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Does the implementation of a combination competitive strategy yield incremental performance benefits? A new perspective from a transition economy in Sub-Saharan Africa

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Abstract

This study examines the performance implications of implementing generic competitive strategies, and whether the implementation of a combination competitive strategy yields an incremental performance benefit over a single generic competitive strategy using data from Ghana, a Sub-Saharan African economy implementing economic liberalization policies. Two types of singular generic competitive strategies are analyzed: cost-leadership and differentiation. Our findings from the overall sample provide support for the viability and profitability of implementing coherent generic competitive strategies — cost-leadership, differentiation, and the combination of the singular strategies. The results further indicate that firms implementing a combination strategy tend to experience substantial incremental performance benefits over those implementing only the cost-leadership strategy. However, the incremental performance benefits to firms implementing a combination strategy do not significantly differ from the performance of firms implementing only the differentiation strategy. Furthermore, firms that implement a coherent competitive strategy (combination, cost-leadership, or differentiation) tend to gain considerable incremental performance benefits over firms that are stuck-in-the-middle. Implications are discussed.

Keywords: Incremental performance benefit; Competitive strategies; Sub-Saharan Africa transition economy; Ghana

1. Introduction

The impact of Porter's (1980, 1985) generic competitive strategies of overall cost-leadership, differentiation and focus on strategic management research cannot be overemphasized. According to Porter (1985), each of these three generic competitive strategies is a completely different way of creating a sustainable competitive advantage. A firm must, therefore, make a choice between cost-leadership and differentiation strategies or it will become stuck-in-the-middle without a coherent strategy. Several researchers have found empirical support for Porter's assertion that overall cost-leadership and differentiation cannot be simultaneously pursued successfully (Dess and Davis, 1984; Hambrick, 1983; Robinson and Pearce, 1988). Others have, however, asserted that cost-leadership and differentiation strategies are not mutually exclusive and that they can be pursued simultaneously (Hill, 1988; Jones and Butler, 1988, Murray, 1988; Wright, 1987). Although, few empirical studies have specifically investigated the impact of simultaneous pursuit of generic competitive strategies (i.e., combination strategy) on firm performance (Kim et al., 2004; Miller and Dess, 1993; Spanos et al., 2004; Wright et al., 1991), none has directly tested its incremental performance benefits over singular strategies.

The purpose of this paper is to extend this line of inquiry by (1) determining the performance implications of implementing a coherent competitive strategy (cost-leadership, differentiation and a combination of cost-leadership and differentiation), and (2) examining the incremental performance benefits of implementing a combination competitive strategy over a single generic strategy using data from a transition economy in Sub-Saharan Africa-Ghana. Transition economies in Sub-Saharan Africa have historically insulated domestic firms from global and sometimes domestic competition. However, these countries are currently

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transforming their economies from state-controlled to free market capitalist systems. Governments in most of these Sub-Saharan African transition economies have been implementing economic transformation policies for more than two decades – have dismantled protectionist barriers, adopted free trade policies, created market-friendly institutions and integrated these economies into the global market economy – thus intensifying domestic market competition. However, the impact of the economic transformation policies have been slow to take hold, therefore, these transition economies are still characterized by a high level of market imperfections and generally suffer from "institutional voids" — the absence of market-supporting institutions, specialized intermediaries, contract-enforcing mechanisms, and efficient transportation and communications networks (Khanna and Palepu, 1997, 2006). As a result of these institutional voids, firms lack key raw materials, easy access to capital at a reasonable cost, and managerial and technical talents. In addition, income levels are typically low while the pool of unskilled labor is relatively high. While these conditions have lead to increased business transaction costs and business risks, the economic liberalization policies have increased competition by exposing consumers to wide-ranging product choices, thus requiring different strategic responses by firms in the domestic economies. The need to focus on cost reduction and efficiency improvement, in addition to improving quality is therefore a strategic priority to firms in transition economies.

