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Is business strategy from a positioning and resource-based perspective relevant for national institutions?

Prof. A.J. Smit
Graduate School of Business Leadership,
University of South Africa

Abstract

To ascertain whether business strategy is relevant for national institutions a distinction is made between private businesses and institutions as "social business units" of a country. In "social businesses" as well as in private businesses, efficiency is the desired outcome. However, in private businesses it is about sustainable competitive advantage while in institutions it is about policies to resolve the socio and economic problems that a country faces in order to increase welfare of society as a whole. The conclusion is that business strategy form the positioning and resource-based perspectives, does not apply to social businesses such as national institutions.

Keywords:

Introduction

To ascertain whether business strategy is relevant at an institutional level, one need to distinguish between private businesses and social businesses. The Nobel Laurent, Mohammed Yunus (2010), defines private business as a business that maximises market share (extract excess rent form markets) for a firm's stakeholders. He calls these kinds of businesses, businesses that are all about "me". Their focus is not on the welfare of the society but on its own stakeholders. This does not imply that a firm is not socially responsible. Social responsibility, however, is not the main purpose of a firm. In contrast, he views social businesses as nothing to do about "me" - but all about others in order to create a better world for all their purposes is to be socially responsible. Based on this point of view, institutions are viewed as social businesses whose main aim is to increase the welfare of the society and to distribute the increased welfare in such a way as to create a more equitable society whereas private business is about creating and sustaining competitive advantage to increase the welfare of its stakeholders.

In business, SWOT analysis is widely used to analyse competitive advantage of firms and was first introduced by in 1967 (Andrews, 1967). Since then, up until 1997, a number of new theories emerged to explain sustainable competitive advantage in business. Porter (1980) was first to introduce a theory to provide a deeper understanding SWOT analysis. He introduced the concept of strategic positioning to explain the competitive advantage of firms by focusing on the opportunities and threats (OT) in the environment.

In 1984 management theorists shifted to efficiency based perspectives of the firm. The focus here was on the strengths and weaknesses (SW) side of SWOT analysis to explain efficiency advantages of the firm (Wernerfelt, 1984; Teece, 1986, 1988; Dierickx and Cool, 1989). The question then is; if institutions are "social business units" of a country, is business strategy from a positioning or efficiency based perspective relevant for national institutions?

Corporate strategy

In private business, corporate strategy defines the scope of the firm both nationally and internationally. It is about the choices a firm must make to create value through configurations and coordination of all its multimarket activities (Piskorski, 2005). These include; in which

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product markets it should play the game, in which industries to operate in, the extent of horizontal and vertical integration and what is core and non-core business.

Value is created if the presence of the firm in a given market improves the sustainable competitive advantage of other business units relative to when they are on their own. Furthermore, the firm has to determine whether ownership of any of its businesses produces a greater sustainable advantage than what any other kind of arrangement would produce (Piskorski, 2005). Because a country is not a company (Krugman, 1994) there are no choices with regard to scope of a country because the scope is the entire country. Secondly, a country does not compete in world markets because it is not a business (Krugman, 1994, Smit, 2010) therefore the scope is not relevant for institutions.

At a country level, governments devise policies to resolve the socio and economic problems that a country faces in order to increase welfare. Thus, one can conclude that at an institutional level corporate strategy is not applicable.

Business strategy: positioning school

The positioning school is based industrial organisation theory (IO) which is primarily interested in assessing how well an economy functions and finding ways to improve its performance though efficient markets. One of the most widely accepted paradigms of IO to appraise economic performance stems from the interactions of how market structure determines business conduct which results in firm performance and the social and economic implications thereof (Bain, 1959). In the Bain (Bain, 1959) type industrial organisation, firms use their monopoly power to collude with other firms to extract monopoly rents from markets at the expense of consumers. Thus, the Bain view concentrates on the “negative” implications of monopoly power of firms on industry structure and the social implications thereof.

Porter (1980) first noticed the profit-generating implications of the structure-conduct-performance paradigm as a tool to help firms increase their market power. In effect Porter (1980) actually used the structure conduct performance paradigm to understand the competitive rules of the in an industry in order to determine how firms should position themselves to extract rent from markets. Therefore, how firms can achieve or gain market power, which is exactly the opposite of what the paradigm was intended for in economic literature (Rumelt, Schendel and Teece, 1991).

