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COMPETITIVE STRATEGIES AND FIRM PERFORMANCE: THE MODERATING ROLE OF DECISION QUALITY

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ABSTRACT

This paper explored the impact of competitive strategies on performance of organizations and also decision quality on this relationship. The study asserted that the theoretical base is useful in explaining and predicting decisions and relationships. This paper reviewed general and empirical literature including the theories underpinning the present study. The main variables of the paper included competitive strategies; decision quality and organizational performance that were explored in relation to the contribution of previous scholars and pertinent commentators. Organizations that do not reform themselves to achieve superior influence, efficiency, and accountability particularly in a gradually more global competitive environment are bound to die a natural death. This is due to inability to apply quality decisions and managerial control over organizational operation. Inspired by this assertion supported by several other findings as will be hereby reviewed, the present paper was thus principally concerned with analyzing competitive strategies and its impact on the performance. The paper concluded that thinking strategically and employing competitive strategies have positive effects on the organizations' performance. As such, today organizations from both the private and public sectors have taken the practice of strategic management seriously as a tool that can be utilized to fast track their performances. Quality decisions are arguably important ingredients in the conduct of competitive strategies.

Key words: *Competitive Strategies, Decision Quality, Firm Performance*

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INTRODUCTION

Competitive Strategies

Competitive or business strategy depicts the foundation on which a business will compete. Various studies have defined strategy differently; according to Salovou (2015) strategy, is defined as a deliberate set of activities put in order to achieve competitive advantage. Justnian (2015) further refer to it as the firm's competitive game plan or a pattern of choices that are designated and implemented to attain a sustainable competitive advantage within a given environment.

The main foundations of competitive advantage include the available resources, core competencies and capabilities. Resources form the basis of competitive advantage as they are bundled together to build the organizational capabilities (Porter, 1995). The best organizations however are able to control their resources through accelerating the learning pace of the organization (Dave, 2009). In realizing performance, selecting the competitive scope or the variety of the firm's activities will play a powerful part since it aims at establishing a profitable and viable position against the powers that regulate the industry competition (Ogot, 2015). Depending on the competitive environment firms choose strategies that are able to give them sustainable competitive advantage (Leitner & Guldenberg, 2010).

Competitive strategies can be conceptualized according to according to Porter (1980) as cost leadership, differentiation and focus. The Porter generic strategy framework has strong theoretical underpinnings and provides a modest business strategy idea that integrates a few dire dimensions; efficiency (cost leadership), differentiation and scale/scope (focus) (Grant, 2016). According to Shigang (2010) the strategies a firm adopts mirrors its subjective orientations and attitudes. Further according to Mullins (1999) competitive strategies can also be operationalised through outsourcing, strategic alliances, joint ventures and innovation.

Decision Quality

Decision Quality is defined as the entire process which causes a high quality decision to be attained hence maximaization of value in uncertain and complex scenarios (Mintzberg, 1976). Rausch (2007) defines Decision Quality as the quality of a decision at that particular time, regardless of the nature of its outcome; it is the entire process which causes a high quality decision to be attained. The concept permits the assurance of both effectiveness and efficiency in analyzing decision problems. When properly implemented, the decision quality enables the maximum value to be captured in not only uncertain but also complex scenarios.

Harrison (2009) contends, decision making is the most substantial activity engaged in by executives in all types of firms. He adds that it is the action that most closely characterizes executives' behavior. Of all the executive functions, decision making is without equivalence in significance. High quality decision is characterized by provision of reliable information, useful frames, diverse alternatives, logical reasoning and commitment to actions (Helfat et al., 2007).

Decision quality can be operationalized according to Rausch (2007) through the decision makers' competencies, concordance of the decisions with organizational goals, decision making process inclusivity and yield of the decisions with regard to the intended impact. Rausch (2007) further observes that for a decision to have quality it should determine long-term and short-term direction, ensure adequate competence of all stakeholders, and effective use of individuals and/or teams' competence.

Organizational Performance

Combs et al. (2005) defines firm performance as the economic outcomes resulting from the interplay among an organization's attributes, actions and environment. Mahapatro (2010) notes that the performance of the organization is it's ability to accomplish its mission and objectives through good governance customer focus and organized

management. It is also considered to mean how resources within a firm's disposal can be put in to their use effectively and efficient with the aim of achieving the objectives of the firm depending on the arising present or future opportunities (Marn & Romuald, 2012; Yasser, Entebang & Abu Mansor, 2011).

