Chapter 8
Competitive Advantage

ABSTRACT

If a small business is going to survive it must be competitive. Internally, efficient operations will contribute to lower costs. A positive environment will allow employees to gain and apply the necessary skills. Management knowledge of information systems will provide leadership. Externally, the establishment of knowledge acquisition networks will facilitate the novel use of information systems. This chapter discusses how a strategy which integrates all of the small business resources, especially those related to information systems, will improve performance. An overall customer orientation applying internal resources and accessing external knowledge will contribute to competitive advantage.

INTRODUCTION

Competitive advantage for a small business involves operating more efficiently and offering different products or services than competitors. A more efficient operation will result on lower costs and thus an advantage may be gained by establishing a lower market price. The advantage gained by offering different products or services must also take into account the needs of customers. That is, being different is not enough. There still must be a demand for the product or service.

A small business does not necessarily have to grow to attain competitive advantage. Indeed, just survival will suffice. In either case competent management is imperative. This relates to knowledgeable senior management and a positive learning environment for employees. The Theory of Constraints suggests that increased sales volume in conjunction with lower expenses will contribute to competitive advantage.

DOI: 10.4018/978-1-4666-8708-0.ch008

Information systems may be employed to contribute to the establishment of competitive advantage. The innovative adoption of technologies will support this initiative. Another theoretical perspective has been employed in this instance. The Resource-based View Theory, as presented in a previous chapter suggests the small business should employ its resources in a unique way from competitors.

This chapter is organized as follows. To begin, the term “competitive advantage” is described. Advantage may be gained through differentiation from competitors by having lower costs or different products or services that respond to a demand in the market. Next, competent management is presented as a factor contributing to competitive advantage. This factor involves knowledge of senior management and their ability to establish and maintain external networks. Then the Theory of Constraints suggests improved performance will result from increased sales and lower operating expenses. Three related issues are then presented which may contribute to competitive advantage. “Coopetition” is a term used to describe the conundrum of small businesses which are simultaneously cooperating and competing. The result is an increased market. “Family Capital” is another term which suggests the unique characteristics of a family business may contribute to competitive advantage. The last term is “luck”. Here it is important to have a stimulating and open small business environment. Thus, when a situation arises which may be attributed to luck the small business will be in a position to take advantage. Finally, the Resource-based View theory provides the context for analyzing the unique information systems characteristics of small business which may contribute to competitive advantage. These characteristics include information systems infrastructure and information systems skills along with management knowledge and an integrated strategy to use information systems to facilitate competitive advantage.

INFORMATION SYSTEMS AND COMPETITIVE ADVANTAGE

A competitive advantage is gained when a small business, relative to other small businesses, becomes more efficient or acquires increased bargaining power over it competition. Researchers have investigated how information technology can contribute to competitive advantage (Bakos & Treacy, 1986).

Porter (1985 and 1998) suggested that competitive advantage may be achieved through a strategy of having lower costs or being different than other small businesses. Lower costs mean the small business is relatively more efficient than competitors and thus is better able to produce quality goods and/or services at prices which prevail in the market. A differentiation strategy means the small business can produce goods and services which are unique or superior resulting in the ability to charge a premium price creating higher profits.

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