The rent-generating implications for a firm’s conduct stem from a sophisticated understanding of industry structure and a strategy that aligns a firm’s conduct to the industry structure Therefore, according to Porter (1980), in order to understand the competitive success of firms, one needs a theory or strategy that fits environmental circumstances and firm behaviour.

Porter (1980) decomposes the ability of a firm to extract rent from markets into two attributes: the industry and the positioning effects. The industry effect is in line with the IO view of market power and monopoly rents, which define industry dynamics and is also called industry attractiveness. Thus, the industry effect explains the sustainability of rent against incumbent firms (Porter, 1999). The positioning effect on the other hand explains the strategic position a firm takes relative to competitors by either being a lower cost producer or being able to differentiate its products or services (Porter, 1999).

At the business unit level, businesses must not only align their business strategies with the overall corporate strategy, but they also must devise brilliant business strategies to increase their performance over time. On the one side, they do this by taking up competitive product market positions, as explained by the positioning school (Porter, 1980), that will extract above normal profits from markets.

National institutions, on the other hand, are the “social business units” of a country that must ensure the national goals are achieved in order to resolve the socio and

economic challenges of a country. They do not take up competitive product market positions to extract above normal profits from markets. In such "social businesses", efficiency is the desired outcome but not competitive product market positions to sustain competitive advantage. Therefore, strategy from a positioning school perspective is not applicable at the institutional level.

Due to the complexity of the business environment, one cannot use industry structure as the sole determinant of economic rent. Complexity allows firms latitude for choice of behaviour resulting from their different perceptions of the operative structural differences in an industry. Thus, the essence of strategy is choice (Porter, 1996, 1999).

The choices that a firm faces are divided into competing at lower cost than competitors, or the ability to differentiate and command a higher price to cover the extra cost of differentiation (Porter 1980). Therefore, the complexity of industry structure allows many competitive positions involving choices about the type of advantages sought by firms and the scope of those advantages (Porter, 1994, 1999). To understand firm-specific sources of competitive advantage one has focus on efficiency advantages.

Although Porter (1985) realised that efficiency advantages are important his focus remained on positioning as a means to create sustainable competitive advantage in product markets. The efficiency approaches, however, shifted the focus away from product markets towards understanding resources within the firm.

Business strategy: efficiency based approaches

At the heart of the efficiency-based approaches lies the basic principle of what economics is all about, namely scarcity and choice. If the essence of strategy is choice (Porter, 1999), and choice is the value of the best alternative foregone, then by definition the essence of strategy must be opportunity cost. However, opportunity cost can only exist within the resource constraint of scarcity and the complexity of the business environment, which allow latitude for choice of behaviour. For every choice that is made an opportunity cost is incurred due to the resource constraint. It is this understanding of the resource constraint that determines choice and opportunity cost and not the other way around. The resource constraint of a firm resides in its internal resources (Wernerfelt, 1984, 1995), strategic assets (Dierickx and Cool, 1989), and past commitments (Ghemawat, 1991). The strategic choices, which are many due to the complexity of the environment, are bound by these constraints. Thus, according to the efficiency-based approaches, resources ultimately, should determine sustainable competitive advantage.

Whereas most resources that a firm needs to implement its product market strategies must be acquired, at some point in history, from its business environment (Barney, 2002), it is how these resources are utilised within the firm that ultimately determines its sustainable competitive advantage. Resources obtained from the external environment are for most part tradable in factor markets. Dierickx and Cool (1989) argue that it is the non-tradable resources of a firm that are the true firm specific sources of competitive advantage.