Performance can be measured using a variety of tested constructs that can lead to performance or survival of the organization (Venkatraman & Ramanujam, 1986). For instance the Kaplan and Norton (1992) four perspectives including internal process, learning and growth, the customer focus and financial focus. However Awino et al., (2011) argument is based on the notion that performance may be different from firm to firm depending on how a particular firm puts emphasis on the performance aspects which may be determined by the size of the firm under consideration and therefore concluding that performance measurements differs sharply from one firm to another firm.

There are also approaches that are considered contemporary in measuring performance according to Marn and Romuald (2012) which includes public image and perception, innovations involving products and services weather existing or new, satisfying employees, skills upgrade and also ability of the firm to invest in to training and also new value streams. Further performance can also be operationalized through completion time, relevance/ suits purpose, sustainability and operations within organizational Budget (Yasser, Entebang & Abu Mansor, 2011).

Theoretical Perspective

Various theories underpin the understanding of aspects determining organizational performance in relation to strategic management. Prominent among these theories and of particular relevance to the question of managerial autonomy, decision quality and competitive strategies includes the principal-agent theory.

Principal-Agent Theory

Difficulty in the NGO/Foundation relationship is problematic from both sides. Judgment and choice of agents is a difficult process. Ensuring performance among NGO partners is approached as an amalgamated plethora of performance appraisal with principals who compare requests for proposals (RFP) and memorandum of understandings (MOU) with NGO or NGO coalitions. Broadly spoken, rational choice neo-institutionalism argues that political institutions are systems of rules and inducements within which individuals or groups of individuals attempt to maximize their utilities (Lowndes, 2011). According to the rational choice neo-institutionalism, actors will behave according to 'a logic of consequence' (March, 2007): they choose courses of action that are calculations of expected consequences preferring the option that brings least harm or most benefit to the decision-maker.

One important approach to rational choice institutionalism is Principal-Agent (PA) theory (Jensen, 1983). The central dilemma investigated in the PA theory is how to get the 'agent' to act in the best interests of the principal or, said otherwise, how to get the agent to have an optimal contractual relationship with the principal. To attain an optimal output, the problems of information asymmetry and goal incongruence that might arise from this contractual relationship should have to be minimized (Gomez-Mejia & Wiseman, 2008). The problem of information asymmetry might appear from the contractual relationship between the principal and the agent because the agent has not been given enough information on the principal's expectations; and the agent receives different signals from multiple principals, which then leads to ambiguity (Verhoest, 2005).

Apart from information asymmetry, the principal and the agent may also have different goals, leading to goal incongruence. Adverse selection and moral hazard are critical problems the principal might then be confronted with (Verhoest, 2011; Van Thiel, 2011). Adverse selection refers to the 'misrepresentation' of ability by the agent. When

the principal has to select an agent for delegating activities to him, it might be hard for the principal to know whether an agent really has the skills or abilities to accomplish these activities. In order to be hired, the agent might conceal some information claiming that he has the right qualifications for this job. As a result, the principal might select under qualified agents. Moral hazard is another problem to the principal.

Moral hazard stands for a lack of effort on part of the agent: the agent deliberately engages in selfish activities to the detriment of the principal. The agent does not put forth the agreed-upon effort, he is shirking. These problems in the principal-agent relationship might be avoided by three kinds of mechanisms: monitoring or closely controlling of agents by principals, bonding or having ex ante guarantees of compliance by the agent, and incentives and risk sharing (the risk-averse agent 'buys' insurance from the less risk-averse principal to avoid efficiency loss and discouragement) (Verhoest, 2011; Jensen and Meckling, 1976).

