditions occur when moves and actions of firms are fast and frequent, as well as the competitors' reaction, or when frequent internal and external capabilities destroy disturbances and discontinuities and thus preventing the sustainability of competitive advantage.

2. THE CHANGES IN BUSINESS ENVIRONMENT

Speed is priority in today's business world. Firms are able to react on moves of competitors more and more quickly, managers have less time to make decisions, while understanding moves of competitors and their activities is becoming increasingly difficult. In addition, the time lag between appearance of a new product on the market and appearance of his imitation is getting shorter, resulting in less opportunities for making extra profits. In fact, studies have shown that the earnings of new products have declined significantly due to the accelerated appearance of imitations on the market, while a newly established monopolies survive an average of 3 or 4 years compared to the previous 33 years. There is a general trend of shorter product life cycle, along with increasing competition which leads to price wars and a general decline in prices, with the exception of luxury products. Although price wars, as a rule, harm the entire industry regardless of who wins, they are becoming a common phenomenon because of the ease of its implementation in the fight with rivals.

In an attempt to restore the competitive vitality, the firm is trying to get in shape. It must be ready to respond quickly and be invisible in situations where the surprise and the first move is what it takes to succeed. If the firm is unable to defeat their competitors directly, then it must find a way to indirectly, in cooperation with other firms, improve its own competitive position. Going deeper into the analysis of the competitive environment, what concerns most managers, and occurs as a result of intense competition, is the fact that the success achieved today, does not necessarily means success tomorrow.

An environment where the advantages are created fast, but also deteriorating fast, is called **hypercompetition** (D'Aveni, 1994). It is characterized by intense competition and rapid moves, where firms must develop strengths quickly, and destroy or compromise the competitors' advantages. Its

appearance is the result of more rapid and intense technological change, caused by the technological development and innovation of firms, but also the distribution and availability of firms' resources.

The principal consequence of hypercompetition is the temporary nature of competitive advantage. Temporary competitive advantage is created as a result of a rapid technological change, globalization, industry convergence, aggressive behavior, competition, deregulation, privatization and the growth of new Asian markets, as well as the pressure of short-term incentives for middle management to achieve results etc. Advantages of firm become more and more temporary in nature, since various disorders can be found in environment, while strokes and activities of competitors are increasing. Regulation of competitive behavior might be partly ensured through appropriate development of the institutional context and effective institutions that regulate competition by preventing secret agreements and other noncompetitive practices. The development of an institutional framework affects the gain of competitive dynamics, namely the competitive interactions among firms to enhance the hypercompetitive environment (Hermelo and Vassolo, 2010).

Hypercompetition and competitive dynamics are the basis for understanding of how the dynamics and intensity of competitive business environment lead to a temporary competitive advantage. Theoretical approach to competitive dynamics shows that the ratio of corporate strategy and business success depends mainly on the strategic behavior of the enterprises, but also the behavior of its competitors and their interaction (Grimm et al., 2005). The theory is focused and related to specific actions taken by the firm and the ways in which competitors respond to these actions. Chen, Smith and Grimm (1992) show that firms achieve competitive advantage through actions or stream of actions, and that the speed of competitors' response depends primarily on the characteristics of specific actions. In the analysis of the features of firm actions, it is important to consider the action volume (Ferrier et al., 1999), the action speed (Yu and Canella, 2007), but also the buffered industry environment (Ferrier, 2001; Derfus et al., 2008).

Researchers of these disciplines have often explored new conditions brought by the emergence of hypercompetition and ever more severe, almost impossible to maintain, competitive advantages over competitors. However, very few researches have examined how the firm should decide, react and prosper in that environment. Thomas and D'Aveni, (2009) in a longitudinal study on reducing the business performance in the conditions of hypercompetition in the U.S. manufacturing industries, show that firms should try to maintain a competitive advantage by finding and citing a series of temporary advantages, which require taking a number of competitive actions in a certain time period, thereby ensuring the growth of business performance. Other studies focus on the impact of certain characteristics of competitive actions that firms make in the performance of the enterprise (Ferrier, 2001), and the impact of Top Management Team (TMT) and its motivation to take actions (Ferrier, 1999). The

motivation of managers to take action is manifested by the initiative of members of top management team in formulating strategy. Entrepreneurial behavior of top management is associated with innovation in various business segments, where innovation enables the firm to adapt effectively to the changing environment in which the firm exists.

Sustainability of competitive advantage depends primarily on the industrial context in which the firm operates and the nature and possible sources of advantage (McNamara et al., 2003; Thomas and D'Aveni, 2004; Wiggins and Ruefli, 2005).

Further on, there is an extensive research related to analysis of achieving or maintaining outstanding business performance of enterprises in hypercompetitive industries (Chen and MacMillan, 1992; Miller and Chen, 1994; Grimm et al., 2005; Ferrier et al., 1999; Chen et al., 2010, Chen et al., 2010).

