International Journal of Economics, Commerce and Management
United Kingdom Vol. IV, Issue 9, September 2016
http://ijecm.co.uk/ ISSN 2348 0386

LONG LIVE THE COMPETITIVE STRATEGY

Brian Pratistha

Ph.D Student of Doctoral Program in Business Management, Univeritas Padjadjaran, Indonesia
and Planning Staff at National Institute of Aeronautics and Space, Indonesia
pratistha_brian@yahoo.co.id

Abstract

Competitive strategy is a very important to a company as with its exact application, a company will be able to compete in this very tight era. This article investigates the relevance of the implementation of competitive strategy in companies. A review of literature shows that there are conflicting theories between Porter's and McGrath's. This article consists of three parts, the first is introduction, the second is the development of the theory of competitive strategy and the argument that competitive strategy is not relevant anymore, and the third is the conclusions. Based on the literature review, the answer built that the competitive strategy play critical role in space technology user companies in Indonesia.

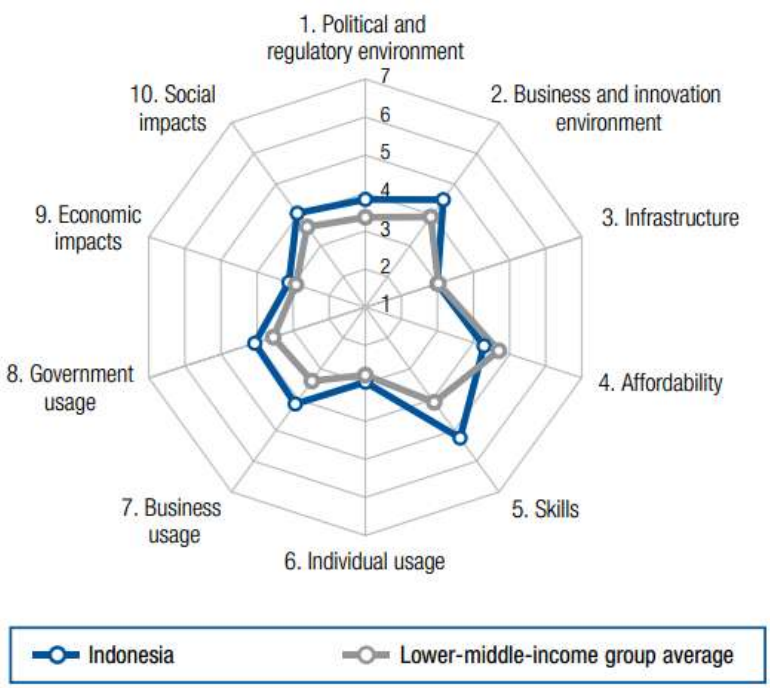
Keywords: Competitive Strategy, Strategy Implementation, Conflicting Theory, Critical Role, Organizational Success

INTRODUCTION

Competition has always been central to the agenda of companies (Porter, 2008). Thus the company's management activities will be very affected by its industrial and company environments. This management activity creates a difference towards a company from its competitors (Williams, et al, 2006), moreover it could orient itself towards the efficiency of doing business (Christmann, 2010; Weber, 2008). In today's business environment, a new competitive landscape has evolved-the technological revolution and increasing globalization present major challenges to the ability of organisations to maintain their competitiveness (Mohamed, et al, 2010). Technology and globalization can help the company to formulate the competitive strategy.

The strategic development for space technology in Indonesia is very unsupported. This is based on The Global Information Technology Year 2015 report that stated Indonesia is on the 54th position from 143 countries under the business wellbeing environment category (see Figure 1). The economy, social, politic, and environment factors can be important variables in order for a company to formulate its strategy. Other than that, the dynamics of the strategic environment also needs a strategic control so the company will be much proactive towards reading the variables that influence the company in producing and running its strategies.

Figure 1: The Description of Business Environment in Indonesia



Source: The Global Information Technology Report 2015

Yet, its wellbeing that has been drawn is just an additional data and could not prevent the openness of businesses era that is happening in Indonesia. Other countries are not free to do trading transactions, especially ASEAN with its ASEAN Economic Community (AEC) policy. This era is as if creating countries having no boundaries and protection policy towards its local businesses, which got reduced. This is no exception towards the space technology.

This article will give a comprehensive description of the relevance of competitive strategy in space technology user companies. To provide a foundation for the analysis, this article proposes the theory from Porter, McGrath, and Agostini to give a dynamic for the theory of competitive strategy.

THE THEORY OF COMPETITIVE STRATEGY: PROS AND CONS

Fundamentally, every activity taken by the company management can very much be positive towards the industrial condition or its own company. The management activity stated here is selecting strategies. Mason (1939) and Bain (1956) wrote about strategy (in this case, competitive strategy). Hannan and Freeman (1977) took account their view by inserting the environment roles (population ecology and natural selection) as the determinant to explain strategy. Then, Porter continuously from 1980, 1985, 1990, and 1991 perfected the strategy theory becoming competitive strategy with its principal dimensions are differentiation, low cost, and focus. Before Porter, Miles and Snow (1978) also developed competitive strategy theory, which stated there are four principal dimensions: *prospector, defender, analyzer,* and *reactor*. Miles and Snow's theory was the most used as guidance in competitive strategy theory. Yet in this research will only explain up to Porter's competitive strategy theory relevancy, excluding Miles and Snow's.