Resource-Based View and Dynamic Capability Theories

Penrose (1959) provided initial insights of the resource perspective of the firm. However, "the resource-based view of the firm" (the RBV) was put forward by Wernerfelt (1984) and subsequently popularised by Barney's (1991) work. Many authors (Zollo and Winter 2002; Zahra and George 2002 and Winter 2003) made significant contribution to its conceptual development. The essence of the RBV lies in the emphasis of resources and capabilities as the genesis of competitive advantage: resources are heterogeneously distributed across competing firms, and are imperfectly mobile which, in turn, makes this heterogeneity persist over time (Penrose 1959 and Mahoney and Pandian 1992). Fundamentally, it is the V.R.I.N. (valuable, rare, inimitable and non-substitutable) resources of the firm that enable or limit the choice of markets it may enter, and the levels of profit it may expect (Wernerfelt, 1989). Yet, resource advantage may not be sufficient - the firm needs to possess distinctive capabilities of making better use of its resources (Penrose, 1959).

Furthermore, Eisenhardt and Martin (2000 p.1107) define dynamic capabilities as "the firm's processes that use resources –specifically the processes to integrate, reconfigure, gain and release resources to match and even create market change," and the organizational and strategic routines by which firms achieve new resources and configurations as markets emerge, collide, split, evolve, and die." This suggests that dynamic capabilities are simply processes and therefore does not lend us further understanding of the distinction between dynamic capabilities and processes.

Confounding the situation is the fact that a significant number of empirical studies pertinent to dynamic capabilities do not explicate the concept (Mota and de Castro 2004; George 2005; Woiceshyn and Daellenbach 2005). Instead, these studies simply describe how firm evolution occurs over time, most usually illustrated through case studies. Moreover, there are even contradictory arguments in the literature. For example, Zollo and Winter (2002) reckon that dynamic capabilities are structured and persistent in a given organisation, while Rindova and Kotha (2001), through their empirical research, identify dynamic capabilities as emergent and evolving. Despite its emphasis on excess resources and firm diversification, the RBV does not elucidate how resources create competitive advantage, in another words, the mechanism to explain the linkage between resources and product markets (Priem and Butler 2001).

Critical View of how Decision Quality influences the relationship between Competitive Strategies and Organizational Performance

According to Hayek (1945), the ultimate decisions are best left to the people who are familiar with these circumstances, who know directly of the relevant changes and of the resources immediately available to meet them. Modern firms especially need quality decisions to ensure its rapid adaptation to changes in the particular

circumstances of time and place. Dess and Davis (1984)'s findings support that firms adopting at least one of the generic strategies have superior performance than firms that do not (firms that have a stuck-in-middle position). Karnani (1984) derives that a superior cost or differentiation position leads to a larger market share, which in turn leads to higher profitability. White (1986) handles the strategy-organization- performance context within Porter's competitive strategies' typology. White (1986) concludes that business units that employ pure cost strategies achieve higher return on investment (ROI) when they have low autonomy, and the sales growth of pure differentiation strategies benefits from strong functional coordination for key functions under the responsibility of business unit manager. Wright (1991) denotes that the adoption of both low cost and differentiation strategy can lead to highest performance.

Bush and Sinclair (1992) conducting a field research in hardwood lumber industry, supports that overall cost leadership is not satisfactory in a mature industry. Whereas, the study reveals that successful companies are those that combine cost leadership with differentiation. Yamin and et al. (1999) examine the relationships among competitive strategy, competitive advantage, and organizational performance in their research. Similarly, looking firm performance through the profitability perspective, Johnson (2002) has studied the relative advantages of a cost leadership strategy versus a differentiation strategy. Ariyawardana (2003) employs the resource-based and strategy-based views of the competitive advantage paradigm in order to explain the performance of value-added tea producers in Sri Lanka.

Tehrani (2003) discusses the impact of five types of competitive strategies (product differentiation, low cost, marketing differentiation, focus product differentiation, and focus low cost) on preeminent performance among sixteen segments of high-tech industries in the US and EU. The results indicate that the relationship between competitive strategy and performance depends on the geographies the firm operates in, since US firms that adopt product differentiation, low cost, and focus product differentiation had superior performance than others while in Europe only the low cost firms outperformed other firms. Kaya (2004) examines the relationship among advanced manufacturing technologies (AMT), competitive strategies, and firm performance. The study, which is conducted in manufacturing firms, located in Gaziantep, reveals that AMT usage and adoption of differentiation strategy are both positively and significantly influential on firm performance. Another significant finding is that Implementation of a dual strategy (combination of cost leadership and differentiation) has a positive impact on performance especially when AMTs usage is higher.

