A Critique of Competitive Advantage

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While there have been critiques of specific types of competitive advantage such as Porter’s so called ‘generic strategies’ and of strategy recipes to achieve these advantages, this paper seeks to problematize the concept itself.

Despite its ubiquity, the concept of competitive advantage is surprisingly under-defined. At its worst, it is nothing more than a tautology: successful firms are successful because they have competitive advantage, which in turn cannot be defined in any other way than as a quality that brings about success. Defining the possession in terms of the outcome it produces presents ontological difficulties: both in cases when competitive advantages is posited \textit{ex ante} and in situations where the chain of causality is contestable.

The use of the term competitive advantage has obscured the need to better understand competition as distinct from strategy. The paper identifies some different modalities of competition and suggests that most of these are poorly theorized. The contingent nature of these modalities suggests that competition might itself be a historically specific process, indicating that the fads of strategic thought might reflect genuine changes in underlying competitive processes.
INTRODUCTION

‘Competitive advantage is at the heart of a firm’s performance in competitive markets. After several decades of vigorous expansion and prosperity, however, many firms lost sight of competitive advantage in their scramble for growth and pursuit of diversification. Today the importance of competitive advantage could hardly be greater. Firms throughout the world face slower growth as well as domestic and global competitors that are no longer acting as if the expanding pie were big enough for all.’

Thus begins Michael Porter’s book ‘Competitive Advantage’ (Porter, 1985: xv), whetting our appetites to find out some more about this thing – competitive advantage – that is so important. Attempting an elucidation of this important concept, a few pages later we read that ‘Competitive advantage grows fundamentally out of the value a firm is able to create for its buyers that exceeds the firm’s cost of creating it’ (Porter, 1985: 3). So competitive advantage is somehow correlated with value added, but the question remains, what exactly is competitive advantage?

In all of Porter’s 536 pages, he never quite tells us. We learn that it can be created through cost leadership or differentiation, but competitive advantage is never defined as such, though there are several allusions to its meaning. The secret of success, we are repeatedly told, is competitive advantage, but he never manages to define it in any other way than as the quality that brings about success. Here, at the heart of a classic strategy tome is a tautology. The circularity is breathtaking.

And yet, despite this, we all talk about competitive advantage. It trips off the tongue in our conversations and we all use the term in papers, books and reports. It is hard to imagine a discussion over strategy being conducted without at least some recourse to this term. This is true for academics (including critical theorists (eg Palmer and Hardy, 2000: 155; Alvesson and Willmott, 1996: 129)), managers and consultants alike. As Porter remarks with evident pride in the introduction to the revised edition of ‘Competitive Advantage’, ‘The phrases competitive advantage and sustainable competitive advantage have become commonplace’ (Porter, 1998: xvii).

Porter’s recipes for achieving competitive advantage were highly prescriptive. He asserted that firms could achieve competitive advantage through either cost leadership or differentiation, and he advised firms to avoid being ‘stuck in the middle’. These formulae have been widely discredited. For example, Knights (1992) reported on research in a financial services firm. He found the model difficult to follow in practice because costs of a firm’s own operations, let alone competitors, are not calculable, and products are easily imitated. Pitelis and Taylor (1996) argued that a value for money strategy was becoming a preferred strategy for corporate success despite – or indeed because – it is one of being stuck in the middle. We can conclude that Porter’s specific recommendations for achieving competitive advantage are deficient. But the purpose of this paper is not to critique the various prescriptions in the literature for how to generate different types of competitive advantage. Rather, it is to problematize the concept itself. Given the centrality of competitive advantage to strategy discourse, I believe that the concept is in urgent need of critical appraisal. Furthermore, such an appraisal leads to a range of critical explorations of competition and strategy.
HISTORY

Despite its current usage, competitive advantage is a comparatively recent concept. Until the late-1980s, strategy discourse was conducted largely with only sporadic use of the term. Looking back at the strategy textbooks of the time such as Ackoff (1970) and Andrews (1971), specific firm strengths and weaknesses were identified, but not expressed in the overarching framework of competitive advantage. Penrose (1959) referred to competitive advantage in several places. Ansoff (1965) also used the term, but only in such a way as to describe what a firm needed to compete effectively; it was but one of four strategy components.