Competitive strategy is a very important to a company as with its exact application, it will be able to compete in this very tight era. According to Widokarti (2013), competitive strategy is a choice of an organization to be able to compete. Competitive strategy is very close to the environment and affects the business performance, as stated in Kim and Lim's (1988) theory. The essence of competitive strategy can be seen as a process of a company building and developing its various strategic resources that has potential to produce excellence in competing, excellence could also have dual meaning – on one side as an instrument to create performance, on the other hand as an instrument to neutralize assets and competitive competence preserved by competitor (Siti, 2009). According Olson and Slater (2002), competitive strategy is related to the manager's choice in producing a market to serve and how business can create further values for consumers compared to competitors. The competitive strategy according to Miles and Snow (1978) has four strategies, they are:

1) Prospectors, which are for companies that prioritize innovation and creativity to create new products or markets. This strategy has been applied by companies tho have high competence employees.
2) Defenders, this strategy was for companies that want stability as the main strategy. The company also has a character of strong desire to protect its main business without many changes need to be done.
3) Analyzers, companies that have applied strategies between prospectors and analyzers are companies that are not courageous towards innovation as there are worries of bringing huge risk to the organization. Yet this company is still one who keeps creating excellences in its market serving.

4) Reactors, the company has a character of bring oppressed by its environment, as it has lack of attention towards the environment and competitive system changes. This company will emphasize on efficiency by suppressing its costs.

Subsequently, Michael Porter (1980) summaries competitive strategy to three big parts, they are:

1) Cost Leadership, which the strategy emphasize efforts on every business unit to suppress its production and distribution cost to its minimum, so that the price can be lower than competitors thus bigger opportunity to receive customers. This strategy involves tight internal cost control, efficient economy scale, and fewer activities on advertising and customer service. According to Wijbenga and Witteloostuijn (2007), the cost leadership can be measured by the usage of central cost, standard cost, minimization on advertisements, discounts policy, additional actions, average cost, and average spending on *Research and Development.* Meanwhile Daly, et al (2013) has six indicators that explains cost leadership, they are: production cost efficiency, ways on suppressing cost, efficient operational, optimizing selling capacity, competitive price offering, and general control on cost. Widokarti (2013) explains that to apply Cost Leadership in a company has to take account of:
   a. Every policy decision by management has to be based on the effort to minimize cost, therefore efficiency in all sectors of the organization/company has to be applied.
   b. Finding ways to suppress cost by re-reading previous experiences.
   c. Accelerate cost spending and control *overhead cost*.
   d. Minimize cost in every company activity that relates to the company's value chain, such as Research and Development (R&D), service, sales, and promotions.
2) Differentiation Strategy, where the business unit works harder to reach optimal performance in the effort to give the biggest benefit for the customers. In this case, the business unit has to give a product or service that can be categorized unique by their customers. Such as development towards product design, technology, mode feature, customer service, or network. This can be reached through strong market efforts, product engineering, creativity and building reputation in quality or technology leadership. Miller (1988) explained that in its application, differentiation strategy needs high quality resources and skills. According to Daly, et al (2013) there is six indicators that explain differentiation strategy, which are: new product or existing product development, the level of introducing new product to the market, emphasizing on offered new products, advertisement and marketing intensity, emphasizing on selling effort development, and emphasizing on a strong brand development. Meanwhile, Widokarti (2013) also has his six indicators that explain differentiation, which are: prestige and brand image, technology, innovation, feature, customer service, and dealer. Porter

(1980) explained that to do a cost leadership and differentiation could push companies to reach benefits in certain positions.

3) Focus Strategy, is a business unit strategy that focused on itself towards one or several narrow market segments rather than bigger market. Widokarti (2013) explained that companies with focus strategy can only serve specific market niche, and the company can have a low cost base focus or differentiation. Here, it is summarized the company that applies this will combine competitive strategy, which is usually a mix of focus competitive strategy with differentiation or cost leadership. Widokarti (2013) also stated companies who apply focus strategy will positioned itself in a smaller market segment. Porter (1991) argued that focus strategy could be measured with a few indicators, such as: fulfilling customers' special needs and specific services offered to customers.

Porter (1980) comprehended that competitive strategy that has been applied by a company is a company's effort to reach competitive advantage. This was disagreed by Rita Gunther McGrath (2015). In her book, *The End of Competitive Advantage*, Rita stresses that the competitive advantage is no longer relevant today. She explained that companies are better focused towards their short-term missions. This is seen relevant as Porter's theory on competitive advantage – that focuses on *sustainable competitive advantage* – will always clash with the dynamic condition of the environment which influence the company's performance. Besides that, competitors and customers are unpredictable, thus competitive advantage run by companies only last under a year. This condition then encourages new initiative strategy.