Guest *et al*. (2000) analyzed data on links between Quality Decisions and performance. The broad theoretical framework guiding the analysis constituted a path model linking together business and Quality Decisions on one hand and performance outcomes on the other. The latter included measures like financial performance, quality and productivity. The overall framework was glued together by a number of Quality Decisions such as recruitment and selection, training and development, pay and rewards and Quality Decisions. A key finding was that a large proportion of organizations used a wide range of the Quality Decisions outlined, and thus had an influence on the performance.

Some research undertaken on Spanish firms by Sanz-valle *et al*. (2000) provides support for the link between cost reductions, quality enhancement and innovation led Quality Decisions and the Quality Decisions that were used. For example, cost reducers tended to provide lower levels of training, team working and pay than the other categories, whereas the innovators were more inclined to invest in teamwork, make more use of internal labor markets and pay higher rates (Sanz-Valle *et al.* 2000).

Research by West *et al.* (2002) investigating the links between specific competitive strategies and performance found that particular competitive strategies had a very strong influence on performance. One of the measures of performance in that study included financial outcomes. The analysis revealed a strong relationship between quality decisions practices and performance. Roche (1999) in his study on Irish organizations noted that organizations with a relatively high degree of integration of competitive strategy into business strategy are much more likely to adopt commitment-oriented bundles of Quality Decisions. Results from a research conducted on Taiwanese firms by Wan-Jing and Tung (2005) failed to support the universalistic perspective. Only the interaction between an innovative led competitive strategy and quality decisions exerted a significant effect on firm performance, supporting the argument of the moderating effect of competitive strategies.

Wright *et al*. (2005) carried out a study and found that organizations exhibited higher performance when they recruited and acquired employees possessing competencies consistent with the organization's current strategies. They also found that organizations exhibited higher performance when they sought out a strategy that matched their current employees' competencies, meaning that besides quality decisions, other strategies have to be embraced with it to enhance firm performance. This study confirmed a relationship between quality decisions and performance but supported the view that this is iterative because competitive strategies and practices tend to be fairly unchanging over time and could therefore be linked both to past and future performance.

A study done by Ernest (2003) using objective and subjective performance measures and cross-sectional and longitudinal data confirmed an association between Quality Decisions and performance. This implies then that unless quality decisions work in association with other strategies, then a firm may not register enhanced performance for embracing quality decisions. A study by Dyer and Reeves (1995) of various models listing Quality Decisions which create a link between competitive strategies and business performance found that the activities appearing in most of the models were involvement, careful selection, extensive training and contingent pay. These were bundled with the business strategy adopted by the firm.

CONCLUSION

To obtain firm performance within the scope of sustainable competitive advantage, decisions on shaping firm's competitive strategies are one of the main issues for managers under firms' business level strategy. Because, the formulation and completion of competitive business strategies that will improve performance are one of the competent methods to achieve firm's sustainable competitive advantage. Therefore, the impact of competitive strategies on firm performance is a major issue of unease the policy makers and has been playing important role to refine firm performance for a long time. Competitive advantage is the result of a strategy helping a firm to maintain and sustain a favorable market position. This position is translated into higher profits compared to those obtained by competitors operating in the same industry.

Strategic decisions have important consequences for organizational performance and are often the result of the involvement of actors both from inside as well as outside the organization. In order to develop an assessment of the decision situation, central decision makers gather most of their information through social ties in their direct environment, which constitute their social capital. Studies on the social capital of managers show that the relations they maintain affect their behavior in organizations as well as organizational processes. The implication for central decision makers is that their assessment of the decision situation depends largely on who they are connected to and interact with during the strategic decision-making process.

Implication of the Study

The literature review found that competitive strategies have positive effects on firm performance. Firms with advantage creating strategy are frequently first to introduce new products and technologies on the market and thus create series of short-term monopolistic market positions. The findings were further of the implication that making quality decisions is a critical factor in achieving superior performance. Quality decisions may facilitate a focus on satisfying customer expectations on a product which includes pricing, applicable industry standards and satisfactory cost and profit outcome. Quality decision making processes will yield the most appropriate actions giving results that are difficult to imitate. The dimensions that organizations show great interest in and focus on while providing products so as to meet market demand include cost, quality, time, and flexibility, innovation and responsiveness. As organizational learning takes place employee competencies that facilitate making of quality decisions should increase.

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