Interestingly, Michael Porter, writing in Harvard Business Review in 1979, did not mention competitive advantage at all, still describing strategy as a matter of positioning companies in relation to the five forces (Porter, 1979). His book ‘Competitive Advantage’, published in 1985, seems to have introduced the term in its current usage (he made no reference to previous authors, suggesting no direct lineage). In the preface he claimed that his earlier book ‘Competitive Strategy’ had ‘described three generic strategies for achieving competitive advantage’ (Porter, 1985: xv). In fact, ‘Competitive Strategy’ (Porter, 1980) never actually used the term. In the two books, a virtually identical diagram entitled ‘Three Generic Strategies’ shows the x-axis as ‘strategic advantage’ in Porter (1980: 39) and ‘competitive advantage’ in Porter (1985: 13).

The term almost certainly emerged as an analogue to the concept of comparative advantage – the theory that explains the goods that a nation imports and exports in terms of its differential resource endowments. Comparative advantage was a familiar term in economics.

Though ‘Competitive Advantage’ is now often seen as an orthodox work rooted in industrial organization economics, it can also be seen as radical. Along with its predecessor ‘Competitive Strategy’, the book paved the way for a discussion of competitive outcomes which were not conducted solely in terms of choice of industry, industry structure (the structure conduct performance model), or in portfolio effects (such as the BCG model). There is no doubt strategy and planning texts of the 1960s and 70s are rather light on their treatment of competition compared with current ones.

CURRENT USAGE

Summarising the accepted wisdom, Hunt (2000: 68) states that ‘modern business strategy maintains (1) that the strategic imperative of a firm should be sustained, superior financial performance and (2) the belief that this goal can be achieved through a sustainable competitive advantage in the marketplace’. Strategy texts tend not to define competitive advantage, even though they use the term liberally. Johnson and Scholes’ widely used textbook (Johnson and Scholes, 1999) contains a glossary which defines competitive strategy as ‘the basis on which a SBU might achieve competitive advantage in its market’, but does not elaborate on the meaning of competitive advantage. In these definitions of strategy, competitive advantage means nothing more than success.

Hay and Williamson (1991: 42) do define the term. For them, it is a ‘deceptively simple idea of assessing a company’s capabilities and market position by how they give it advantage.}
relative to competitors’. Having claimed simplicity, they then note that competitive advantages are ephemeral and only worth as much as the value that the market places on them. Barney (1991: 99) uses as a working definition that ‘a firm is said to have a competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by and current or potential competitors’. This definition has the same problem of circularity as that which befalls Porter.

In the face of this widespread underdefinition, it is perhaps surprising to find Kay (1993) asserting that competitive advantage can be measured: ‘The strength of Glaxo’s competitive advantage can be measured by looking at the ratio of added value to the firm’s gross or net output’ (Kay, 1993: 24). Kay makes a direct link between competitive advantage and the value added that can be calculated from annual reports.

Porter’s work, and that of other members of the Business Policy Group at the Harvard Business School has been described by Mintzberg et al (1998) as adhering to the ‘design school’. Mintzberg’s critiques of the design school have questioned many of its tenets, as have many papers associated with critical management. However, the essential identity between strategy and the search for competitive advantage as laid out by Porter seems to have been largely or universally accepted by strategy authors, even where they have explicitly disagreed with Porter’s work and the design school more generally.

The framing of competitive advantage in terms of a possession relationship is not neutral. It implies tangibility, as if competitive advantages can be objectively observed. It is also a short step from the idea that competitive advantage can be possessed to the idea that it can be purposefully created or acquired. Much strategy literature purports to be about how to create or acquire advantages. At one extreme Porter gives prescriptions whereas at the other Hamel and Prahalad (1994) cite the case of Komatsu to describe more organic process by which competitive advantage can be built through a series of corporate challenges.

**CRITIQUING COMPETITIVE ADVANTAGE**

**Tautology and Circularity**
The circularity of the concept has been introduced above; we shall explore it in more detail here. In some uses, competitive advantage means nothing more than an advantage in the marketplace or superior financial performance. Kay (1993: 193), for example, discusses the relative positions of UK supermarket chains in 1989 and concludes that Sainsbury’s has a slight competitive advantage over Tesco. Kay’s method for measuring competitive advantage was based simply on added value. So for Kay, competitive advantage is synonymous with superior relative financial performance. When read together with Porter’s statement (Porter, 1985: xv) that ‘competitive advantage is at the heart of a firm’s performance in competitive markets’ we have an entirely tautological concept: financial performance is at the heart of financial performance.

