The Influence of Market Context on Business Strategy, Competitor Imitation and Operational Effectiveness

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Abstract: The importance of strategic positioning, along with operational effectiveness, has long been presented as key for the success of the company. There are few studies that highlighted the way in which the market context affects these efforts of the company. The aim of this paper is to explore the influence of the market context on competitor imitation and its further implications on strategy. For this purpose, a literature review was conducted and major concepts were drawn from works of M. Porter, while the influence of market context was found in research papers. Putting together these different perspectives on the company and the strategic choices it must make, the results of our analysis suggest that choosing a differentiation strategy and not imitating the reference competitors is a daring initiative, that involves the risk of standing out from the crowd. The implication of this finding is that imitation of the competitor is an easier solution for the company and it has an important attraction, due to the short term influence on increasing sales, while deterring innovation. The value of this paper consists in exploring the contextual influence of well-established concepts for company's management.

Keywords: business strategy; competitor imitation; market context; operational effectiveness

JEL Classification: M20

1 Introduction

In business literature, it is widely accepted that strategy is important for company's success, and in practice, it should translate into efficiency and value for the clients. The efficiency imperative relates to performing business activities with as few costs as possible, and at this level, comparison with competitors offers the answer to the concern of whether costs are low enough. The problem of value for clients is defined mainly as the capacity of the company to satisfy clients' needs and wants, and in concrete actions it relates to the company's reactivity to clients, which is rather opposed to the efficiency problem. Thus, strategy means the creation of a unique and valuable position for the company, involving different groups of interconnected activities, and nonetheless, making trade-offs in competition which importantly involves the choice of what activities not to do (Porter, 2013).

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The external environment, and the market context as well, has always provided important information in strategic positioning, but its influence has been considered that of a stable framework to which the company gives an answer through its strategy. But the rapid changes in the market context in today's global economy has led us to see that the strategic answer of the company isn't made independently of this context and it does further influence the context. Recent research (Peteraf & Reed, 2007) has shown that the direct link between strategy and business performance depends both on the responsiveness to the clients and the market context, understood mainly as a growing or a mature market.

The aim of this paper is to explore the influence of the market context on competitor imitation and its further implications on strategic positioning and operational effectiveness. In general, competitor imitation is considered, theoretically, as a weak point in a company's strategy, yet in practice it is more than generalized, so there must be some serious reasons for which companies choose this path. What can we learn from this competitor imitation in relation to the context where this happens? What are its pros and cons? And if differentiation is the best solution to achieving a good financial performance on the long run, what prevents companies from taking this approach more often?

This paper is structured as follows: Section 2 presents the general perspective on strategic positioning and operational effectiveness, justifying why companies tend to lean more on the second one; Section 3 highlights the existing research about competitor imitation according to the market context; Section 4 discusses the implications of findings about competitor imitation on previously discussed concepts of strategic positioning and operational effectiveness, and Section 5 concludes, offering recommendations for further research in this field.

2. Business Strategy and Operational Effectiveness

The characteristics of successful companies involve flexibility for a rapid response to changes in competition and market, it should benchmark and outsource to gain efficiency and cultivate its essential competencies. For Michael Porter, "competitive strategy is about being different and means deliberately choosing a set of different activities to deliver a unique mix of value" (Porter, 2013, p. 43). Thus, starting from this perspective, strategy is a plan that aims to give the company a competitive advantage over rivals through differentiation.

In today's dynamic markets and changing technologies, strategic positioning can be rejected and considered static, as rivals can easily copy any market position, and this leads to a belief of hyper competition that Porter considers as only being a half-truth, since the root of the problem is the failure to distinguish between operational effectiveness and strategy. One explanation for this situation comes from the great

expansion of management tools that enable managers to pursue improvement on all fronts. This abundance may negatively influence the capacity to pursue viable competitive positions and it isn't always correlated to gains in profitability at a consistent pace.

Strategy and operational effectiveness are both vital for a better performance of the company, yet they have separate ways of functioning. Operational effectiveness means performing activities better than rivals, while strategic positioning means performing different activities or similar activities in different ways (Porter, 2013, p. 38).

2.1. Operational Effectiveness

A company succeeds in comparison to its reference competitors if it can establish a difference and maintain it on long term. All differences between companies in cost or price arise from the activities implemented, which all involve a cost that can lead to a cost advantage only when the company performs activities more efficiently.

Differences in operational effectiveness become rapidly common in a sector, since they employ tactics easy to copy such as eliminating the wasteful effort, using advanced technology, better motivating the employees, etc. They constitute an important source of differences in profitability among competitors, due to their direct effect on cost. In such a context, there can be identified a productivity frontier, that constitutes the sum of all existing good practices at the moment (Porter, 2013, pp. 39-40).

