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# The Impact of Competitive Advantage on Organizational Performance

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## Abstract:

In this article the relationship between the firms' competencies and their performance is examined. When review the importance of current or potential competencies the managers have a clear interest in finalizing that where these qualities will lead you to choose differentiate benefits. Almost in all organizations there is a good association between company's competitive advantage and its performance. These Advantages lead the company towards attaining high profits.

**Key Words:** competitive advantage, firm's performance

## Research Objective:

The objective of this study is "To examine the relationship of competencies and the firm performance".

## Introduction:

Earlier leanings have the strong basis about the link between cost advantage and organizational performance. Firms having margin in cost competency relative to their rivals as low built-up, low manufacture cost, low cost of goods sold and low prices have been practiced relatively better performance. Firm's Performance is measured in terms of trade performance. It was calculated on the basis of sales return, yield, Return on investment, output, Market split and the manufactured goods growth (Wang & Lo, 2003:A Neely, 2005).

(Maa H, 2000) concluded that competitive perfection is conceivably far and wide used term in strategic management yet it is inadequately stated and practiced. He further examined three relationship patterns between competitive edge and firm's performance namely unique advantage leading to higher performance, unique advantage without better performance and superior performance without unique advantage. Maa in 2004 has more analyzed that an assimilated outline of the determinants of competitive advantage in global organizations namely creation & modernization, contest and cooperation.

Pablos, (2006) explained the competitive advantage of a global organization. He analyzed that competitive advantage lies to a great degree in its aptitude in order to recognize and transfer tactical knowledge among various geographic locations.

## Organizational performance:

The organizational performance is measured in terms of ROA (Return on assets) and Sales Growth Ratios as these ratios are financial performance measuring ratios.

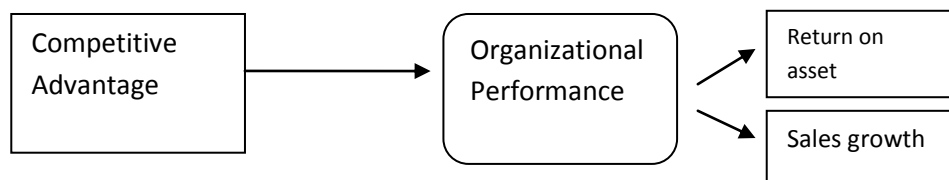
## Characteristics of Competencies:

King et al, 2001 gave the definition of competencies that Competencies join knowledge and skills, they signify both the knowledge and skills required to perform useful actions. Competencies discriminate the firm and generate unique advantage. In order to be there a cause of sustainable competitive advantage a competency ought to vital, extraordinary and difficult or costly to duplicate. In accumulation direct or easy alternate for the competency should not exist. The most essential strategic possessions are the knowledge and skilled expertise

that an organization gather over time. Quick simulation is difficult because they require replication of time usage in learning. For example Southwest Airlines built-up knowledge and skills that make possible it to operate at much lower cost than other competitor airlines. Competitors that tried to duplicate southwest were not as successful because Southwest built a system of emphasizing competencies that continue to supply the airline with unique advantage over time. When assessing the importance of current or potential competencies, managers have a clear interest in determining the scale on which these competencies will direct to stable unique edge. Many companies however are poorly ready to handle in identifying and evaluating the strengths of their competencies.

### Conceptual Model:

The competitive advantage is taken as independent variable and the organizational performance is taken as dependent variable that is measured in terms of return on asset and sales growth. This model is developed on the basis of theoretical framework. It shows a linear relationship between the competitive advantage and sales growth.



### Literature Review:

In the studies of Maa (2000) the competitive advantage and the organizational consequences are two special terms. But there is an apparently complex connection. General work has shown a considerable association between these two variables. (Morgan, Kaleka, & Katsikeas, 2004) also supported this study.

In the study of (ROSE, ABDULLAH, & ISMAD, 2010) it is inspected that the organizational edge from the resource based view is as vital as it can be. It is used as conceptual guideline for business organization for enhancing their differential advantage position. The Performance via appliance and manipulation of known internal resources of companies are also increased by using competencies. They put in to the body of knowledge by using experimental approach and Resource Based View. The firm's excellence can be enhanced by using these qualities.

From the historical data Chandler 1962 and Christensen et al, 1965 made the hypothesis of stable differential edge to make clear the constant better-quality performance of leading firms. They focus mainly on companies such as General Motors, DuPont, Standard Oil and IBM.

In the early 1980s large work of Porter (1980) gave us the hypothesis of sustainable competency that was strongly established as the prime account of sustained superior performance. Firms gain monopoly by capturing high market position in outstanding industries (ROSE, ABDULLAH, & ISMAD, 2010).

