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Distinctive competencies and competency-based management in regulated sectors: A methodological proposal applied to the pharmaceutical retail sector in Spain

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ABSTRACT

To gain the competitive advantage needed to survive and compete in an environment led by large distribution chains, small-scale retailers need to develop distinctive competencies. This is particularly relevant in the case of retail pharmacies, which are already affected by continuously eroding profit margins, increasing liberalization of the sector and growing competition from new non-pharmaceutical outlets. Against this background, this paper contributes to identifying distinctive competencies with the potential to enhance business performance in retail pharmacies. Using structural equation modelling on a sample of Spanish pharmacies, it also establishes relationships between possession of certain distinctive competencies and success in building a sustainable competitive advantage.

1. Introduction

The resource and capability theory, which has become a dominant paradigm in the management literature (Lavie, 2006), enjoys widespread theoretic and empirical support, albeit not in the same measure (Newbert, 2007). As part of a firm's resource base (Teece et al., 1997), distinctive competencies are the skills, knowledge and capabilities which, according to Mooney (2007) share the characteristics of being visible to customers, superior to those of rival firms and difficult to imitate. When strategically implemented, these distinctive competencies can lead to sustainable competitive advantages. Nevertheless, as Voigt et al. (2017) suggest in their research, competitive advantages are losing relevance within the current turbulent global economic environment. They propose to add innovation processes as a way to preserve firms market position.

There is an extensive literature on the relationships between distinctive competencies and firm performance (e.g., Snow and Hrebiniak, 1980; Dess and Robinson, 1884; Conant et al., 1990; Martin et al., 2017) and between distinctive competencies and competitive advantage (e.g., Stoner, 1987; Lado et al., 1992; Conant et al., 1993). However, most of the research evidence regarding these relationships relates to large firms and industrial companies (Neil, 1986; Dröge et al., 1994). Despite being one of the basic components of the social and economic structure of most cultures, the small-scale retail sector has rarely been the focus of interest in this respect. Most of the research on the relationships among distinctive competencies, firm performance and competitive advantage have concentrated on medium-sized and large firms (Hitt and Ireland, 1985; Miller et al., 1997).

Still fewer attempts have been made to analyze the potential of distinctive competencies to create competitive advantages in regulated retail sectors. Competition is limited in these sectors, the environment is less aggressive, and thus, the incentives for management improvements have diminished (Carman and Dominguez, 2001). However, training and development for owners and employees within the pharmaceutical sector remains a key factor for the firm to survive and succeed (Srinivas and Suresh, 2014). Given the lack of scope in regulated markets for certain competitive advantages, such as the unrestricted siting of outlets, competency-based management and the development of distinctive competencies can still play an important role.

Although these theories were adapted in the course of time to apply to small firms, the findings were largely limited and inconclusive, since the approach used to obtain the approximations failed to consider their specific characteristics (Huck and McEwen, 1991). This premise motivates our desire to provide some insight on the key factors of success in small firms and small-scale retailers in particular. From the literature and previous studies, it appears clear that success is closely linked to possessing and securing a competitive advantage (Wagner and Hollenbeck, 2014). This paper therefore focuses on analyzing the potential of distinctive competencies to generate competitive advantages in a strictly regulated environment, such as that of the retail distribution of pharmaceutical

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products. This requires finding a suitable means to measure the degree of acquisition of a competitive advantage, but the wide range of research on the topic has provided tested indicators. The ultimate aim of the paper is to identify potential areas within the scope of small-scale retailers that will enable them to acquire these competitive advantages.

The remainder of the paper is organized as follows. Section 2 offers a brief discussion of the conceptual framework. Section 3 describes the empirical research setting: retail pharmaceutical distribution in Spain. The research method is explained in Section 4. Section 5 identifies distinctive competencies and analyzes the impact of each of these on the performance of retail pharmacies and the generation of competitive advantages. The limitations and conclusions of the study are set out in Sections 6 and 7.

2. Conceptual framework

The resources and capabilities theory shocked the field of strategic management prompting a significant change in the concept of what constitutes a performance-determining factor in business. It is a theory that places the emphasis on two concepts arising in works such as Barney (1991), Grant (1991) and, Amit and Schomaker (1993): resources and capabilities and competitive advantage.

The idea of resources and capabilities focuses on sources of heterogeneity among firms. Even within the same sector or geographical location, all firms differ in terms of resource and skill endowment. It is their skill in managing these factors and developing the necessary competencies to integrate them into the firm that is the source of their competitive capacity. Resources and capabilities, therefore, provide the foundations of competitive advantage, which is the second key concept in this framework (Wernerfelt, 1984). Competitive advantage is the capacity to generate a sustained improvement in average revenues (Barney, 1991). To meet this objective, the firm needs to develop factors (resources and capabilities) that will differentiate it from others (Kraaijenbrink et. al, 2010).

However, the mere possession of resources and capabilities is no guarantee of achieving a competitive advantage. Proper resource management is what makes the difference between gaining and failing to gain this advantage, through a sustained profit increase. Competencies are the amalgam of capabilities, knowledge and skills, which, according to Collis (1994), enable a firm to increase its intangible resources, perform critical activities more efficiently than their competitors and be ready with new strategies for adapting to change. Distinctive competencies are higher skills, which, being difficult to imitate, help to sustain a competitive advantage (Teece et al., 1997).