While approaching the productivity frontier, companies may try to push it further, through new technologies, new management approaches and new inputs available. This forces all companies from an industry to keep up with the shifts in the productivity frontier, through continuous improvement, empowerment, change management, the learning organization, but also by increasing outsourcing. It is obvious that constant improvement of operational effectiveness is necessary to achieve superior profitability, but this isn't enough. The rapid diffusion of practices makes this type of competition a perpetual race, while staying in the same place relative to rivals. It seems that competition based only on operational effectiveness is raising expectations for everybody, but it leads to a relative improvement for no one (Porter, 2013, pp. 38-43).

In addition, operational effectiveness contributes to competitive congruence; the more benchmarking companies do, the more they seem identical. As competitors imitate one another in increasing quality, improving the production cycle or supplier relationships, strategy convergence drives companies into identical paths that no one can win on the long run. Competing on operational effectiveness alone is mutually destructive as it leads eventually to limiting competition.

2.2. Strategic Positioning

Business strategy has its starting point in defining the strategic position of the company, and M. Porter mentions three different sources for such positions: "variety-based positioning", concerned with the choice of products and services to be offered, "needs-based positioning" which involves targeting a specific segment of customers and "access-based positioning" referring to customer geography and customer scale (Porter, 2013, pp. 47-54).

In addition to these rather expected recommendations, business strategy necessarily involves trade-offs in what to compete on, and deliberately choosing what to do and what not to do. Thus, strategy involves a conscious choice and when choice is lacking, so is the strategy. Another distinction between strategy and operational effectiveness comes from the fact that the second term refers to achieving performance in individual activities, while the former is about combining activities. This issue of mixing the right activities leads to the fit problem between these activities, and their integration is crucial for strategic success (Porter, 2013, pp. 54-58).

Trade-off is necessary in defining the business strategy for three reasons. Firstly, without trade-offs there would be inconsistencies in the company's image or reputation. Secondly, the different positions require different products, different equipment, different skills and employee behavior and different management systems. Finally, they also arise from the limits on internal coordination and control.

On the other hand, the fit between the activities of the company is one of the oldest ideas in strategy, and the reason for that is simply because different activities affect one another. Porter (2013, pp. 59-60) identifies three types of fit among activities: first-order fit is the simple consistency each activity and the overall strategy, second-order fit occurs when activities are reinforcing and third-order fit is defined as an optimization effort, implemented effectively through coordination and information exchange, so that redundancy and wasted effort are minimized.

Thus Michael Porter advocates for the stringent need of the company to hold a business strategy based on differentiation, he offers a detailed explanation for what makes companies neglect strategy formulation and trade-offs. In the third section of this paper we will try to look into the possible explanations for this situation starting for the market context in order to get some insight on what current companies could do, in order to avoid the trap of competing on operational effectiveness alone.

3. Market Context and the Choice of Competitor Imitation

For a brief formulation, the distinction between operational effectiveness and strategy stems from the focus of the former on quantitative aspects, reflected in costs, prices and sales volume, while the second is rather qualitative and starts from the

interaction the company's capabilities and the needs and wants of potential customers. This attention to customers is reflected in the company's customer responsiveness defined as the action taken in response to market intelligence concerning individual needs of target customers (Pehrsson, 2011; Kohli & Jaworski, 1990). This responsiveness includes after-sales services, solutions to customer problems and relationships with customers, with various mixes of them, among firms.

From a contingency approach to business strategy, there seems to be a fit between customer responsiveness and the market context (Peteraf & Reed, 2007), but Soberman and Gatignon (2005) suggested that there is limited knowledge on the interactions between market context and competitive dynamics. The market context seems to have a moderating role on the link between customer responsiveness, on one hand, and competition and firm performance, on the other (Matsuno & Mentzer, 2000). A firm may imitate or follow several attributes of a reference competitor or try to differentiate all attributes from those of the rival (Greve, 1998).

The study of Pehrsson (2011) examines important relationships that are linked to the customer responsiveness of the firm, such as the influence of the main competitor and financial performance. Market growth is seen as a central moderator of these relationships, as a growing market has less established competition standards and patterns than a mature market (Porter, 1980; Robinson, 1988; Soberman & Gatignon, 2005).

The results of the study show that customer responsiveness of the firm is associated with the same feature in the main competitors strategy ($t=0,34$; $p<0,001$). Yet, the moderating effect of the market growth is very important, as it doesn't reinforce the relationship between the firms customer responsiveness and that of the competitor and it reinforces negatively the relationship between the attention paid to sales volume by the main competitor and the attention paid customer responsiveness by the firm ($t=-2,22$; $p<0,05$). In the growing market context, competition-based obstacles in customer access reinforced the responsiveness strategy in the firm ($t=2,23$; $p<0,05$) and also the relationship between customer responsiveness and financial performance was reinforced ($t=2,06$; $p<0,05$). But, on a mature market, this final relationship wasn't found significant, implying that customer responsiveness doesn't necessarily lead to financial performance in a mature market.