In other uses, competitive advantage is used as shorthand for source of competitive advantage. The literature displays confusion between these two uses but they clearly denote different concepts. When Porter (1985: 62) claims that ‘cost advantage is one of two types of competitive advantage that a firm can possess’, he is referring to cost as a source of competitive advantage (using competitive advantage as in the above paragraph).
The trouble with sources of competitive advantage is that they are referenced to an outcome – an advantage in the outcome of a competitive process. To say that to achieve competitive advantage a firm must have a source of competitive advantage is clearly circular. There are further problems, which are described below.

**Ontological confusion**
Defining a quality in terms only of its outcomes means strictly that the outcome must have already occurred prior to the competitive advantage coming into existence. A quality defined only in terms of outcomes cannot exist before those outcomes have occurred: this should mean that competitive advantage can only be used *ex post* to explain competitive performance.

In practice, competitive advantage is used *ex ante*: ‘competitive strategy is the basis on which a SBU might achieve competitive advantage in its market (Johnson and Scholes, 1999: 547). In this usage, competitive advantage is not so much an explanation as an expectation that some particular quality will confer success in the future.

**Causality and causal ambiguity**
The assertion of a link between something that is possessed, on the one hand, and competitive outcomes on the other, immediately raises the question of the implied causalities involved. The chain of causality between the characteristics or resources that are possessed by a firm and the competitive outcomes that arise is clearly debatable. For example, while adherents to the PIMS studies might interpret market share as a competitive advantage, other traditions would not. Far from being a theoretically neutral term, assertions of competitive advantage must necessarily embody a theory of causality.

A related problem is causal ambiguity. Even if we accept the ontological existence of competitive advantage, it might be impossible to determine what that competitive advantage is. Indeed, to the extent that competitive advantages are more sustainable if they are inimitable, the most competitively valuable competitive advantages might be precisely those that cannot be identified, and therefore copied.

**Relativity**
Firms are typically said to ‘have’ or ‘possess’ competitive advantages. Talking in such tangible terms has the effect of constituting them as objective qualities: a firm either has a competitive advantage or not. Competitive advantages are rarely asserted with reference to any theoretical frame.

But many authors have stressed the intrinsically relative nature of competitive advantage (Kay, 1993: 127; Hay and Williamson, 1991: 42). Barney (1991) even references competitive advantages not only to actual competitors but potential competitors. These relative and contingent characteristics clash with the beguiling objectivity implied by the idea of firms ‘having’ competitive advantages. To know whether a firm has a competitive advantage it would be necessary to take account of all existing and potential competitors. In the extreme, since potential competitors cannot be known for certain, competitive advantage would be unknowable. A firm could claim to have a competitive advantage in cost leadership one day, only to find it destroyed the next day by an unexpected rival with a lower cost base.

**Product or firm?**
The discourse of competitive advantage is surprisingly ambiguous as to whether it applies to firms or products. According to Porter, ‘a firm differentiates itself from its competitors when it provides something unique that is valuable to buyers beyond simply offering a low price’ (Porter, 1985: 120). But what is being differentiated here, the firm or its products? Buyers buy products, not firms, and it is product attributes that create buyer value (Lancaster, 1979). While Porter’s ostensible unit of analysis is the firm, it is arguable that the specific competitive advantages he describes (cost and differentiation) are better understood as qualities of products rather than of firms.

Later authors have attempted to resolve this ambiguity. Kay makes the distinction between capabilities – which are clearly properties of the firm and competitive advantage - which is the result of these capabilities being applied in markets. Hunt (2000: 136) makes a similar distinction, using the term comparative advantage to describe advantage in firm resources and competitive advantage to describe market position. In general, however, competitive advantage is used in ways that blur the distinction between competition between products and between firms. Descriptions of competitive advantage often straddle the product domain and the firm domain, with consequent imprecision. Most often, it is unclear in which of these domains the advantage is being claimed. Because the two domains are logically separate, entities can only compete against other entities from the same domain. So, products compete against products and firms can compete against firms. But firms cannot compete against products.

Related to the recognition of these distinct domains is the question of primacy: where is the prime domain of competition? Again there is considerable ambiguity. Two broadly opposing perspectives are possible. The first sees inter-firm competition as the primary locus, and product competition as derivative. So, competition for distinctive capabilities (Kay, 1993: 127) or resources (Hunt, 2000: 136) is the main site of struggle, but these translate into greater or lesser degrees of competitive advantage once applied in a market. Resource-based theories of the firm such as those based on core competences are of this sort. Because these theories view products as transient expressions of company resources, the outcome of such competition as exists in product space is largely explicable to the primary competition between firms.