Given the important role of distinctive competencies in firm performance, it is hardly surprising to find such an abundance of literature on the subject. It must be noted, however, that the factors for competitive success in business vary not only through time, but also across sectors and geographical locations. Thus, the factors that determine success in one context will not necessarily do so in another (Megicks, 2001; Xiong, 2005). It is clear, therefore, that before embarking on the analysis of the distinctive competencies that generate a competitive advantage, it is first necessary to establish our research setting.

Small businesses must continually attempt to achieve a sustainable competitive advantage over competitors. In the retail distribution sector, while various competencies have been identified as being important, there are three that stand out above the rest: store image, managerial control and the implementation of knowledge management (McGee and Peterson, 2000).

Firstly, it should be noted that store image is one of key factors of success in the retail industry (Conant et al., 1990; Woodside et. al, 1999). Wu et al. (2010) reveal that store image has a direct and positive effect on the purchase intention. This is further corroborated by Diallo´s findings on the positive relation between store image and purchase intention. In this study, Diallo found a mediating effect of store image, on the relationship between price image, risk perception and purchase intention (Diallo, 2012). Bouzaabia et al., (2013) take a different approach on the relation between store image and customer satisfaction and loyalty, based on in-store logistics operations, in order to create value for the customer. Thomas, 2013 confirms in his research the positive impact of store image on customer loyalty, through the mediating variable customer satisfaction. Small-scale retailers tend to equate company image with store image, while multi-store businesses acknowledge possible differences between these two constructs. Martineau (1958, p.47) used the concept of store image, which he defined as "the way in which the store is defined in the consumer's mind, partly by its functional qualities and partly by an aura of psychological attributes". The store's image is its positioning with potential customers; that which differentiates it from its rivals. Baht and Reddy (1998) and Levy et al. (1992) claim that image is based on functional and symbolic characteristics. The functional characteristics for the small-scale retailer are basically the surface area and proximity of the store, and the range, availability, prices and quality of the products; while the symbolic elements relate to more subjective and abstract issues, the most important being the intangible aspects of customer service. Grönroos (1994) focuses on these intangible factors and identifies customer service image with service quality and staff-customer interaction attributes. Building on the above-mentioned studies, Jarvenpaa and Todd (1997) identify the key dimensions of the store image construct as product perception, the purchase experience and customer service. In the retail distribution of pharmaceutical products, all these aspects of store image are important. Not only physical features, such as the product layout in the store, but also customer service or the pharmacy's participation in public health campaigns can help to build a positive store image leading to improvements in firm performance and competitive advantage.

Managerial control as a distinctive competency is our second research focus. The predominant business format in the retail pharmaceutical distribution sector is the micro enterprise, which is typically run by a small staff, making communication, control and knowledge-sharing simpler (Kogut and Zander, 1996). Shared knowledge is a powerful tool for controlling managerial decisions, through more widespread awareness of cost issues or price setting criteria, for example, Conant et al. (1990) provide empirical evidence about the relationship between store performance and managerial control. Furthermore, Conant et al. (1993) find that small stores with control over their basic activities perform better than those with no clear idea of what issues they need to control. Both McGee and Finney (1997) and McGee and Peterson (2000) report a relationship between managerial control over strategy implementation and firm performance. Voss and Brettel (2014) as well identified in their research that managerial control has a stronger effect on small firm's performance, if the firm emphasizes human resources management. In this sense, the authors suggest that managers should employ a portfolio consisting of both formal and informal controls.

The third and last key competency for retail store success we will discuss is knowledge management, which has drawn considerable attention in the literature, (Nonaka, 1991; Choi and Lee, 2002; Chakravarthy et al., 2005; Chan and Mauborgne, 2005). Knowledge management is relevant in any context. Tolstoy (2009) for example, asserts that knowledge is dispersed among the individuals and entities that interact with the organization and the main aim of the manager is to collect, compile and segment that knowledge in order to give it value-creating capacity. As in the case of managerial control, the typically small staffs running retail pharmacies mean that interpersonal issues play a larger role. Thus, one of the goals of the small retailer is to manage his own knowledge as a competency with which to generate competitive advantages. Wong and Aspinwall (2005) identify knowledge management in small and medium-sized firms based on the following concepts: human resource management, staff training, IT, knowledge management processes and business culture. The knowledge spreads among external agents (customers, market) and internal agents (staff). Integrating their knowledge is vital for the generation of competitive advantage. Solek-Borowska (2017) reveals that small enterprises do not rely as much as bigger firms, upon explicit knowledge sharing channels. Therefore, small enterprises can focus on fostering face-to-face interactive processes that facilitate tacit knowledge sharing.

As already indicated, these three key areas of distinctive competency have the potential to enhance business performance and competitive positioning. As noted by Dröge et al. (1994), however, they are also interrelated. McGee and Peterson (2000) argue that retailers who stand out in one competency