

## Chapter 64

# Sustainable Competitive Advantage in Turbulent Business Environments Using Critical Organizational Capabilities and Resources to Manage Complexity

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### ABSTRACT

*In today's turbulent economic conditions, some organizations are able to sustain their competitive positioning while others, with similar capital and technological resources, seem to struggle to survive. In addition, more and more firms seem to adopt strategies that focus primarily on their internal strengths, capabilities, and competencies, while others seem to depend more on external forces to shape their strategies, such as competition, economies of scale, and technological demands. In this chapter, the author argues that in unstable business environments the integration of internal and external perspectives of strategy formulation is necessary for a firm to sustain advantages for long. The proposed model presents four stages of corporate strategy development: Scouting, Maintenance, Dominance, and Appraisal. The chapter utilizes the concepts of Critical Success Factors (CSFs) and Critical Resources (CRs), describes its applicability by using two cases of companies that adopted similar long-run strategies, and finally offers implications for strategic management and planning practitioners.*

### INTRODUCTION

Traditional strategic management theory and research have emphasized the importance of matching a firm's internal resources and capabilities with the opportunities and risks found in the external environment (Liu, 2013; Grant, 1996; Hofer & Schendel, 1978; Glueck, 1980; David, 2005; Johnson et al., 2005). This dominant paradigm of competitive strategy has evolved from the industrial organization

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(IO) or industrial economics approach which argues that the external environment (i.e., the industry's structure) guides a firm's strategy for competitive advantage and that the main purpose of the firm is to identify innovative ways to defeat competition (Bain, 1956; Schumpeter, 1950). Extensions of the IO paradigm are Porter's well-known theory of competitive advantage and the PIMS marketing initiative (Buzzel & Gale, 1987; Porter, 1980; Porter, 1981 & 1985; Knott, 2003).

However, recent research in strategic management emphasizes the emergence of a new paradigm of the strategy formulation process: the *resource-based approach* (Liu, 2013; Grant, 1996; Wernerfelt, 1984; Wernerfelt, 1989; Barney, 1991; Aacker, 1989; Grant, 1991; Priem & Butler, 2001). The resource-based theory of the firm proposes that a successful competitive strategy is one that places more emphasis on the firm's internal resources and capabilities and thus develops strategic plans based on such capabilities rather than primarily focusing at the competitive environment (Barney, 1991).

Proponents of the resource-based model have questioned the effectiveness of the IO model of strategy formulation for its simplified and unrealistic assumptions regarding the homogeneity of firms within an industry and the perfect mobility of a firm's resources (Grant, 1996; Barney, 1991; Grant, 1991; Lado et al., 1992). In brief, the resource-based view argues that the best way to build the foundations of sustainable competitive advantage is *from the inside*, i.e., by exploiting the organization's resources, unique attributes and distinctive competencies. In contrast, the IO model which has emerged from the field of microeconomics suggests that the conditions, constraints, and attributes of the external environment should be the basis for a firm's strategy formulation.

The proponents of both approaches have strong arguments regarding "where the strategy analysis should start, why, and how," but it seems that a more pragmatic answer to that question comes from the integration of the two ways of thinking (Hrebiniak & Joyce, 1984). Furthermore, although the two perspectives have their own examples and "success stories" to demonstrate the validity of each approach, their differences regarding the effectiveness of each model have, for the most part, remained theoretical.

This paper argues that an integration of both the IO and the resource-based models of strategy formulation process is more likely to benefit an organization's strive for competitive advantage rather than a choice between one or the other. In other words, this paper proposes that simultaneous emphasis on both external forces and internal resources and capabilities would provide a firm with the knowledge necessary to survive and compete successfully in the long-run. In addition, this paper emphasizes the role of firm *alliances* (e.g., information-based partnerships) and *outsourcing* (e.g., renting information processing services from outside technology vendors) as another way to generate sustainable competitive advantage in today's rapidly changing business environment. Similar integrative perspectives that emphasize the combination of external and internal information-seeking activities for strategy development have appeared elsewhere in the strategic management literature (Grant & King, 1982; Hrebiniak & Snow, 1982; Hansen & Wernerfelt, 1989; Pollalis & Grant, 1994; Amit & Schoemaker, 1993; Hax & Majluf, 1991; Hofer & Schendel, 1978; Hrebiniak & Joyce, 1984; Itami, 1987).

## **BUILDING A NEW MODEL FOR STRATEGIC ADVANTAGE**

The success stories of American companies such as 3M and Motorola, and Japanese companies such as Honda and Matsushita make it easy to identify many of the activities suggested by an integrative model: their strategic advantages are based on important organizational resources (e.g., organizational culture, motivation, capacity for innovation); their management's ability to identify opportunities and threats in

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