Starting from this study we can describe in short the competitive dynamics in a growing market as follows: when a new company enters the growing market, customer responsiveness will be an important feature of its strategy, especially if competitors try to increase obstacles in customer access. Then, if reference competitors focus on customer responsiveness, so will the company, but as soon as a reference competitor will start focusing more on sales volume, the others will follow. We already know from Porter that this convergence of strategy reduces

competition, leading to mergers and acquisitions among players, thus approaching a mature stage of the market. And, as the cited work descovered, in a mature market there isn't a significant link between customer responsiveness and financial peformance, so there will not be incentives for this attribute in the strategy of the company. In short, the attraction of sales volume strategy is contagious, and resisting it means for the company to follow its own path, away from the alignment in industry's behavior.

4. Implications of Market Context on Strategic Positioning and Operational Effectiveness

This section of the paper puts together the recommendations of Michael Porter, advocating strongly for strategic positioning and for a rediscovery and a reconnection of companies with strategy, with the findings of papers that investigated the influence of the market context on competitor imitation and dynamics. A major conclusion of Perhsson's work is that factors from the environment, i.e. the market context, have an important influence on competition evolution and it distorts the traditional ideas about the link between customer responsiveness and financial performance (Pehrsson, 2011).

In his insertion, named "Reconnecting with Strategy", M. Porter acknowledges that the initial success of a company is due to its unique strategic positioning, but with "the passage of time and the pressures of growth", compromises are accepted (Porter, 2013, pp. 64-65). At start, these compromises are almost imperceptible, but the succession of changes, companies wake up finally being homogenous to their rivals. Thus, the two main enemies to maintaining the strategic positioning identified by Porter are passage of time and pressure to grow, and fighting these, nowadays, would seem like wanting to fight a relentless destiny.

All the arguments for a strategic positioning make perfectly sense from a theoretical or ideal perspective. On the other hand, we should not forget that new entrants always show up in a growing market, using more or less a strategy of customer responsiveness in order to attract new clients and create loyalty for the company. The study on the influence of the growing market on competitive dynamics tell us that any company will feel attracted to follow a sales volume strategy as soon as one of the reference competitors will do so. This involves selling to more people, extending the rather narrow segments approached at the start, or offering incentives for buying and/or consuming more, sometimes against the needs of customers. Not following this attraction means stepping aside from the rest of the companies in the industry, a risky decision which is even riskier in a growing market context, where there exists a great general uncertainty and changing competition patterns (Soberman & Gatignon, 2005).

Some of the individual company behaviours that lead to this attraction are critically highlighted by Porter: managers chase every new technology for its own sake, publications and consultants flood the market with information about the others, reinforcing the best-practice mentality, some managers mistake customer focus for serving all customer and all needs, and imitation is also fuelled by an assumption that rivals know something that they don't. Quite surprisingly, Michael Porter describes a growth trap that companies face, stating that "the growth imperative is hazardous to strategy", that managers should avoid organizational distractions, and also teach others in their organization to say no, as "setting limits is another function of leadership" (Porter, 2013, p. 67).

5. Conclusion

Business strategy and operational effectiveness are two important pillars on which the success of the company rests. It becomes obvious that when one of them is insufficiently considered by the managers the company position on the market will be weakened. Nonetheless, many companies favour operational effectiveness, while they don't understand what more to do with strategy, especially when competition dynamics move towards reducing costs and adopting sales volume strategies, where differentiation might even be a burden.

The study of Pehrsson (2011) showed that the market context has an important influence on whether the company will choose to follow a customer responsive strategy, where differentiation is key, or a sales volume strategy. The strategy followed is in relation to reference competitors, imitation not being a path consciously followed, but rather a tendency on the market, hard to resist.

The reason why a company follows its competitors, especially in a growing market context, comes from the greater degree of uncertainty on such a market, where competition practices are well-established. From company's perspective, the advantages of following the industry's reference competitors and its trends are obvious: it avoids riskier activities and making a wrong choice. The disadvantage of this can only be seen of the long-run, when the big remaining companies end up buying smaller companies, and reducing competition on that market. But the current economic context isn't favourable to this long-run perspective, so, such a disadvantage might seem important for a business consultant but not for a manager or temporarily entrepreneur.

Further research on this matter is highly important, especially among the small and medium sized companies, in relation to their difficulties in defining and following the business strategy. Future research could also give more information on the mechanism through which the sales volume strategy gains popularity in a growing market, where differentiation and customer responsiveness used to be important.

Thus could be studied not from a macro-perspective, but rather at company level, understanding what types of decisional steps make the company lose its strategic identity.

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