DOES SUSTAINABLE COMPETITIVE ADVANTAGE EXIST? AND, IF SO, HOW CAN IT BE ACHIEVED?

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ABSTRACT
Strategists and economists have spent years studying firms and organisations that have been successful. The questions that arose back then remain unanswered today. Why are some organisations more successful than others? What is different about these successful firms? How did they achieve this competitive advantage (CA)? And is it sustainable? Many theories have been put forward in an effort to solve this matter, but not one particular theory has been acknowledged as the means of gaining this competitive advantage (Cockburn, Henderson and Stern, 2000). Strategy within the 1980s mainly focused on the management of external factors as the source of competitive advantage (Porter, 1985). In the context of tourism, this is even more apparent. Many authors within the tourism literature have researched competitiveness in relation to the external environment (Yasin, Alavi, Sobral, Lisboa, 2003; Go, Pine and Yu, 1994). However, in the early nineties there was a significant shift in focus when strategists began to recognise that CA came from resources within the firm (Mahoney and Pandian, 1992; Barney, 1991; Grant, 1991).

Policy makers have recognised the significant role that the Irish tourism sector plays within the Irish economy as well as its lack of competitiveness, hence they are eager to instil competitiveness in Irish tourism organisations (Dept of Arts, Sports and Tourism, 2010; Tourism Renewal Group, 2009). However, the dynamic nature of the tourism industry has made competition difficult to sustain. The problem with Sustainable Competitive Advantage (SCA) is that nobody really knows how to achieve it or whether it can even exist (Useem, 2000). There has been significant debate about this issue in strategic literature for quite some time and is still ongoing today (Fiol, 2001; Coyne, 1986).
This paper will look comprehensively at whether it is possible for a tourism organisation to attain a competitive advantage. If it is possible, then how can the tourism organisation’s internal resources be utilised to gain this level of competitiveness. Furthermore, this paper will discuss whether tourist practitioners can transform this advantage into a sustainable competitive advantage.
INTRODUCTION
The tourism landscape is increasingly changing and the industry is at a significant turning point in its evolution. Due to economic circumstances and increased international competition, the industry has seen a significant loss in competitiveness which if not redressed, will undermine the capacity of Irish tourism to benefit from the strong growth envisaged in international tourism in the years ahead.\(^1\)

However, readdressing competitiveness is not a simple endeavour. In part, this can be attributed to the confusion surrounding the concept of competitiveness. Although descriptions and definitions abound within academic literature, there is a serious lack of clarity as to what CA is in the minds of policy makers and how to achieve it (O’ Riordan, 2005). Moreover, this has culminated into people using the same terminology but with very different meanings (Rumelt, 2003; 1). The consequence of this is that there is a myriad of perspectives in which strategists believe competitive advantage is developed. This paper proposes to disentangle the concept and source of CA and explain the process in sustaining such an advantage.

The structure of this paper is as follows. First, the authors will retrace the origins of competitive advantage in order to clarify the concept. Subsequently, the authors will delve into strategic literature from a resource-based view perspective to develop a conceptual framework that practitioners can utilise to gain a sustained competitive advantage. The paper

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\(^1\) On both a European and a global basis, tourism is seen as a high growth business – the most current figures available from the UNWTO indicates that: 1) worldwide arrivals in 2006 should have reached 842 million, 2) 2007 will be the fourth consecutive year of sustained growth in the global tourism industry – increasing by 4%, and 3) arrivals by 2020 are expected to surpass 1.5 billion people (based on an expected growth rate of 4.1% per year). Europe receives almost half a billion tourists every year, representing half the global tourism traffic, and six of the ten top world tourism destinations are in the EU; the EU saw the tourism market growth by 4% in 2007 and forecasters expect that Europe will receive 715 million visitors in 2020, which represents a drop in tourism traffic (46%) (http://ec.europa.eu/enterprise/e_i/news/article_6910_en.htm).
will conclude with an agenda for future research in developing competitiveness within the cultural and heritage organisations in Ireland’s tourism industry.