Because of the dynamic nature of environment, long-term strategic positioning is not possible, as firms must continually assess their actions and change their strategy once they identify which moves or actions lead to the best results. Principles by which the firm can try to deal with unsustainable advantages can be defined by attempts to introduce new advantages before the competitors do, by taking unpredictable and aggressive actions, and by being constantly up-to-date. There are various studies on the macro-assumptions of temporary advantages at the industry level (D'Aveni, 1994; Warring, 1996; Eisenhardt and Brown, 1998; Ferrier et al., 1999; Wiggins and Ruefli, 2002, 2005; Thomas and D'Aveni, 2009). The fact that hypercompetition leads or does not lead to time compression depends on moderated factors such as: leaders' market value of the competitive advantage, effectiveness of the initiated strategy and intensity of industrial hypercompetition.

Fig. 1 shows the importance of action properties and corresponding responses by competitors, such as the range of actions, speed of response to the action, aggressiveness in taking action, integration of behavior of TMT - Top Management Team, but also the environmental context where these characteristics appear.

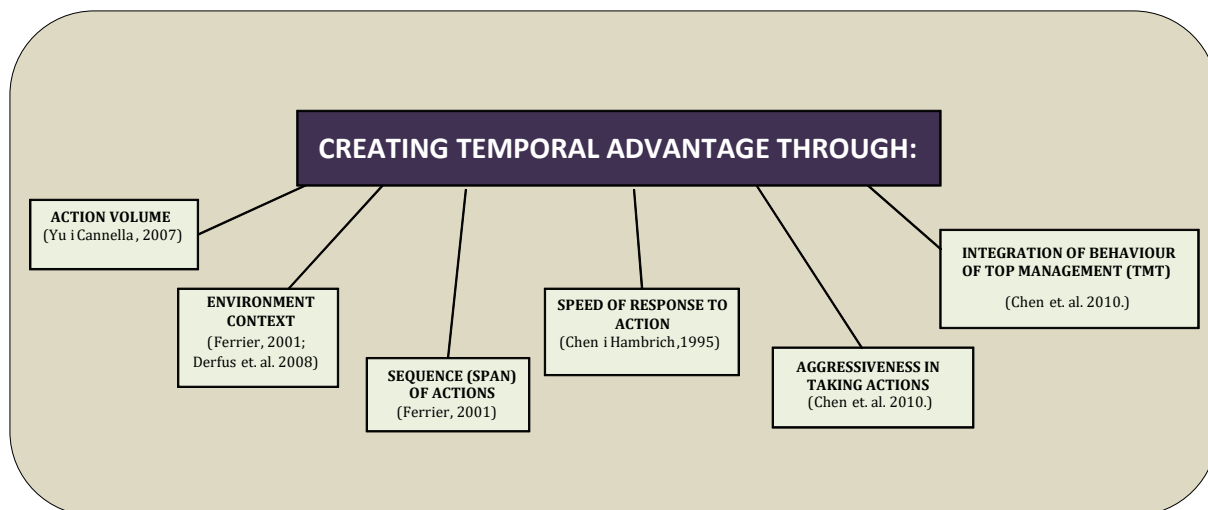


Figure 1: Characteristics of the firms' action that create competitive advantage

Source: Author

Strategic behavior in hypercompetitive industry requires an active presence in the market and aggressiveness of a firm to take action. Such corporate behavior is necessary, but not sufficient. Certain actions may lead to succeeding temporary advantages, while others actions do not have to succeed. The firm will achieve greater success for a longer period of time if there are opportunities to attain sequence of advantages (MacMillan, 1989), but it should bear in mind that the improved performance is not a result of achieving a sustainable advantage, but just a series of temporary advantages. Aggressiveness in taking action reflects on how the firm participates with its competitors in hypercompetitive environment. It is believed that firm has a high level of aggressiveness if, within a short period of time, it takes a large number of actions. Studies show that firms that yield a higher number of actions than its competitors in a year generate greater profits (Young et al., 1996), but also a bigger market share (Ferrier et al., 1999).

Firms' competitive attack is defined by taking numerous competitive actions, which are often opposed by answers of one or more competitors (Ferrier, 2001). Taking strategic action can be seen as an externally focused, specific and visible competitive move initiated by the firm in order to improve its competitive position (Ferrier et al., 1999; Smith et al., 1991; Young et al., 1996).