Porter's theory on competitive strategy also disagreed by Agostini, et al (2016) and also stands differently from McGrath (2015). Agostini, et al (2016) argues that interaction strategy between competitors is a perfect legitimating so that competitive strategy is getting less relevant.

As referred from the website scholar.google.co.id on May 19th, 2016, Porter's theory on competitive strategy has been discussed in 2080 journal since the beginning of 2016. Meanwhile the theory explained by Mc Grathon the end of competitive advantage has been discussed by 25 journals from the same period. While, Agostini, et al theory has been discussed in 54 journals also from the same period.

CONCLUSIONS

Based on the literature review that have been done above and its empirical data result, this research is still standing on Porter's view of competitive strategy significance. Theories that disagree with it are still seen irrelevant to be implemented in Indonesia, especially for space technology user companies. Empirical data shows that both ASEAN Economy Community era and globalization have created difficulties for Agostini, et al and Rita Gunther McGrath theories to be applied. Business competition that occurs in one country involves many companies from other countries. This is also added by a number of joint ventures policies that do not desire any protection policy for native companies, which creates the possibility of “local businesses” getting more profit compared to other countries’ companies.

ACKNOWLEDGMENT

I gratefully acknowledge the helpful comments of Ina Primiana, Umi Kaltum, Erie Febrian, and the doctoral students in the business management at Universitas Padjadjaran.

REFERENCES

Agostini, C.A., Saavedra, E.H., and Willington, C. M.. (2016). Price Differentiation Between On-Net And Off-Net Calls: An Application To The Chilean Telephony Market. School of Government, Universidad Adolfo Ibáñez.

Bain J. (1956). Barriers to New Competition. Harvard University Press: Cambridge, MA.

Christmann P. (2000).Effects of “Best Practices” of Environmental Management On Cost Advantage: The Role Of Complementary Assets. Academy of Management Journal 43: 663- 680.

Hannan MT, Freeman J. (1977). The population ecology of organizations. American Journal of Sociology March: 929–964.

Kim, L., and Lim, Y, (1988). Environment, Generic Strategies, and Performance in a Rapidly Developing Location : A Taxonomic Approach. Academy of Management Journal 31 (4), 802-827.

Mason E. (1939). Price And Production Policies Of Largescale Enterprises. American Economic Review 29: 61–74.

Mc Grath, Rita Gunther. (2015). *The End of Competitive Advantage.*

Mc Williams A, Siegel DS, Wright PM. (2006). Corporate social responsibility: strategic implications. Journal of Management Studies 43: 1-18.

Miles, R.E. and Snow, C.C. (1978). Organizational Strategy, Structure and Process. McGraw-Hill, New York, NY.

Miller, D. (1988). *The Relationship of Porter's Business Strategies to Environment and Structure*. *Academy of Management Journal*, 31(2), 280-308.

Mohamed R, Wee Shu Hui, Ibrahim Kamal Abdul Rahman, Rozainun Abdul Aziz. (2010).The Relationship Between Strategic Performance Measurement Systems And Organisational Competitive Advantage. Asia-Pacific Management Accounting Journal, Volume 5 Issue 1, 1-20.

Nur Barokah, Siti. (2009). Studi Tentang Faktor-Faktor Yang Mempengaruhi Kualitas Strategi Bersaing Untuk Meningkatkan Kinerja Perusahaan Pada Kukm Pengrajin Kulit di Manding – Bantul. Universitas Diponegoro.

Olson, E. M., and Slater, S. F.. (2002). The Balanced Scorecard, Competitive Strategy, And Performance. Indiana University Kelley School of Business.

Porter, M.E. (1980). Competitive Strategy. The Free Press, New York, NY.

Porter M. (1985). Competitive Advantage: Creating and Sustaining Superior Performance. Free Press: New York.

Porter, M. (1990). The Competitive Advantage of Nation. New York: The Free Press.

Porter, M. (1991). What is Strategy?. Harvard Business Review, Product Number 4134

Porter, Michael E. (2008). Competitive Strategy: Techniques for Analyzing Industries and Competitors.

Rustamblin, Daly, Thoyib, Armanu,. and Zain, Djumilah. (2013). Pengaruh Strategi Generik terhadap Kinerja Perusahaan (Studi pada Bank Umum). Universitas Brawijaya Malang.

Weber M. (2008).The Business Case For Corporate Social Responsibility: A Company-Level Measurement Approach for CSR. European Management Journal 26: 247-261.

Widokarti, Joko Rizkie. (2013). Analisis Implementasi Konsep Penekanan Strategik dan Strategi Bersaing Pada Universitas "XYZ". Universitas Terbuka Batam.

Wijbenga and Witteloostuijn. (2007). Entrepreneurial Locus Of Control And Competitive Strategies – The Moderating Effect Of Environmental Dynamism. Journal of Economic Psychology.