External factor markets deal with country resources as a source of competitive advantage of firms (Smit, 2010), while internal strategic factor markets deal with firm specific resources as a source of competitive advantage (Smit, 2010). The efficiency-based approaches focus on how firms combine external resources through internal markets to create competitive offerings (Conner, 1991). The focus is on the firm as an efficiency seeker in production and distribution, on the ability to earn persistent above normal earnings through market dominance, and on innovations to shift market positions (Conner, 1991). Thus, the efficiency-based approaches focus on how firms create and sustain competitive advantage within the "black box" as input combiner as shown in figure 1. Therefore, the

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successful implementation of strategy requires that a firm internalise external resources to develop firm specific assets that are differentiated (Dierickx and Cool, 1989). Being non-tradable in internal factor markets, firm specific assets become a source of competitive advantage. It is these non-tradable firm specific tangible and intangible assets that form the basis of the efficiency based approaches. By transformation the internal resources, organisational capital, and strategic assets into difficult to imitate firm specific dynamic capabilities ultimately creates sustainable competitive advantage (Dierickx and Cool, 1989).

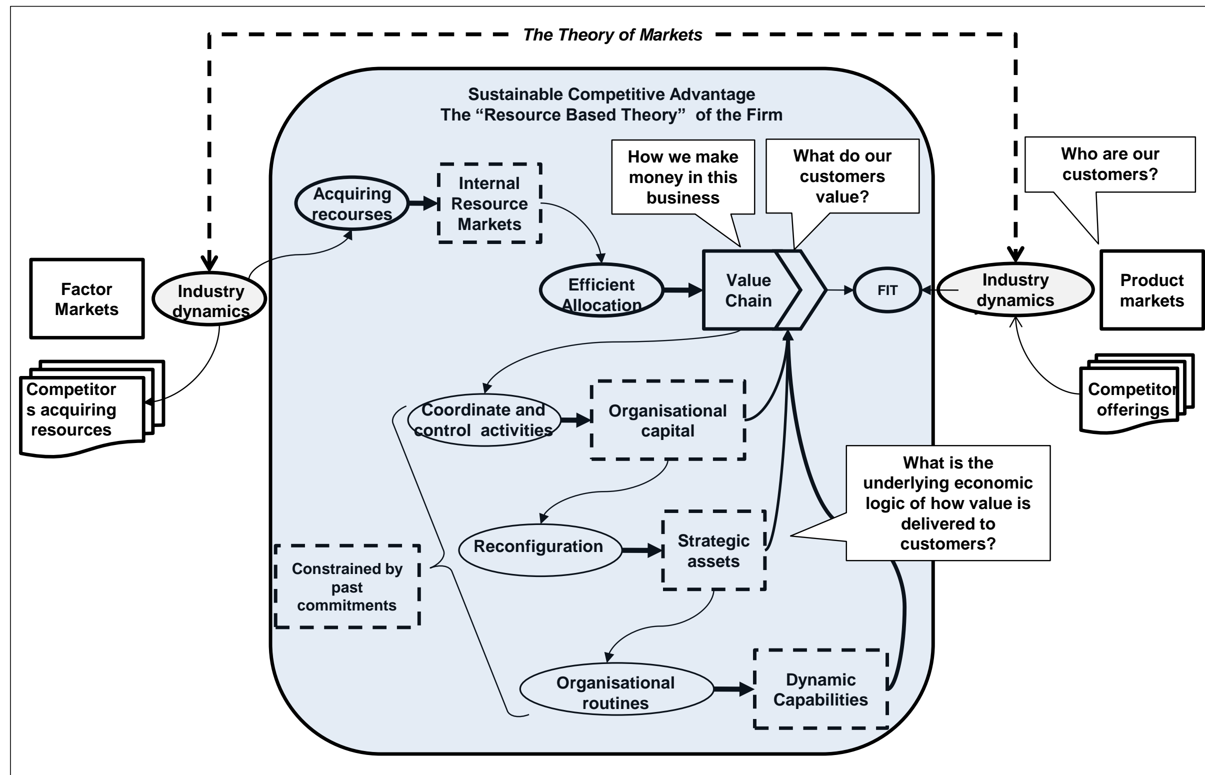

Figure 1 Archetypal business model

The level of service delivery in institutions is measured by the level of efficiency that prevails in institutions. This influences productivity in a country and therefore, sustainable development. For example, the Global Competitiveness Report (WEF, 2007, p69) finds a strong, positive correlation between institutional efficiency and the productivity of a country. This implies that countries with efficient institutional arrangements will have higher productivity, higher growth rates and thus a higher standard of living than countries with inefficient institutions. Therefore, internal efficiencies are as important in institutions as it is in business. Where the purpose of private businesses is to extract excess profit from markets, at the expense of other firms, either due to superior positioning or through their ability to create superior internal efficiencies or both, the purpose of institutions is to create internal efficiencies to ensure efficient service delivery to society. Although the desired outcomes of institutions as social businesses are different from the desired outcomes in private business, the efficiency-based theory of strategy, also referred to the as the resource based theory (Barney, Ketchen Jr. and Wright, 2011), appears at face value to be relevant when applied to national institutions. Given that the outcomes differ, the question is whether efficiency requirements in institutions are the same as in business.

The fundamental difference between private and social businesses lies in their business models. Therefore, it is important to understand the difference between these business models. No strategy can be successful unless it is based on a good "business model" (Magretta, 2002). A

business model, thus, describes the rationale of how an organisation [or institution] creates, delivers, and captures value (Shafer, Smith and Linder, 2005). The essence of a business model tell is to tell a good story of who the customers [society] are, what the customers [society] value, what the underlying economic logic is of how value is delivered to customers [society] as shown in figure 1. For a company it is how to extract excess profits from the business model (Magretta, 2002) and for an institution it how to create welfare and sustainable development from the social business model.

For businesses to be successful they have to continuously change their business models. When disruptive business models are introduced by competitors, business must roll out new business models to compete against rivals (Markides and Oyon, 2010). These usually come about by creating new subsidiaries, divisions, companies or strategic alliances to host the new business model (Markides and Oyon, 2010). Institutions, however, do not compete in markets against other institutions or firms; therefore they do not have to continuously change their business models.

