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# THE COMPETITIVE ADVANTAGE AS A RESULT OF AN ORGANIZATIONAL CHART BASED ON MARKET ORIENTATION

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**Abstract:**

*The competitive advantage can be obtained by the use of specific strategies in an international context: off shoring and outsourcing. These, however, have limitations such as the ephemeral nature of the benefit obtained and difficulties such as building effective collaboration reflected by the need to pay particular attention to differences in professional and national cultures (between partners). The market orientation as a basis for the reconfiguration of the organizational chart and may be useful for the establishment of a value system designed to strengthen the competitive advantage.*

**Keywords:** *off shoring outsourcing, competitive advantage, value system, organizational patterns, market orientation, culture.*

## 1. Introduction

Competitiveness is one the most important preoccupations of either public or private organizations. It is defined as the capacity to face competition. Within the last decades, companies have adopted specific strategies like relocation or outsourcing (part 1), in order to strengthen their competitiveness. These strategies aim at rethinking the whole configuration of the system of value creation, what we call an organizational chart. Recent cases of relocation and the failure of some cases of outsourcing (many examples of Chinese subcontractors becoming competitors of the western companies whom they used to work for) aim at examining the durability of the competitive advantage obtained in this manner (part 1) and lead us to underline the interest in developing a real orientation towards the market within the companies, with the purpose of consolidating the relationship between actors – parties involved in a system of value creation (part 2). These actors come from different technological and/or national cultures. This article intends to present some references of the origins of competitive advantage on the basis of an organizational chart of a simplified chain of value (part 3).

## **2. The search for a competitive advantage**

Competitiveness used to be analyzed by economists like Adam Smith and David Ricardo, who emphasized in their works the need for any type of organizations, states or companies, to concentrate their efforts on dimensions that give them advantages, i.e. resources and particular expertise. These elements were intended to be difficult to imitate, exploit or discover by the competition.

Competitiveness has been treated, for a long time, from an economic point of view in the sense of controlling the cost. In this approach, developing a competitive offer on the market means to be able to offer lower prices than the competition. “Being competitive” is being able to offer a lower price than the competition. We are focusing here on two types of strategic choices aiming to controlling the cost: the outsourcing strategies (for example the subcontracting), and the relocation, in particular within the strategy of an international development. Each of these two choices demands rethinking the way richness is created and adopt a particular model of organization.

### **2.1. Relocations, outsourcing and the approach “resources – abilities”**

The wave of **relocations** (specific kind of **internationalization**) experienced by capitalist economies appears within the will to develop an advantage based on cost, obtaining profit from cheaper work force, an easier access to raw materials and attractive taxation, altogether meaning particular resources. Relocation also requires: particular abilities regarding the places chosen for reassign the production (estimating the risk and the interest of the targeted territories) and choosing one’s partners, on one hand, and the implementation of the business out of the country of origin (sizing the production means, recruiting labor force, adapting management style), on the other hand. If identification of resources is not a challenging problem, identification and management of abilities might be difficult to tackle.

Indeed, while developing a business in a new environment, the company is forced to face the need to rethink the implementation of its abilities and to identity new ones. The company tackles an environment governed by other codes, different practices and a new cultural context, to which it must adapt, because it rules the way of functioning. The business and management model defined for the countries of origin is not always adapted to target countries. For example, Pizza Hut in France and Séphora in Japan experienced less success, even failure, due to non-adaptation of their business pattern to a particular cultural context.

We find this cultural difference within the constraints needed to be tackled when it comes to **outsourcing** strategies, which represent the other strategic choice that allows developing competitiveness in price. Outsourcing means entrusting a partner (for example a subcontractor) with some tasks or duties (production, transport, maintenance, recruitment and/or training, distribution). This choice is the result of an examination of distinctive abilities. The company focuses on high-value creating work and functions for which it has particular know-how. The importance given to abilities

belongs to a more systemic approach, tackling competitiveness as the result of a system of creating a higher value than the one existing on the market. The choice of outsourcing generally comes from economic and/or strategic analysis. Economically, sometimes it is less costly to subcontract than to produce on the spot; strategic outsourcing allows transferring resources of the outsourced functions to higher-value creating functions (already in the main company), and also maintaining a certain control over actors likely to modify the rules of the game within a particular line of business. Indeed, a small-sized company having particular capabilities (resources and abilities) can become a serious competitor (developing a competitive price or exploiting a particular market sector) or an important asset for a competitor in the framework of a partnership, thus representing an element likely to question the competitiveness of a company.

Therefore, the fact of owing a rare resource or a particular ability, of combining and managing them efficiently leads to competitiveness. This makes us consider that competitiveness isn't purely economic, but it has a non-economic dimension.