On the other hand, Pacheco de Almeida (2010) suggests the possibility that, in some cases, there is absence of maintaining the leader position for firms that are leaders in the industry when operating in conditions of hypercompetition. Stated is further explained by the fact that, in hypercompetition, competitive advantages quickly become obsolete, which promotes faster development of new types of advantages from those leaders (D'Aveni, 1994). On the other hand, hypercompetition distorts the expected returns generated by the new advantages, which reduces incentives for leaders to accelerate investment, since faster investment increases costs. Therefore, leaders in hypercompetitive industries

may sometimes prefer a slower recovery of competitive advantage, and thus consciously increase the possibility of self-displacement. Concept of self-displacement represents an explanation of why industry leaders sometimes fail to maintain a leading position in the industry. It differs from previous theories about the phenomenon of leadership displacement that indicates that leaders lose their position because they are not able to respond to the threat of competition or simply are not aware that they exist (Hannan and Freeman 1984, Christensen, 1997). Results of Pacheco de Almeida (2010) research show just the opposite: that leaders are certainly aware and able to respond to the threat of competitors, but sometimes there is a lack of economic incentives for retention (Pacheco de Almeida, 2010).

3. THE CONSEQUENCES OF RISING COMPETITION

The increase in the intensity of competition changes business practices and has several important consequences. The most important consequence is that the way in which firms create advantages must be reviewed and redefined. The traditional model emphasizes sustainable development and long-term competitive advantages competitors can not overcome. However, in today's competitive environment, most of advantages will be neutralized and overcome eventually.

D'Aveni argues that the attempt to build a sustainable advantage in the intense competition is impossible, and thus leads to irrational use of scarce resources so necessary in today's environment (D'Aveni 1994). Also, he believes that in an environment where every advantage is quickly neutralized, any attempt to maintain the existing advantages leads to obstruction of the development of new ones. Furthermore, not taking into account the dynamic environment of competition nor the constant appearance of new competitors is main problem of traditional strategic models and gaining competitive advantages. They usually assume that firms and the environment in which they operate are simple and clear, with the recognized specific causes and effects. However, today's environment is far from stable and predictable.

Gary Hamel and C. K. Prahalad claim that traditional models do not show actual strategic actions (Hamel and Prahalad, 1989). Porter on the other hand highlights the need for more dynamic strategic models that connect actions and reactions of the firms (Porter, 1994). Firm's actions itself have key impact on the structure and development of the industry over time (Porter and Rivkin, 2000).

Particularly, markets are in constant interaction and imbalance, while strategic decisions determine only partly firm's results (Miller, 1990). In such an environment, results of the firm arise from its interactions with other firms, and strategic decision-makers play an important role in the development of the overall competitive environment. It is important to point out that sustainability of competitive advantage has not been assumed, exactly the opposite; competitive advantage and success will lead to the reaction of competitors and imitation, ultimately leading to the disappearance of competitive advantage.

Very few researches have examined the way in which the firm should decide, react and improve in hypercompetitive environment. Researchers in this discipline analyze the volatility and the dynamics of the business environment that leads to a temporary advantage (D'Aveni, 1994). Competitive advantage is evanescent, where every advantage that a firm creates decreases over time as a result of reaction of competitors. The above mentioned embodies a key premise of competitive dynamics.

There are many causes of increasing temporal nature of competitive advantages, such as technological change, globalization, industry convergence, aggressive behavior, competition, deregulation, privatization, the growth markets of China and India, the pressure of short-term incentives for middle management to achieve results, etc. However, the actual reasons of appearances and purposes of temporary competitive advantage, including the increased uncertainty of return, have not yet been proven nor explored.

Given that the structure of the industry is slowly changing, competitive advantages derived from the positioning within the industry are relatively stable (Porter, 1980). Resource theory especially analyzes the resources and capabilities that a firm possesses, and assumes that firms can achieve sustainable competitive advantage if they possess unique, valuable, and difficult-to-imitate resources for a certain period of time (Barney, 1991). On the contrary, in the presence of hypercompetition, the dynamic perspective, i.e. types of advantages that are of temporary nature, has replaced traditional and constant sources of competitive advantage. Some studies say that the factors that contribute to the hypercompetition include lowering the entry barriers through a global competition, and provide opportunities for enhanced methods of information spreading, which allow rapid imitation (Bettis and Hitt, 1995). Moreover, some researches have shown that in conditions of hypercompetition, it is not possible to retain outstanding financial performance (Thomas and D'Aveni, 2009).

When tracing endogenous antecedent of temporary competitive advantage, it could be identified the range or the extent to which the firm subjects its decisions, competitive actions and behaviours to its strengths, in which is motivated such behavior. While, in the identification of exogenous antecedents of temporary competitive advantage, one should certainly consider industry structure and industry boundaries, as well as the way in which convergence, i.e. convergence of industry and competitive business models in these industries, support the erosion of advantages, specifically how and why different industrial structure contribute to the erosion speed (D 'Aveni et al., 2010).