T.C Powell, 2003 has examined three industries that have the greatest supremacy. These were pharmaceuticals, brewing and computers. These are among the industries used to support theories of competitive lead. He argued about it that the performance speculation could easily be manipulated by incorporating fake and unsound models about it as how the performance could be circulated in a fair competitive process.

Fahy.J ( 2000) argued about the realization of a sustainable position. It can lead to superior presentation usually considered in conservative terms such as share in the market and fertility. We can state it as the financial performance measurement approach. In other words if we take this view strictly the competitive circumference and performance are two dissimilar ideas and proportions. Firms have to spotlight their managerial strategies in achieving and supporting bloodthirsty edge over their competitors. As a result such a leading position will direct to superior firm performance.

Literature has shown that there is a strong link between unique advantage and the sales assessment of organizations. There are many studies that concluded about the positive association between unique advantage and the performance of organizations. Wang & Lo, 2003 measured the organizational excellence by using the efficient organizational internal processes.

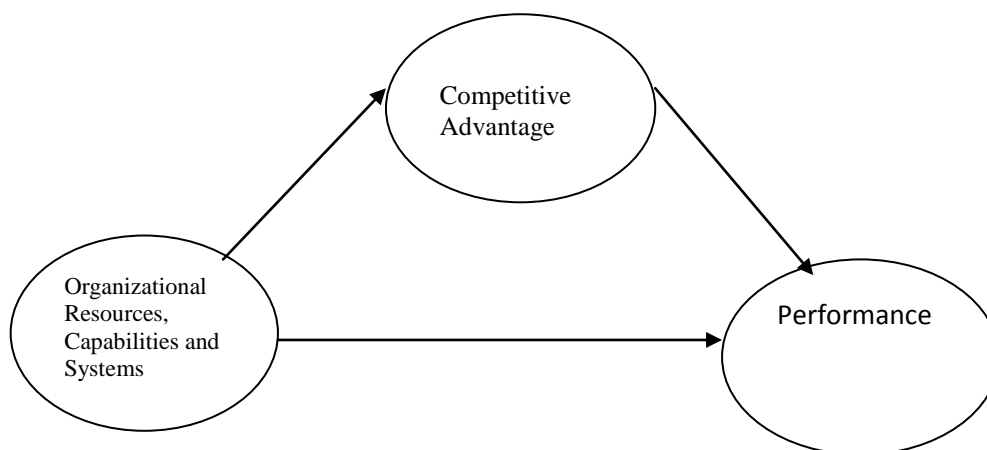
Morgan, Kaleka, & Katsikeas (2004) argued that different resources and capabilities have an effect on export business enterprise. Different options and the positional improvement achieved in the export market which in turn change export venture performance. The research reveals that the key resources and capabilities are associated with each other and are directly linked with the export venture's competitive strategy choices. A significant relationship of product quality and performance of organization has also been acknowledged. Companies experiencing a product based margin on their rivals have been revealed to attain relatively better performance.

Morgan, Kaleka, & Katsikeas (2004) measured product competency in terms of higher product quality, packaging, design and style. Similarly research illustrated that there is a significant association of services based advantage on the organizational consequences. Companies gained benefits from services as competitive edge contrast to their rivals. For example more product elasticity, convenience, delivery speed, consistency and technological support have verified to achieve relatively better performance.

Wang & Lo have further boast the linkage of unique advantage and the sales performance of organizations in 2006. He measured sale growth performance by the level of sale revenue, profitability, Return on investments, yield, product added value and share in market.

Ismail, Rose, Abdullah et al., 2010 argued that unique edge is a part of the institution of high level performance. This relationship will be exaggerated by moderating variables such as age and size of firms. The moderating effects of these variables provide precious information about strategic management in the attainment of unique edge and to increase performance. In Ismail studies theoretically and empirically the age of the firm proves a significant moderator. We can explain the findings of Ismail by the straightforward information that experience comes with age, and organizations that have been established from years and have such experience are in a better position to improve their overall performance.

In another study conducted by Raduan et al., (2009), it is concluded that there is a positive relation between unique edge and organizational success. Competitive edge is able to significantly predict the variance in the performance of the organization. Raduan et al., (2009) drew this model to explain this association.



Resource: Raduan et al. October 2009

It was established that the Resource Based View of the firm's Competitive advantage is one of the key of strategic management theories related to explain the organizational consequences. It is also a part of the larger management theory which has developed to suit the managerial needs of the organizations. Competitive advantage is a related concept. It can be viewed from various perspectives, particularly the industrial organization (I/O) and resource based view (RBV) perception. The I/O perspective scrutiny the organizational external market positioning as the serious factor for conquering Competitive advantage which means traditional

industrial organizational perspective offered strategic management in a systematic model for reviewing external competition inside an industry.