For a firm to take up product market positions it needs to define its customer segments, understand the value proposition of the customers to satisfy their needs and it must know the channels through which the value proposition will be delivered. Whether or not a firm competes on low cost or differentiation, it needs to know the underlying logic of how it is going to deliver value to its customers. This determines the kind of internal resources that is required, the key activities that it must perform, exceptionally well, and which activities need outsourcing. Thus, a good business model defines the underlying logic of how excess profit is extracted form markets and for whom. Once a good business model is in place, a firm also requires a brilliant business strategy to ensure that the business model is executed to create and maintain its competitive advantage and to increase performance over time relative to competitors. The incentive to make excess profit is driven by the desire of stakeholders to increase their wealth over the long term. It is actually this desire by firms to increase the welfare of its stakeholders and the ability of the institutional arrangements in a country to ensure efficiency that ultimately creates welfare for society as a whole.

Institutions, however, do not compete on the basis of low cost and/or differentiation in markets against other institutions or firms; therefore they have a different "business model" in order to create welfare and sustainable development for a country. The social business model also determines the kind of resources that is required, the key activities that it must perform, exceptionally well, and which activities need outsourcing. Thus, a good social business model defines the underlying logic of how value is delivered to society. Once a good business model is in place, an institution requires good policies to ensure that the business model is executed to create welfare and sustainable development for society as a whole.

To understand the difference between efficiency based strategies in private and social businesses one can use the example of higher education in South Africa. Higher education institutions are sometimes also involved in private business. For example, business schools usually have two business models, a social business model, and a private business model.

The social business model is normally a research and community based model. Their customers are the community at large that seeks to obtain a higher education qualification under the proviso that they qualify for acceptance. Therefore, universities are established in most regions of a country to give easy access to as many prospective students as possible. They all provide similar academic offerings except where the national government may decide otherwise, mostly based on the affordability of such offerings for the country as a whole. Because profit is not the desired outcome, they are not (or

should not be) in competition with each other. The value proposition is to increase the pool of knowledge resources in the country at the most affordable fees. Ideally, higher education should be free.

Efficiency, in institutions, is important in order to keep costs and fees low and to increase service delivery. However, this is not about creating a superior position by configuring and performing activities at either a collectively lower cost than rival higher education institutions, or by configuring and performing activities in such a way that collectively they create buyer value (through differentiation) which will command excess profit (Porter, 1999). Internal efficiencies are important to provide an educational service at the lowest possible cost. Thus, academic institutions should ideally share their knowledge gained in this regard in order to collectively provide better education at the lowest possible cost to the community at large.