The second perspective sees the prime locus of competition as between products. In this perspective, competition between firms is the aggregated effect of competition between many sets of products. To put it crudely, the firm that sells the most products at the highest margin outperforms those other firms that sell fewer of each product, or achieve lower margins.

These opposing perspectives seem to co-exist in business thinking, but the emphasis placed on each depends on the stakeholders being addressed. The owners and senior managers in firms will tend to see competition as occurring primarily between firms; whereas down at the level of product management, it is competition between products that takes centre stage. Likewise, customers make choices between products, not companies. This is equally true for highly branded products. For though customers may make their purchasing choices in a way which is heavily influenced by brand, it is nonetheless the case that the purchasing decision is one of products, not companies.

CRITIQUING COMPETITION
The locus and mechanisms of competition
The ambiguity as to where the primary locus of competition resides points to deeper problems in our understanding of the competitive process, some of which are sketched here. The mechanisms by which competition occurs in each domain are very different.

Competition between products is the most tangible form of competition. The elemental process involves buyers making purchasing decisions between competing products. It is an exclusive process in the sense that when a buyer chooses product A they simultaneously choose not to buy product B. In aggregate, more of A means less of B. This is the competition of classical economics, and is essentially governed by markets.

Inter-product competition is extensively discussed in the marketing literature but without theoretical depth. Lancaster (1991) provides perhaps the most developed theory, but such accounts are highly abstracted and have not greatly informed the strategy literature.

Competition between companies may also involve markets. Firms do indeed compete in the markets for investment, and for factor inputs such as labour and materials. But inter-firm competition is not necessarily a market process. For example, consider the situation in which companies compete to cross entry barriers. The process of competition is not governed by exclusive choices as in a market, but is highly sensitive to appropriateness and timing. Company A has an advantage over company B if it manages to build the most appropriate characteristics to cross the entry barriers before company B. That company A has managed to cross entry barriers does not in itself prevent company B from doing the same. An identical observation can be made of other competitive objectives such as to be the most innovative, to have the ‘best’ culture, to build a core competence, or to manage knowledge. These are all non-exclusive attributes; we can call the process ‘non-market competition’.

The processes underlying these two types of competition are very different, though they both go under the name “competition”. The theoretical apparatus we have to analyse these types of competition are uneven. Market competition is the subject of micro-economics, and is understood in an idealised, albeit static way. Non-market competition has an even less extensive theoretical base at its disposal, though Dierickx and Cool (1989: 1505) have drawn attention to the nature of ‘nontradeable assets’, pointing out that such assets are ‘accumulated internally’. Many of the popular conceptions of strategy in the last decade or so have rested on on-market competition in various characteristics (such as competences or knowledge), but have generally failed to articulate anything more than a banal concept of the competitive processes at work.

Non-market competition, by virtue of its focus on internal characteristics, has an obvious overlap with organization theory. But paradoxically, the more sophisticated the treatment in organization theory terms, the less sophisticated in competitive terms. We can see this in the differences between the discourse of core competences and that of knowledge management. The core competence approach is coherent in terms of its conceptualisation of competition and has always emphasised the need for competences to be unique. However, the mechanisms suggested by which unique competences might be formed and deployed are ‘outmoded’ (Scarborough, 1998). Scarbrough comments on the ‘contradiction between a diagnosis which leads towards viewing organizations as complex social institutions, and a set of prescriptions which embody a much more mechanistic model of the firm’. The more recent knowledge-based theories of the firm (eg Grant, 1996) and of the economics of knowledge (Boisot, 1999) represent an increasingly coherent organizational theory, but are
virtually silent on the mechanisms by which knowledge interacts with the processes of competition. It is notable that while the core competence discourse emphasised the need for competence resources to be unique, the knowledge management discourse emphasises the need for knowledge resources to be well managed, but rarely stresses the need for uniqueness.

**Discovery or invention?**
The literature on competitive advantage is generally unclear on whether the search for strategies that will deliver competitive advantage is a process of discovery or of invention. One model of competition is of a universal and ahistorical process, in which case the search for competitive advantage is a matter of better understanding the essentially invariant nature of competition, and then exploiting that better understanding. Porter’s prescriptions are of this sort. Another model sees the nature of competition itself as a not only variable but malleable, therefore inviting new forms of competition (and therefore competitive advantage) to be invented.