COMPETITIVE ADVANTAGE: ORIGINS, DEFINITION AND CLARITY

To understand the development of CA it is useful to draw on strategic literature and in particular, economic theory (Foss and Knudsen, 2003). Within Industrial Organisation (IO) theory, explanations of performance difference were attributed to external factors within the marketplace. This area of economic theory focused on perfect competition, barriers to entry and market structure. According to neo-classical economists, the market is one of perfect competition characterised by “homogenous goods”, “countless buyers and sellers” with “timely information” and who have no influential power over the goods and services they deal with (Collis and Montgomery, 1997; 26). In reality, this is not the case otherwise there would be no such thing as competition or strategy for that matter (Collis and Montgomery, 1997). IO theory was heavily influenced by strategic theorists such as Bain, Mason and has since been developed by Michael E. Porter in the 1980s with his ‘Five Forces Model’ (Nothnagel, 2008; Wills-Johnson, 2006; Porter, 1985); this culminated into what is known as the ‘Market-Based View’ (MBV). The objective of the MBV “was to find an explanation for the cause of performance differences between firms within the same industrial sector” (Nothnagel, 2008; 17). Even though Porter’s five forces model gained increasing popularity and is still in use today, it has been criticised for its dominance on the marketplace alone (Zack, 1999).

As a consequence strategists have shifted their focus from IO theory to Organisational Economics. Strategy was again returning to a more internal perspective of the firm rather
than positioning itself in relation to the external market conditions and characteristics (Hoskisson et al., 1999; Mahoney and Pandian, 1992; Grant, 1991).

What is notable in the strategy literature is that CA can be sourced internally or externally in the form of valuable resources, capabilities, dynamic capabilities, position within the industry or marketplace, lower costs and differentiation (Reed and DeFillippi 1990). Due to the abundance of factors that can contribute to such an advantage, the term ‘competitive advantage’ is not definitively clear (Cockburn, Henderson and Stern, 2000). Barney defines CA at an organisational level where firms are “implementing a value creating strategy not simultaneously being implemented by any current or potential competitors” (1991; 102). For Barney and Hesterley, CA is when a firm “is able to create more economic value than rival firms” (2006; 12). Similarly, Porter states that there are two forms of CA; one is based on decreasing costs while the other is based on differentiation (1991). Indeed, Coyne (1986) believes that ‘competitive strategy’ takes its form in an organisation when it persuades customers to purchase from their organisation even though their competitors may have various resources and strengths over their organisation, thus conquering its competitors and also the marketplace. Collis and Montgomery analyse competitive advantage from the Resource-Based perspective; “the RBV reflects the managerial literature by endorsing the virtues of organisational capabilities (however defined) as a valuable source of competitive advantage” (1994; 143). Consistent with this is Carmeli’s definition of CA; “In a dynamic and competitive environment, the real source of competitive advantage is underlined by the organisation’s ability to consistently meet environmental changes, as well as to change the industry structure” (2004; 111).
The concept of ‘Sustainable Competitive Advantage’ (SCA) is even more precarious; the literature is unclear as how to achieve it or whether it can even exist. Achieving a competitive advantage is attainable but how long can it really last for? There has been significant debate about this issue in strategy for quite some time (Coyne, 1986). Coyne states that “perhaps it is because the meaning of ‘sustainable competitive advantage’ is superficially self-evident that virtually no effort has been made to define it explicitly” (1986; 54). The term ‘sustainable’ has many different meanings to various people. This has made it difficult to define in a general sense and is somewhat akin to the definitional problem of CA that was discussed previously. A collection of definitions constructed by various researchers in the literature will now be analysed.

Porter characterises SCA as “the fundamental basis of above-average performance in the long run” (1985; 12). Similarly for Hill and Jones an organisation “has a sustained competitive advantage when it is able to maintain above-average profitability over a number of years” (2004; 76). While Hall outlines that “companies have sustainable competitive advantage when they consistently produce product/delivery systems with attributes which correspond to the key buying criteria for the majority of the customers in their targeted market” (1992; 135). The core premise upon which ‘sustained’ competitive advantage is founded upon is reflected on a time continuum. Barney, however, takes an alternative view. He clarifies that the word ‘sustained’ does not signify ‘time’ but rather it refers to the organisation’s ability to have a strategy in place that cannot be replicated by current or potential competitors (1991). Many other authors take the former view (Hill & Jones, 2004; Hall, 1992; Fahy and Smithee, 1991; Reed and DeFillippi, 1990). Nonetheless, within this paper the term ‘sustainable’ will not denote time. Instead, similar to Barney’s (1991) understanding of the term, sustainable
competitive advantage will signify ‘the capability of an organisation to continuously transform oneself’.

