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Towards an action-based perspective on firm competitiveness

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Abstract Existing theoretical frameworks typically revolve around sustainability of competitive advantage and attribute superior firm performance to its position in the industry structure and/or the possession of critical resources. However, the equilibrium-oriented logic implicit in these perspectives is not consonant with today's environment, characterized by more dynamic and complex behavior of markets and firms, which renders competitive advantages obsolete faster than ever. We propose an alternative action-based perspective on firm competitiveness one that revolves around the logic of action and emphasizes an entrepreneurial orientation and firm agility as the basis of firm competitiveness. This logic of action shifts the focus away from just industry position or resource possession and provides more scope for less advantaged firms to compete with the incumbents.
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What makes a firm competitive? This fundamental question has been at the heart of strategy research ever since its emergence as a distinct field of study. Broadly, strategy scholars have looked for either industry-based (Porter, 1980) or resource-based explanations (Barney, 1991) for firm competitiveness and, accordingly, sought to explain firms' performance and competitive advantage by examining either the attributes of the industry structure within which a firm is located or the attributes of critical firm resources. The question then arises: what about the 'average' firm with more prosaic resources, i.e., one that does not occupy a significant position in its industry space nor possesses some strategically superior and rent-yielding resources relative to its rivals? Going by the more dominant theories, such firms do not have any visible or viable basis for competitive advantage. Yet, in many industries, such firms are not only present and co-exist with their more advantaged rivals but are often even able to challenge the dominance of some of the incumbents.

In this paper, we put forward and elaborate on an 'action-based' perspective (ABP) on competitiveness as an alternate lens and compare and contrast it with the industry- and resource-based perspectives. The former emphasizes favorable (industry) position as the source of competitive advantage whereas the latter emphasizes favorable possession of superior rent-yielding resources. Scholars (D'Aveni, 2010; McGrath, 2013; Priem and Butler, 2001) have begun to fault both these theories for their largely

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static orientation and equilibrium-oriented logic. Notably, today's more dynamic environment, characterized by constant uncertainty and hyper-competition, can rapidly render extant competitive advantages obsolete while simultaneously creating new competitive opportunities. In such a context, traditional notions of competitive advantage are slowly becoming outmoded as competitive advantage becomes more temporary and transient. In the ABP, in contrast, competition and competitiveness are driven by a more disequilibrium-oriented and dynamic logic. The ABP shifts the underlying emphasis toward firm agency and competitive agility.

In the remainder of the paper, we contrast the ABP with the other two perspectives and then draw out some of the implications.

Explaining competitiveness: position, possession and action logics

Since the arguments of the two dominant perspectives are well-known, we summarize them only briefly below.

Position-based competition

The influential work of Michael Porter (1980) leverages concepts of industrial organization to explain competitive advantage and represents the essence of the position perspective. From this lens, the firm seeks to occupy an attractive position within a particular industry's product-market space where it can earn monopolistic or oligopolistic rents. Thus, the firm engages in a systematic analysis of industry factors and deliberate planning prior to action, since competitive advantage is driven by firm's success in protecting/defending its position from potential entrants by virtue of entry/exit barriers.

Possession-based competition

The possession perspective is linked to the resource-based view, which attributes sustainable competitive advantage to the ownership of firm-specific resources. From this lens, the emphasis is on internal drivers and input factors that underlie firm competitiveness, instead of the external focus that is characteristic of the position perspective. It suggests that the firm deliberately emphasizes a particular set of factors/resources considered strategic – valuable, rare, inimitable and non-substitutable – as it builds the basis for competitive advantage (Barney, 1991). From the possession-based competition perspective, input factors can yield above-normal returns for as long as the firm is successful in maintaining their uniqueness. Therefore, barriers to imitation (an outcome of resource properties) and not barriers to entry (an outcome of structural attributes) define the nature of the competition. A derivative of the resource-based view underscores firm capabilities and shifts the focus from the resources managed by a firm to the firm's ability to manage the resources (Teece et al., 1997). Though somewhat distinct, it also suggests that factor market conditions and organization abilities are key determinants of performance differences among rival firms.