This consideration is pertinent to the observations of fads and fashions in management (Abrahamson, 1996). Knights and Morgan (1993) have argued that firms are actors in the sphere of consumption as well as production, suggesting that the processes within product markets are socially constructed. Auerbach (1988) makes a similar observation with respect to markets as a whole. If the very nature of competition is dynamically created by the actors taking part in the competitive process, then the changing waves of strategy thinking can be understood not as fashion but as attempts to represent or even influence, a genuinely changing competitive frame.

**DISCUSSION**

The idea that strategy is the pursuit of competitive advantage presupposes the existence of a process of competition that is distinct from the process of strategy. Such a distinction is not necessarily sustainable; there has been interest recently in theories of strategy in which advantage accrues solely from transient ‘chaotic’ phenomena (Brown and Eisenhardt, 1998). In such situations, competition is so deeply entwined with strategy, that competitive advantage has little independent meaning (Lengnick-Hall and Wolff, 1999).

In general, however, it is surely useful to attempt a distinction between competition and strategy. Strategy is concerned with how firms ought to act, whereas competition is concerned with the processes that discriminate between the fortunes of different firms: the process by which performance becomes relative. The critiques of the two are different. For example, imagine a firm whose top management write a formal strategy document stating that the firm should seek ‘cost leadership’. Such a situation can be critiqued either on the basis that cost is not the source of competition or on the basis that top down ‘design school’ strategy formulation is rarely effective.

Recent literature ostensibly about strategy is partly about strategy and partly about competition. Hamel and Prahalad (1994) claim that their book is ‘about strategy’ (p xii) but the majority of the text is concerned with promoting a new view of competition: competition for industry foresight, competition to shape the future, and competition to think differently. While such revelations have an intuitive appeal, they rest on a weak evidential base, are supported mainly by anecdote, and have little theoretical depth. Despite their rhetorical force, they hardly count as theories of competition.
A basic distinction in the processes of competition is whether or not the competed-for assets are tradeable in markets or not. Penrose (1959: 106) drew attention to competition in creativity, but the nature of the competitive process in that case is unclear. Dierickx and Cool (1989: 1505) assert that nontradeable assets are accumulated in a process in which firms are able only to control flows rather than the stocks themselves. While this might be true for certain types of competence, the asset accumulation framework is surely understating the theoretical diversity of nontradeable assets. In the consumption domain, important aspects of competition concern consumer attitudes towards brands or product features; these are possibly understood using Gramsci’s concepts of hegemony. Other forms of competition involve what Hamel and Prahalad call ‘foresight’, in other words, competition to be right.

Gathering these different types of competition together, it is possible to discern at least five distinct modalities:

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While this is not intended as a complete list, or even a well founded one, it illustrates the diversity of the ways in which competition occurs. Furthermore, competition takes place in multiple domains, of which the domains of most interest are production (in which firms compete against firms) and consumption (in which products compete against products). Given this diversity, the theoretical resources being brought to bear on these types of competition are surprisingly modest and poorly integrated with each other.

Furthermore, the way in which different types of competition – in different domains – interact is largely unclear. The feedback loops between competition in production and consumption frustrate analysis.

CONCLUSIONS
This paper started with a critique of the concept of competitive advantage, demonstrating that in contrast with its apparent objectivity, it exhibits circularity, ambiguity, ontological problems and subjectivity. These inherent and intractable inadequacies suggest that it is poorly specified as an object of strategy. In seeking to move beyond the limitations of competitive advantage, we sought to make a distinction between competition and strategy: strategy is how actors consciously or unconsciously seek to change firms’ performance; whereas competition is the process by which performance becomes relative. In this reading, many strategy theories can be understood better as theories of competition.

Competition is not a straightforward process. Whereas the most developed theoretical treatment of competition is concerned with the role of markets in matching supply and demand in traded assets, most of the processes of competition concern nontradeable assets and are therefore enacted outside markets. Such competition follows a number of different modalities, but in the main these modalities are poorly served by theory. In particular, there is a need to better theorize the interaction between organizational theory and competition.

Market competition would be expected to be historically invariant. However, the relative emphasis of the other competitive modalities and the processes within them may be historically specific. If so, the fads of strategy might reflect not the undue influence of fashions but a genuine shift in the underlying nature of competitive processes.
REFERENCES