Nevertheless the existence of SCA has been called in to question by some strategists (Fiol, 2001; Useem, 2000). They believe that it is not possible to achieve a SCA; rather organisations must develop iterative competitive advantages. Useem labels this strategic technique as ‘Renewable Competitive Advantage’ or ‘Leverageable Advantage’; meaning “using one temporary position of strength to hopscotch into another” (2000; 104). Equally, Fiol suggests that “the skills/resources and the way organisations use them must constantly change, leading to the creation of continuously changing temporary advantages” (2001; 692). In keeping with capability literature, Day (1994) believes that the more prepared and dynamic a company is to the shifting marketplace then it is more probable that they will achieve a SCA. From this discussion it is evident that the organisation needs to go through a transformational process that will enable the firm to sustain their competitive advantage.

Drawing on the resource based (Barney, 1991) and dynamic capabilities views of the firm (Teece et al., 1997), this paper will demonstrate how resources and capabilities are the source of an organisation’s SCA.

**ACHIEVING SCA: A RESOURCE-BASED VIEW**

The resource based strategy paradigm emphasises distinctive firm specific, valuable, imperfectly inimitable, non-substitutable and rare resources and capabilities that confer a competitive advantage on the firm that possesses them (Barney 1991). Resources relate to the “stocks of available factors that are owned or controlled by the firm” (Amit and Schoemaker, 1993: 35) and “inputs into the production process” Grant (1991; 118). According to Andriessen (2001) resources can be categorised under the following groups: 1) tangible
assets, 2) financial assets and 3) intangible assets. Tangible assets (e.g. historical buildings, gardens) and financial assets (e.g. shares and funding) give a firm a temporary competitive advantage under these conditions (Hitt and Ireland, 2002). Nevertheless, this is insufficient in the long term, as competitors will soon begin to acquire the necessary resources through imitation or substitution thus eliminating these valuable characteristics (Vanderkaay, 2000).

For Roos et al, (1997) intangible assets are the only type of resources that have the ability to be valuable, rare, inimitable and non-substitutable, and are therefore a source of sustained competitive advantage. Resources alone are not enough to create a competitive advantage; they need to be leveraged through capabilities. (Eisenhardt and Martin, 2000). Working in combination with one another, resources are the “stocks of available factors that are owned or controlled by the firm” and capabilities are the “firm’s capacity to deploy resources” (Amit and Schoemaker, 1993: 35). These resources are the “inputs into the production process” and capabilities are “the capacity for a team of resources to perform some task or activity”; thus, “resources are the source of a firm’s capabilities” and “capabilities are the main source of its competitive advantage” (Grant, 1991: 119). The main difference between resources and capabilities is that organisations have ownership over their resources, while capabilities refer to an activity that the organisation can accomplish rather than be in possession of (Grant, 2005).

Although it has been recognised that ‘capabilities’ are a complex concept, a scant amount of literature has dared to separate the terminological confusion to address this problem (Dosi et al, 2000; Winter, 2000). Dosi et al., encapsulate the confusion surrounding capability through their iceberg metaphor: “The term ‘capabilities’ floats in the literature like an iceberg in a foggy Arctic sea, one iceberg among many, not easily recognised as different from several icebergs nearby” (2000; 3). While Winter refers to its perplexity as “a rather thick
terminological haze over the landscape where ‘capability’ lies” (2000; 983). This knowledge gap leads to the unanswered question of what are capabilities. What type of capabilities do cultural and heritage organisations need? Does the ownership of such capabilities enhance cultural and heritage organisation’s competitive advantage? And if so, what type of capability confers a sustainable competitive advantage on these tourism organisations?

For Stalk, Evans, and Shulman “a capability is a set of business processes strategically understood, however a capability is strategic only when it begins and ends with the customer” (1992; 60). While Makadok sees a capability “as a special type of resources; specifically, an organisationally embedded non-transferable firm-specific resource whose purpose is to improve the productivity of the other resources possessed by the firm” (2001; 389). Leonard Barton on the other hand takes a “knowledge-based view of the firm” and defines “a core capability as the knowledge set that distinguishes and provides a competitive advantage” (1992; 113). Amit and Schoemaker suggest that “capabilities refer to a firm’s capacity to deploy resources, usually in combination, using organisational processes, to effect a desired end” (1993; 35). “To be capable of some thing is to have a generally reliable capacity to bring that thing about as a result of intended action” (Dosi et al. 2000; 2). For these authors “capabilities fill the gap between intention and outcome”. What becomes apparent from the literature is that the definition of ‘capability’ is mainly action or routine based.