Though influential, the above theories have not been immune to criticism, particularly that of their rather limited and static view on competition. The monopolistic and Ricardian rents logic associated with the position and possession perspectives is (a) rooted in imperfections in product and factor markets respectively, (b) emphasizes structure and equilibrium and, consequently, (c) undervalues the importance of managerial agency and action in the context of disequilibrium. In line with their orientation, both perspectives tend to be inherently conservative in that advantaged firms are more concerned with preserving the source of their advantage, be it rooted in external or internal factors. With respect to the external factors, competitive advantage stemming from a favorable position can be sustained by various entry or mobility barriers. Likewise, focusing more on factor market attributes rather than industry structure attributes, the possession perspective highlights the significance of ownership of critical resources for competitive advantage, be it due to acquisition of the resource on more advantageous terms or their accumulation over time.

Action-based competition

In contrast to these above frameworks, an action-based perspective of competition (ABP) is more dynamic in nature and differs from the position and the possession views by its focus on action(s). Compared to the position and possession logics, where strategy tends to be more deliberate, in the ABP, with its action orientation, strategy and opportunities are created and/or enacted, for instance by spotting an opportunity earlier and seizing it ahead of others or by adapting in real time to environmental and technological shifts. Rather than industry or resource characteristics, the focus instead shifts more toward 'agility as strategy'. The ABP, therefore, provides the means as well as the explanation for a distinct kind of competitive behavior: one that is particularly suited to firms who are less established than the incumbents and who tend to face greater constraints since they often do not have the supposedly requisite foundation for success, such as technology or brand.

Action-based competition being a distinct way of competing, a comparison can help illustrate key differences between the key concepts underpinning the action-based perspective and existing theoretical frameworks commonly used to explain firm competitiveness. For instance, rather than the key question being that of which product-market or which resources/capabilities to focus on, the action-based perspective focuses more on the activities performed by firms to assemble such resources in ways that create value. In other words, rather than being product-market or factor-market driven, and correspondingly concerned with discontinuities in product-market or factor space respectively, the ABP is instead value-driven in that the opportunities sensed and acted upon must offer a novel value proposition to the customer. Here, unlike the external perspective of the positioning perspective or the internal focus of the possession perspective, the ABP is neither externally nor internally focused. The focus is instead on the chosen (set of) activities which constitute the firm's business model and span actions aimed at delivering value to customers. The way the firm organizes and coordinates its system of activities serves as a bridge to link product and factor markets.

Moreover, from its more dynamic lens, since the ABP views advantages to be temporary in nature, it is consequently not so concerned with barriers to entry or imitability. Even though the ABP incorporates competition in its narrative, since advantages are considered to be transient (McGrath, 2013) and rents fleeting, it is less concerned about the effect of competition than on opportunities for value creation and, accordingly, organizing to capitalize on the potential that such opportunities offer when they arise. The main challenge – and barrier to others – is the barriers to execution since, in the process of value creation, delivery and capture, the internal consistency and coherence of a firm's activity set become paramount.

In sum, competing on action is not so much about the acquisition or development of privileged positions or unique and valuable resources. It is also distinct from competing on capabilities. Capabilities reflect the firm's ability to integrate internal and external resources and tend to emphasize path-dependence (Teece et al., 1997). As such then, competing on ability prioritizes the acquisition, nurturing and development of identified valuable assets and skills. In contrast, competing on action is more akin to the notion of dynamic capabilities (Eisenhardt and Martin, 2000), yet even more so about acting in an agile way to sense changes and create and seize opportunities.

Accordingly, the focus of the ABP is on competing on agility (through actions) rather than competing on ability (capabilities). Competitive agility reflects the importance of timing in the creation and discovery of opportunities. To compete in highly dynamic environments in which the future is unpredictable, actions are usually not constrained by what one knows, since timing is essential to capture transient opportunities that can lead to the enhancement of competitiveness. Rather than placing emphasis on traditional notions of first mover advantages (Lieberman and Montgomery, 1998), agile firms are constantly reacting with speed to environmental shifts (Roberts and Eisenhardt, 2003), regardless of existing positions and conditions. Firms manifest their agility by continuously reconfiguring, restrategizing and reacting to the discovery of new threats and sources of value (Doz and Kosonen, 2010). In fact, rather than waiting for scenarios to be presented, firms that engage in agile execution often welcome uncertainty as a source of variability from which opportunities can arise. Their ability to embrace uncertainty is enabled by organization structures and systems of activities and governance that emphasize quick decision making and coordination and fast mobilization of efforts and resources.