Although, Ghana is a relatively small transition economy it has received considerable attention in the popular business press with regards to its success in implementing economic transformation policies in Sub-Saharan Africa (Leechor, 1994). The content of the economic transformation policies in Ghana include: privatization of state owned enterprises; monetary and banking reforms to improve access to capital; removal of import controls and foreign exchange restrictions; removal of price controls and local production subsidies; and the development of private entrepreneurial organizations. The economic liberalization policies have increased competition in the business environment. Domestic firms that were formally insulated from competition emanating from the global economy now face significant changes in the environment in which they do business. Thus it is important for domestic firms to develop viable competitive strategies in their quest to become competitive and successful in the liberalized economy (Anand et al., 2006). Responding to the increased competition in the domestic business environment, firms in Ghana have become more competitor- and customer-focused by developing and implementing the appropriate business strategies that would enable them to improve their competitiveness and performance. We thus answer the following questions: What should firms in this transition economy do strategically to become competitive and profitable? Should firms focus on implementing a singular competitive strategy (e.g., cost-leadership or differentiation) in order to become competitive and profitable? Or should firms consider implementing a strategy that simultaneously focuses on cost-leadership and differentiation (i.e., combination competitive strategy)? Are there any incremental performance benefits to implementing a combination competitive strategy over singular strategies?

We posit that the implementation of a combination competitive strategy is not only feasible, but will also generate superior incremental performance over the implementation of single competitive strategies. The implementation of a combination competitive strategy results in multiple sources of competitive advantage (e.g., economies of scale and brand/customer loyalty) as compared to advantages gained through pursuit of single competitive strategies. Moreover, the pursuit of a combination competitive strategy, and each of the single competitive strategies will generate superior incremental performance over the inability to successfully pursue any of the singular competitive strategies (i.e., stuck-in-the-middle). Thus, in this paper, we focus on the additional performance benefits that accrue to firms as a result of implementing a combination competitive strategy. This approach contrasts sharply with most prior studies (e.g., Kim et al., 2004; Miller and Dess, 1993; Spanos et al., 2004; Wright et al., 1991) that have examined the impact of the pursuit of a combination strategy on firm performance without explicitly separating out the incremental benefits of the combination competitive strategy over each of the singular competitive strategies.

2. Theory and hypotheses

2.1. Theoretical background

Porter (1980, 1985) developed the concept of generic competitive strategies – overall cost-leadership, differentiation, and focus – to represent different strategic orientations a firm should pursue in order to realize its goals. Porter claimed that firms that pursue any of these strategic orientations would acquire a competitive advantage that would enable them to outperform competitors in their industry. On the other hand, firms that fail to develop their strategic orientation in at least one of the three directions would be "stuck-in-the-middle" and experience low profitability (Porter, 1980, p. 41). Furthermore, for a firm to earn superior profits and outperform its competitors, it must make a clear choice between cost-leadership and differentiation strategies in order to avoid "the inherent contradictions of different strategies" (Porter, 1996, p. 67). Porter (1985), however, argued that a firm can only pursue a combination strategy and outperform its rivals under three conditions: when competitors are "stuck-in-the-middle"; when the firm enjoys overwhelming economies of scale; and when the firm holds exclusive rights to a major technological innovation.

From a theoretical perspective, several studies have challenged Porter's thesis and advanced support for the efficacy of pursuing a combination strategy. Karnani (1984), Hill (1988), Jones and Butler (1988), and Murray (1988) have shown that it is feasible to combine generic competitive strategies under certain conditions. Empirical studies such as Hambrick (1983), Dess and Davis (1984), Robinson and Pearce (1988), and Campbell-Hunt (2000) have confirmed Porter's thesis. Conversely, support for the viability of a combination strategy has also been documented by several studies (Bowman and Ambrosini, 1997; Kim et al., 2004; Miller and Dess, 1993; Spanos et al., 2004; Wright et al., 1990, 1991). Table 1 presents a brief summary of some of the empirical studies that have examined the combination strategy-performance relationship using Porter's typology. Studies in Table 1 indicate that the differences in the findings are due to the operationalization of the combination strategy construct. Studies that failed to