Institutional efficiency is also not about the reconfiguration of value activities to ensure heterogeneity (Barney, 1991, 1994; Peteraf, 1993) amongst institutions as a source of sustainable competitive advantage. Working together and learning from each other on how to reconfigure value activities more efficiently will collectively enhance service delivery to society as a whole. Neither is efficiency in institutions about creating dynamic capabilities by transformation of internal resources, organisational capital and strategic assets into difficult to imitate institutional specific capabilities (Teece, 1986, Teece, Pisano and Shuen, 1997; Dierickx and Cool, 1989). Because the stakeholders in institutions are the community at large and the profit incentive is not a desired outcome. Organisational routines and synergies (Nelson and Winter, 1994; Nelson, 1994; Teece *et al.*, 1997) within institutions should be a shared responsibility to deliver on the value proposition required by the country and society. The reason for creating internal efficiencies in a firm is thus different from the reason for creating internal efficiencies in an institution and it is therefore questionable whether the efficiency base approaches of business strategy are relevant at an institutional level.

Where institutions are involved in private business a very different business model is required that separates the social business model form the private business model. Business Schools are a case in point. Most business schools are involved in both private and social businesses. Their social business model (subsidised MBA programmes) is aligned with the institution's goals where Council oversees the governance structure. A Board usually governs their private business part. The private business is for most part entrepreneurial, driven with profit as the desired outcome and clearly defined stakeholders. To create a sustainable competitive advantage against rivals they need both efficiency advantages and brilliant strategies to increase the relative willingness to pay for their executive educational offerings. Thus, similar to a firm, they need firm specific advantages as explained by the resource based view and dynamic capabilities approaches of business strategy (Barney, Ketchen Jr. and Wright, 2011), which will enable them to take up competitive product market positions, as explained by the product market positioning school (Porter, 1996, 1998, 1999).

The difference between social and private business models is illustrated by the above example and thus the relevance of business strategy form a positioning and efficiency based perspective. If the private and social business models are collapsed into a single business model, both will become undefined and such an institution may well become, what Porter (1985) referred to as, 'stuck in the middle'. In such cases, the governance structure will be undefined; is social responsibility or profit the desired outcome? The business model will also be undefined; is it research and community based or is it entrepreneurially based? Who are the customers; those who seek higher education at the most affordable fees or those who seek executive education and are willing to pay differentiated prices? Who are the stakeholders; the community

at large or clearly defined stakeholders where profits are an imperative? Is the value proposition to increase the pool of knowledge resources at the most affordable price, for the country, or at competitive and differentiated prices, for the stakeholders? Is the underlying economic logic to deliver services at reasonable cost for all or at costs that will increase value for a set of defined stakeholders?

Conclusion

From the above discussion, it becomes questionable if business strategy form the positioning school and the resource-based theory, is relevant for social businesses such as national institutions. The reason is that the "business" model of institutions differs from that of private businesses. Firms need superior business models, whereas institutions need a social business model that ensures internal efficiencies to execute national policy. Although both businesses and institutions require efficiencies, the reasons for creating internal efficiencies in business differ fundamentally from the reasons for institutions.

It is the role of governments, through institutions, is to create the systemic circumstances in a country to facilitate efficient competition amongst firms and service delivery to society (Posner, 1998; Mauro, 1995). Thus, institutional policy is based on general principles, rather than brilliant strategies (Krugman, 1996). Although institutions can be classified as efficient or inefficient, they do not compete with each other or firms in local markets; nor do they compete with institutions or firms in other countries.

Institutions focus on the need for an efficient competitive environment, its fairness and the social implications thereof for the society as a whole. Business strives to move away from efficient competition towards market power to extract excess profits from markets for its stakeholders.

Thus, one can safely conclude that business strategy from the positioning and the resource-based perspectives is not applicable to national institutions. This then require answers to some other pertinent questions: What strategy principles are relevant for national institutions given that they do not compete like firms? If institutions do not compete in national and international markets, do countries then compete? Are state owned corporations social businesses or private businesses and what kind of business models, strategies and governance structures are desirable for such institutions?

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