On the other hand investigating organizational competitive advantage from the RBV is serious as it can be used as a conceptual guideline for business operations in particular to recover their competitive advantage position and performance through using and exploiting of recognized internal organizational capabilities. In short the RBV of the firm is not only an alternative to this perception on competency having the companies but also they set off both towards explaining the overall greater portrait of firm performance (Raduan et al. 2009).

King & Zeithaml (2001) suggested that unique edge has a reasonable effect on the association between the linkage ambiguity and the performance of organization.

(Phongpetra & Johri, 2011) revealed that there are three important business strategies of automobile manufacturers in Thailand. They revealed that these have an affirmative effect on the organization's financial and marketing performance. They found cost focus as the main concern, second priority was the cost leadership and incorporated cost difference was the third concern. They concluded that these differences have an affirmative effect on the performance of organization.

Henderso & Cockburn (1994) have examined in their studies that the heterogeneity across firms have a considerable function in shaping difference in research productivity. Two of their procedures of architectural ability are significant and all have the results that one is expecting. It suggests that the capability to amalgamate knowledge across and within the borders of the firm is an important factor of diverse competence.

Their results provide sizeable support for the importance of competence as a foundation of advantage in research output. Characteristic firm effects account for a very considerable division of the difference in research output across the firms in their study, and they find support for all of the hypotheses that they can investigate with these data. Research output definitely increases with the historical success of the firm and to the level that collective success is a rational alternative for the kinds of local competence recognized that differences in local capabilities may play an important role in determining lasting differences between firms.

They also found that two of the measures that they built to measure architectural competence were also significantly correlated with research output. Firms in which periodical records were important criteria for promotion come into sight to be more productive than their competitors.

The results of Henderso & Cockburn (1994) suggested that a spotlight on architectural or combinative capabilities as a source of durable spirited gain may provide useful information into the sources of continuing differences in firm performance. Their Analysis has the importance of exploring the causes of organizational competence. Their results are generalize-able further than the pharmaceutical industry to other research intensive settings. They supported the view that the ability to put together knowledge both across the boundaries of the firm and across disciplines and product areas within the firm is an important source of strategic advantage.

King et al, (2001) evidenced that middle management harmony on competencies is related with higher performance. If organizations are stern about successfully supervising competencies, the results proposed that managers should uphold a conversation concerning their institution's competencies. An ongoing conversation about competencies allows managers to check their organizations' competencies and approval about competencies. Organizations should introduce methods that look for middle managers' views of organizational competencies. These processes may consist of surveys that let middle managers to talk their beliefs about precious competencies. In addition managers can make use of information technology and internets to make easy online communities of middle managers all over an organization. These processes may help to anticipate the competencies that the firm will need to develop for future victory as well as put in to building accord. Decision makers who follow competency judgment procedure may recognize important drift or changes premature. They classified and inspect key distinctiveness of competencies and the association between middle managers' insights of competencies and firm performance. King et al, (2001) studied that middle managers in two industries textile manufacturing and hospitals, and they concluded the relation between competency characteristics and firm victory. They also explained a method that any firm management can use to improve the firm's competitive advantage.

**Discussion and Conclusion:**

All the above studies of different researchers support the association between the competitive advantage and firm performance in a positive way. The nature and effects of organizational competence empirically recommend a productive opportunity for taking the advantage on other organizations and it also help in further research for searching the methods of increasing the firm performance.

Competitive advantage and firm performance are two special terms with an actually complex association. Overall studies have shown a significant association between competitive edge and performance. The performance theories can easily pushed on amplification about how performance should be distributed below spirited development. When we talk about the new qualities of a firm's products this is actually the increasing of its value and ultimately it gives back to the firm in shape of increased profits.

According to PABLOS (2006) the practical improvement of a global institute lies to a great degree in its skill to identify and transfer tactical knowledge between its geographically dispersed locations.

These studies provide large support for the importance of competence as a base of advantage in enhancing the firm yield.

The middle management synchronization on competencies is related with higher performance and it is very important to keep an eye on the management for gaining the high performance. The cram has originated that there is very important association among competitive advantage and the sales assessment of organizations. In diverse organizations as pharmaceutical, automobile manufacturers, textile manufacturing, Electronics, brewing, and computers and many other manufacturing organizations there is an optimistic association among the unique characteristic and the performance of the organization.

Such a research can offer the body of knowledge by giving the use of experimental support and further extending the Recourse Based View by investigating the comparative importance placed upon organizational internal traits towards attaining the competitive advantage and increasing firm performance.

This research may help to look ahead to the competencies that the firm will need to develop for future victory as well as put in to building pact. Decision makers who follow competency judgment procedure may recognize important drift or premature. It also explain that any firm management can use to improve the firm's competitive advantage to gain the higher performance and in future it will help to explore that how these relations can be sustained.

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