



Competitive Strategy and Firm Performance: A Review of Literature

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ABSTRACT

Firms in the manufacturing sectors are facing the most inevitable challenge to decide whether products to make through internal effort, or solicit from outside independent suppliers with a high degree of economies-of-scale to enhance efficiency and productivity. Efficiency and productivity thru reducing costs, maintain high quality, flexibility, improved delivery dependability, and prompt quick response enable a manufacturing firm to achieve competitiveness and performance. To achieve competitive advantage previous researches used two typologies: cost-leadership strategy and differentiation strategy. Align with the previous researches this study has reviewed previous literature on cost-leadership strategy and differentiation strategy to achieve firm performance. Based on the Resource Based View (RBV) this study has developed a conceptual framework to enhance manufacturing firm performance through competitive strategy.

Keywords: Competitive Strategy, cost leadership, differentiation, firm performance, manufacturing firms.

1. INTRODUCTION

In this globalization era the world has become extremely connected as one globe and people from all over the world have developed strong interdependent relationships at all phases of their lives. Consumers from other parts of the world, in fact, have financially benefited from continuous escalation on volume of products of lower prices imported from developing countries. The increasing pressures and fickle consumers and the uncertain environment is making more firms to recognize the strategic role in the rapid change of uncertain business environment.

To deal with this uncertain business environment it is a prime question that has dominated much of strategic management researches to determine the actual factors of better performance. Previous scholars had considered several factors as determinants of firm performance. In this study thus, we have reviewed the

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previous studies of cost leadership strategy and differentiation strategy and their linkage with firm performance in manufacturing firms.

The manufacturing sector is the backbone of Bangladesh to generate foreign currency and rapid economic development. Especially in the garments manufacturing sectors, more than four million workers and another 15 million depend indirectly on the industry (Bangladesh Bureau of Statistics, 2013; Euromonitor, 2014). In order to attract customers from the globe, manufacturer in Bangladesh have to be more strategic and practical to produce product ever than before and delivery on time to compete in world market.

2. LITERATURE REVIEW

2.1 Competitive Strategy

Competitive strategy represents that firm's business strategy orientation toward external environmental conditions that include competitors and customers (Abdullah *et al.* 2009; Dadzie, Winston & Dadzie, 2012; Hitt, Ireland & Hoskisson, 2015). Business-level strategies especially competitive strategy is significant in explaining variations in firm profitability and long-term performance (Beard & Dess, 1981; Teeratansirikool *et al.*, 2013; Kang *et al.*, 2012). According to Porter (1980) generic strategies should enable firms to compete competitively in any given industry. To be successful, a firm must decide how to position itself in a competitive market. The three generic strategies are determined by two factors, identified as competitive advantage and competitive scope.

Porter (1980) developed a construct related to the characteristics of strategic priorities so that firms can face the competition more effectively. He reasoned that there are two ways for a firm to maintain a competitive edge: producing the lowest-cost products or offering the lowest-priced services (the low cost strategy) or tailoring its products to meet the specific needs of its customers in terms of quality, characteristics, and the related product differentiation strategy.

2.2 Cost Leadership Strategy

Cost leadership is one of the Porter generic strategies that firms pursue does not directly affect firm performance, it does so indirectly and significantly by having the lowest cost in the industry and allow firms to remain competitive (Anon, 1988; Espino-Rodríguez & Lai, 2014; Hilman & Abidin, 2012). Firms following a cost leadership strategy try to obtain the lowest costs in their production, offer good prices, and obtain profits (Dadzie *et al.*, 2012; Hitt *et al.*, 2011; Porter, 1985).

2.3 Differentiation Strategy

A differentiation strategy is an integrated set of actions taken to produce goods or services (at acceptable cost) that customers perceive as being different in ways that are important to them (Porter, 1980). Prior researchers have refined and conceptualized the differentiation strategy across several dimensions, including product differentiation, marketing differentiation, quality differentiation, service differentiation and innovation differentiation strategies. A firm may fail or stuck in the middle in selecting the most appropriate generic strategy (Porter, 1980). To avoid such inconsistency of the generic strategy, a firm can consider to mix, hybrid, or combine these generic strategies base on the firm resources, capabilities and strategic choices (Acquaah&Yasai-Ardekani, 2008; Espino-Rodríguez & Lai, 2014, Hilman&Warokka, 2011; Spanos et al., 2004). Number of studies have investigated the effects of sourcing strategy on organizational performance and emphasized on make or buy of sourcing (Espino-Rodríguez & Lai, 2014; Hilman& Mohamed, 2011; Lamminmaki, 2011).