## **2.2. The competitiveness issued out of opportunist behavior is transient – from “relocating abroad” to “relocating back to the county of origin”**

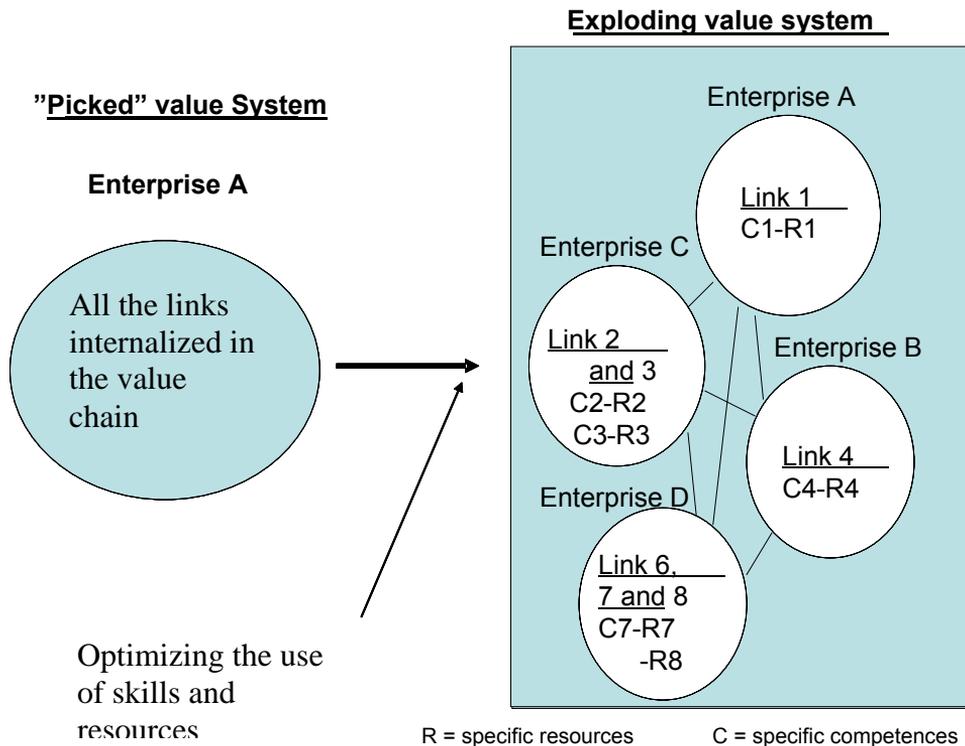
If cutting costs unmistakably generates a type of competitiveness, observations show that it is more and more insufficient to ensure for a company higher performance than its competitors on the long run. The high performance of a company doesn't only mean its capacity to offer a better price, but it lays more and more on its ability to rapidly put on the market a new product or a service, of a higher quality. Therefore, other criteria than price gain more value. The competitiveness based on cost usually has an advantage less durable than the one laying on innovation or quality. As researchers have proved, the waves of relocations back to the county of origin are explained by the loss of some advantages in terms of cost, on one hand, and by the will of placing the confrontation on another field than the one of costs and prices, on the other hand. The case of Romania proves this development. Some of the companies that have had relocated their production to Romania because of advantageous cost and labor force rethink their strategies nowadays. Indeed, due to increasing salaries, they are losing this advantage and find themselves forced to relocate their production to countries where labor is cheaper (Pakistan, India, etc.), or relocate back to their county of origin and try to identify and develop a new axis of competitiveness (innovation, new positions in terms of quality). The opportunist behavior of relocation leads to questioning its duration. These companies must adapt and they hardly manage to get an advantage from a particular organizational configuration. Indeed, the adopted organizational chart is frequently, even constantly recast; therefore experiences cannot reflect their best. When adopting a new organizational chart, companies begin a new experience curve, even if some abilities and resources of the previous configuration are reinserted into the new organization.

### **3. Market orientation at the basis of new organizational charts**

#### **3.1 Integrating market orientation for a sustainable competitiveness**

In all cases, these developments need to rethink the way the business pattern is organized, to find new types of organization that give a more sustainable competitive advantage and to adopt a market orientation, as it was underlined by works developed during the 90's. Indeed, it leads to overrunning the idea that the competitive advantage is based only on economic criteria and becomes interested to its non-economic dimensions. Reinforcing the awareness of dimensions that need to be integrated into the rational decision, market orientation makes the company pay a particular attention to certain actors and key elements (consumers, suppliers, distribution, competition, technology) and to their behavior in a prospective dimension. While implemented, market orientation begins to mean developing appropriate behavior (collection and dissemination of information) and distillation of a market oriented culture.