Identical institutional and macroeconomic conditions have different effects on the advantage sustainability, depending on the industry, which means that sustainable competitive advantage is not as feasible in all the industries. Various concepts such as "hyperturbulency" in the industrial environment

(McCann and Selsky, 1984), or "highly variable" environment with rapid changes in technology (Eisenhardt, 1989), as well as increased globalization (Bettis and Hitt, 1995; Hitt et al., 1998), assume the achievement of sustainable competitive advantage questionable. Chen, et al. (2010) define the intensity of hypercompetitive environment through the degree of variability in the basic areas using consumer demands and production methods in the industry in which the firm operates. With a variety of conditions that exist in each hypercompetitive industry, such as the competitors' level of aggressiveness, their ability to predict actions, the speed of technological change and the importance of technological characteristics, it is assumed that firms follow different strategic patterns to maintain or achieve a competitive advantage.

In order to survive in an environment of unsustainable advantages, firms must be prepared to often undertake a large number of actions (MacMillan, 1989). Moreover, it is very important for firms to have an effective and efficient organizational structure in order to cope with such high level of activity in the market. A top management team decides on the direction of business development, identifies business opportunities, coordinates activities and mobilizes resources of a firm in order to take advantage of such opportunities, which results in motivation for aggressive competitive engagement (Hambrick et al., 1996; Baron, 2007; Ozgen and Baron, 2007).

The most important characteristics of competitive advantage in hypercompetition are aggressiveness in taking actions and integration of top management behavior (Chen et al., 2010). Firm's competitive behavior is determined by the TMT behavior and with an emphasis on socio-behavioral integration, which is to the degree to which members perform together (Smith et al., 1994; Simsek et al., 2005). The focus is on being prepared to take an action, i.e. the extent to which the firm is willing to participate with competitors and act quickly in the involvement and participation. The dynamics of top management is a very important component of the ability of the competitive behavior of firms (Chen et al., 2007). The assumption of being more dynamic in market and collaborative with competitors is the integration of top management of the firm that depends primarily on compatible traits and members' communication skills (Lin and Shih, 2008).

Market and technological changeovers require fast adaptation of capabilities and routines of a firm, so that it could respond to the demands of the market and/or new technologies. Organizational change is ultimately necessary, but the strategic decision-makers and initiators of changes in the firm are often not able to transform the old routines and capabilities of enterprises, since they themselves are strongly influenced by the old skills, habits, models, routines and information (Henderson and Clark, 1990). Managers can identify and use opportunities that result in a competitive advantage, but to preserve acquired positions and build a long-term sustainable competitive advantage (through entrepreneurial

behavior), it is necessary to strategically manage the resources and capabilities of a firm (Ireland et al., 2003).

Achieving competitive advantage in hypercompetitive industry largely depends on the internal context of a firm. Principles by which the firm can try to deal with unsustainable advantages can be defined by attempts to be the first in achieving a new advantage, by taking unforeseen competitive actions and by constantly monitoring competitors' moves. Hypercompetition refers to the degree of uncertainty and insecurity that causes a deficiency in the necessary information to identify and understand the causal connection (Sirmon et al., 2007). Information deficit results in different levels of awareness about the scope and pace of changes among the participants in the industry, and omissions that often create opportunities for strategic actions, which could significantly pay off in the future. Firms that take action in order to ensure series of temporary advantages have the ability to succeed with a high rate of success as well (MacMillan, 1989; D'Aveni, 1994). However, readiness, more exact the firm's ability to promptly react to competitors' responses, largely depends on the characteristics of the firm such as its size and reputation and industry affiliation.

4. CONCLUSION

To conclude, dramatic changes caused by globalization, deregulation and technological advance have redefined the nature of the business by increasing competition where every successful innovation, every well played market move leads to creative reaction of competitors, and in a situation where the stakes are too high, firms are sometimes willing to resort to illegal actions (eg. Espionage) in order to protect their own interests.

Because of that, firms should try to achieve a series of temporary advantages, instead of maintaining old ones. In an environment like hypercompetition, firms, especially those considered to be market leaders, are under constant threat of competitors who are able to react almost immediately to firm's action. In such environment sustainable advantage is quite questionable since competitors have opportunity to overcome firm's advantage through technology, data analysis, reverse engineering, etc. But what is more important, achieving competitive advantage depends a lot on firm's capability to respond on a new market demands before its competitors.

Furthermore, as highlighted in the previous paragraphs, firm must be prepared to take a number of actions, i.e. it must be active participant on the market, which primarily depends on the TMT who should mobilize resources effectively, identify business opportunities and be able to throw away old habits and routines and enhance new knowledge in order to achieve competitive advantage.

Finally, the result of the hypercompetition is a significant increase in the speed of competitive response, the rise of competitive actions and falling prices. It is expected that these trends will continue in the future, and those firms prepared to respond to market demands, as opposed to those focusing on planning and forecasting, will successfully face an uncertain future.

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