2.4 Firm Performance

Firm performance is defined as outcome of the combination of the strategies and capabilities and their deployment to achieve specific goals. Deployment and implement of the firms' strategy and capability and measuring their outcome depends on the industry where a firms operates. Typically, firms gauge organizational performance using financial and non- financial outcomes related to certain aspects of the quality and operations they employ (Lee et al., 2015).

2.5 Resource Based View and Competitive Strategy

RBV emerged as an alternative approach to conceptualizing industrial organizations and their competitive strategies. This view represents a paradigm shift in strategy literature by redirecting focus from the external environment of firms to the inner resources that firms develop to compete in that environment. The development of this perspective drew heavily on Penrose's (1959) theory of firm growth and incorporates three research streams-mainstream strategy, organizational economics and industrial organization analysis (Mahoney & Pandian, 1992). According to RBV, firms are viewed as collection of various types of resources and capabilities; such as, internal factors that are semi-permanently linked to the organization, and these resources and capabilities are suggested as forming the basis of a firm's superior performance and competitive advantage (Barney, 1991; Wernerfelt, 1984).

3. Conceptual Framework

The relationship between firms' strategy and performance has been a major area of interest in strategic management research, and the RBV (Barney, 1991; Peteraf, 1993; Wernerfelt, 1984) has become a predominant theoretical framework. RBV allows conceptualizing the organization resource such as manufacturing capability and process capability (Hitt et al., 2015). So that manufacturing firm, by allowing focuss on the quality and type of various resources and capabilities possessed by the providers that may be useful to their clients. RBV also helps to understand how firm may develop their valuable resources and capabilities for current and future sources of competitive advantage

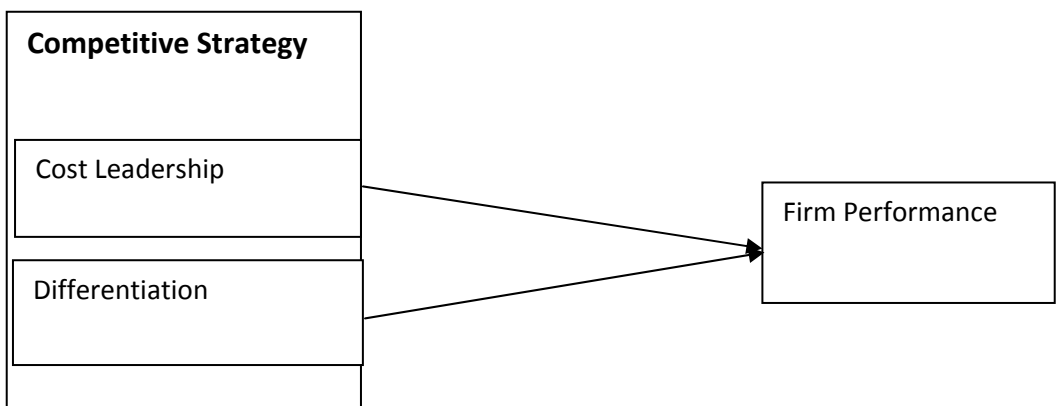


Figure 1: Conceptual Framework of the Study

4. DISCUSSION AND CONCLUSION

The corresponding goal of this study was to address the quotation on how manufacturing firm can achieve better performance. To fill the gap of time until today, this paper conducts a thorough overview and confirms that especially in developing country like Bangladesh suggest prevailing and high-performing strategic choices in the ever-increasing body of empirical evidence. Various approaches and multiple strategies can deal with the competitive environment and contribute to achieve desired objectives of the firm. As an integrated approach of this context, competitive strategy, sourcing strategy, and relationship quality ensure firms to adapt in a competitive environment and help to enhance firm performance.

This study has conceptualized the competitive strategy to as a determinants of firm performance of manufacturing firms in Bangladesh. Based on the RBV a firm have to advance in capability (tangible or intangible) implement strategy in

order to enhance better performance. This study focused only competitive strategy, therefore, future study can consider the capabilities such as manufacturing capability and/or process capability along with the competitive strategy to enhance manufacturing firm performance.

Till today most of the researches empirically have investigated competitive strategy and firm performance in manufacturing sector in developed world. In Bangladesh empirical studies are limited to garments manufacturing industry. Therefore, future study can empirically analyze the relationship of competitive strategy and firm performance of the manufacturing sector regardless of the specific industry.

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