This way, a market oriented company will adopt an organizational chart opened to the outside world (behavioral dimension) and the dissemination of a culture putting "the interests of the consumer first (...), in order to develop a business that makes profit on the long run". As many researchers have proved, it allows finding, at every level of the value chain, the means to develop an advantage, and, therefore, to rethink the pattern of creating value around reinforced connections internally (between positions, employees) and externally as well (in relation with business partners and other actors - e.g. consumers). Relocating back to the county of origin can be understood as inadequate market orientation when choosing the area of relocation, but outsourcing strategies generally mean an appropriate assimilation of market orientation. In the first case, inadequate identification of consumers' needs, underestimating competition and ignorance of the contribution of suppliers and distribution reveal a lack of market orientation. In the second case, it allows to clearly identify the strong positions that create competitiveness and the weak ones, which need to be reinforced through a partnership whose implantation means adopting an organizational chart that we can qualify as being open. Indeed, the borders of the system of value are not the borders of the company. Figure 1 shows this configuration.



**Figure 1 – Collected system of value, erupted system of value**

### **3.2. New organizations for a more sustainable competitiveness – towards a chain of value erupted, but constant**

The competitiveness has been widely tackled in the Porterian perspective as a result of a particular configuration of lines of business intended to reinforce the position of the pair product/market. The search for a competitive advantage through relocations and outsourcing leads to the revision of the way that value is created adopting new organizational charts for the companies. Talking about Mr. Porter's works, relocations and outsourcing led the companies to reconfigure the chains of value, passing most of the time from a "collected" chain of value (whose links were entirely controlled and managed by the same single entity) to an erupted chain of value; we will rather talk about a system of value. Every link can be assumed by different entities (geographically and/or legally), as these entities dispose of one or several resources, one or several strong and specific abilities (figure 1). The search for a competitive advantage requires a reflection on the configuration of the chain of value, meaning the articulation of the positions and the lines of business of the company. Based on the

approach “resource based”, which emphasizes the identification of specific assets (technological, human, physic, organizational, reputation) and abilities (“interaction between technology, group training and organizational processes”), we can notice that competitiveness comes at the same time from a particular configuration of business actions and from the use of specific assets. We can consider that a market oriented company disposes of abilities (comprehension of the environment, behavior) and specific resources (information, relations with suppliers, distributors). In the perspective of developing a sustainable advantage, the relation with business partners, as a specific asset, has been underestimated for a long time. Anyway, there are a lot of people that recognize the interest of having stable organizational charts and the economic advantages that come out of them (experience effect), but they emphasize that it can bring difficulties, especially within an international multicultural framework. Indeed, the practice and behavior are strongly impregnated by the culture and values of each party involved.

### **3.3. Developing a collaboration-based system of value, founded on shared values: inspiration from competitiveness poles**

Therefore, it is obvious that developing collaborations with partner companies can reinforce economic and non-economic competitiveness on the long run. This is the way new patterns of collaboration can be developed. The example of competitiveness poles is a good example. They are a perfect synthesis of partnership, of economic and non-economic competitiveness. They consist of abilities put on a network, of a kind of erupted system of value. As some researchers showed, “passing from an organizational chart on the paper to its functioning in real life is an enormous managerial challenge”. Among the challenges evoked, the author (R. Colle, 2008) emphasized the challenge of “making persons coming from different professional cultures work together” and interrogates himself on the way to “stimulating collaboration-based behavior”.

This brings a new perspective on the comprehension of the probabilities of success of relocating and outsourcing strategies. It makes us integrate a new indicator (the variety of cultures at stake) in order to evaluate the deposit of competitiveness issued from this kind of collaboration systems. Indeed, in the framework of relocating strategies, the companies find themselves directly confronted with the difficulty of making individuals and structures issued from different culture (not sharing the same values) work together. Outsourcing practices require achieving a conciliation of different technical and professional cultures. Thus, building and managing the collaboration relation becomes a major key ability.

#### 4. Conclusion

The economic competitiveness (based on lower costs and/or prices) was the first form used by researchers and businessmen. But nowadays, even if it remains decisive, the research of a competitiveness based on non-economic variables emerges as a valorized way of reflection and strategic development. In the framework of relocation and outsourcing strategies, it is obvious that the integration of the relational variable can allow the development of more sustainable competitive advantages and the limitation of opportunist behavior reinforcing the links between the actors of the same system of value. The integration of the relational variable becomes a distinctive ability, but it is also a resource that allows building a sustainable competitive advantage. It needs to rethink and adapt the organizational charts, on one hand, and identify exactly the associated resources and abilities. These two steps are particularly significant for businesses belonging to an international framework, because of the critical nature of cultural differences.

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