Furthermore, the confusion surrounding the term ‘capability’ is amplified due to the diversification and branching off into various other subsets of capabilities, i.e. organisational capabilities, dynamic capabilities, and so on. Adding further to this confusion is the way in which authors use the terms ‘resources’ and ‘capabilities’ interchangeably. However, Ray, Barney and Muhanna suggest that this is due to the various theoretical perspectives taken by
each author; authors using evolutionary economics will “tend to describe these phenomena as routines” while others refer to the “structure, conduct and performance model in industrial organisation economics tend to describe these phenomena as activities” (2004; 24). However, this raises the issue of how do we know whether a tourism organisation is in possession of a capability that will lead to competitive advantage? Winter (2003) states that there is no simplified answer but that there is a need for some form of benchmarking to measure the level of certain capabilities within an organisation. However, Helfat and Peteraf, warn that caution is needed because “to say that an organisation has a capability means only that it has reached some minimum level of functionality that permits repeated, reliable performance of an activity” (2003; 999). It does not mean that the organisation has achieved the highest possible standard. Moreover capabilities will differ within organisations depending on various factors, such as the market in which they are operating, their resource pool and so on. This implies that capabilities exist on a continuum with varying levels of strategy ranging from low to high (Bakhru, 2004; Winter, 2000; Collis, 1994) (See Figure 1).

Figure 1: Capability Continuum

The first level of capabilities is known as ‘organisational capabilities’ and “refers to the ability of an organisation to perform a coordinated set of tasks, utilising organisational resources, for the purpose of achieving a particular end result” (Helfat and Peteraf, 2003;
These are the core business processes within the organisation that enable an organisation to run (Winter, 2003). They are vital to the business but are not necessarily the conditions under which the organisation can achieve a sustainable competitive advantage. In essence, they are “the socially complex routines that determine the efficiency with which firms physically transform inputs into outputs” (Collis, 1994; 14). These first level capabilities are also known as a ‘zero-level capability’ (Winter, 2003; 992) and can confer a competitive advantage upon an organisation, but not necessarily one that is sustainable.

The second order capabilities on the continuum are dynamic capabilities, which is the ability of an organisation to be flexible and adaptable to change through various means. This class of capability is very different to an organisational capability in that they are more strategically based (Winter, 2003) because they entail “adaptation and change” to “build, integrate, and reconfigure other resources and capabilities” to address rapidly changing environments and improve firm effectiveness (Helfat and Peteraf, 2003, 997; Teece et al., 1997, 515). However, what is noteworthy here is that while dynamic capabilities are generally referred to in the literature as a source of competitive advantage (Teece, 2007; Dosi et al. 2000; Stalk et al, 1992), they never the less can be imitated because “competitive advantage lies in the resource configuration that they create, not in the capabilities themselves” (Eisenhardt and Martin 2000; 1106). This means that dynamic capabilities create subsets of capabilities or change another dynamic capability, but they “cannot act upon itself to transform itself” (Helfat and Peteraf, 2003; 1008). Moreover, change can happen without a firm being in possession of a dynamic capability through a process of ‘ad hoc problem solving’ (Winter, 2003). This implies that the traditional perspective denoting dynamic capabilities as a transformational capability maybe misplaced (Helfat and Peteraf, 2003) and that an even higher order capability is required.
This more abstract and obscure capability has the capacity of creating knowledge resource configurations that will lead to a sustained competitive advantage. Simply stated, it is this knowledge management (KM) capability that enables the firms intellectual resource pools to interact which in turn facilitates organisational learning (OL) and behavioural change to occur (Ordonez de Pablos, 2005; McElroy, 2000). The complexity of this transformational capability ensures that imitability and substitution by competitors is kept to a minimum. Even to the point that the organisation itself may not understand where this sustained competitive advantage has arisen from in the first place.
CONCLUSION

Although it is almost an axiom in the literature that dynamic capabilities leads to sustained competitive advantage, the authors put forward the argument that there is a need to re-think our conceptualization of how tourism organisations are utilising and maximising their intangible resource stocks as a means of gaining competitive advantage. We present a tentative conceptual framework that argues that the extant concept of linking dynamic capabilities to sustained competitive advantage maybe oversimplified and that there is in fact a higher order capability termed transformational that has the capacity of creating knowledge resource configurations that lead to a sustained competitive advantage.

However, because our framework is a first attempt, and is only a starting point on the path to understanding the complexity of capability dynamics, it has its shortcomings and raises perhaps many more questions than it answers. For instance, can this transformational capability create a sustainable competitive advantage and if so how can this transformational capability be measured? How can cultural and heritage organisations build such a framework given their lack of resources and small structures? This article is part of an ongoing research project and building upon the model presented here is a key part of our future research agenda.
REFERENCES