To attain such agility, the ABP underscores the importance of an entrepreneurial orientation, defined as a firm's ''propensity to act autonomously, willingness to innovate and take risks, and tendency to be aggressive toward competitors and proactive relative to marketplace opportunities'' (Lumpkin and Dess, 1996:137). Highly complex and uncertain business settings demand firms to compete by executing a bundle of activities assembled to allow experimentation, fast learning, agile response and effective execution.

The above has direct implications for the way firms compete. Clearly, firms guided by different perspectives on competition would be expected to match these accordingly through different 'ways of doing things', i.e., their business models. Business models can be seen as a system of interdependent activities that transcends the firm and spans its boundaries (Zott and Amit, 2010), and as such provides the logic of the firm and how it chooses to compete (Casadesus-Masanell and Ricart, 2010; Teece, 2010). In this regard, Zott and Amit (2010) usefully categorize business model components into content, structure and governance. Content denotes managers' choices of value creation activities performed by the firm. Structure refers to how different activities interrelate with each other in order to deliver value to customers. Governance refers to the mechanisms through which the firm orchestrates and executes the relevant activities within and outside its borders. To a certain extent then, competing on agility and action entails competing on business models. The action-orientation of the ABP, and consequent firm actions, would be correspondingly expressed through the business models that such firms deploy, which can be expected to strongly underpin and contribute their prowess at agile execution.

From the ABP, uncertainty can be considered a positive to be harnessed rather than a negative to be avoided since it throws up novel opportunities, not all of which are known up front and some of which are serendipitous as well as fleeting in nature. Here, speed of action, experimentation and learning are essential, since ''rarely will entrepreneurs be able to see 'the end from the beginning'''(Alvarez and Barney, 2007:15) and the challenge is one of pursuing and seizing opportunity ''regardless of the resources under control'' (Stevenson and Jarillo, 1990:24) and without worrying too much about the consequences.

Thus, action-based competition becomes a distinct way of competing and a potentially important aspect of a firm's competitive tool-kit. As an illustration, take the specific context of new ventures, which often compete against established and dominant organizations. Not surprisingly, new firms face higher mortality rates relative to older ones (Freeman et al., 1983; Stinchcombe, 1965), typically due to their lack of financial resources, market inexperience, limited network of contacts and lack of legitimacy. Such firms, thus, usually operate under distinctively challenging conditions. In fact, the very existence of the venture presupposes a certain risk-taking orientation. Moreover, they are often pressurized to become more resourceful in their endeavors to overcome the various challenges they confront and leverage as well as convert some of their shortcomings into strengths.

In contrast, many incumbents tend to be more risk-averse. For one, incumbents that already hold competitive positions in their industry – advantages that they seek to hold on to – are more conservative and wedded to the past and hence more reluctant and less likely to shed their (supposedly right) way of doing things. Moreover, they have often already made specialized and costly commitments which they want to exploit for a foreseeable period of time in the future. In general, prior commitments, risk aversion and routine rigidity hamper their agility. Yet conservative and protective strategies which seek to preserve the status quo through activities like lobbying or patent protection may not be sufficient or particularly effective responses to rivals' agility.

From their standpoint, the situation is different for new ventures since uncertainty in the environment and variability in outcomes provide them with potentially novel opportunities to be competitive and change or disrupt the status quo. New firms often employ organic structures, which even if inefficient at times can enable flexibility for active competition, particularly in complex and volatile markets (Fiegenbaum and Karnani, 1991). The absence of routines and experience can help the new firm to learn more easily and faster (Autio et al., 2000), and can thus create conditions for them to compete on agile execution that enables more rapid adaptation to market changes. Taken together, the above encourages an action orientation, characterized by deftness, experimentation, tolerance for error and risk-taking, in a recurrent cycle where the firm constantly executes, senses, learns and reacts accordingly. This does not rely so much on competitive position or possession so much as on an entrepreneurial orientation toward action.

Discussion: strategy in a more dynamic era

The ideas in this paper further the strategy literature on firm competitiveness. With globalization, the spread of technology and the emergence of ever more numerous competitors from an increasing number of countries and sectors, the question arises whether traditional bases of competitive advantage suffice in today's landscape. Arguably today, competitive advantage is shifting from more stable and sustainable advantage to more temporary and transient advantage (McGrath, 2013), with an accompanying premium on agility. Where firms lack superior position or possession, alternative explanations for firms' competitive behavior and competitiveness are needed.

We contribute to such an agenda by shifting the focus of analysis to firm action. From the ABP, firm competitiveness rests upon a different basis: the logic of action. Both the industry- and resource-based perspectives are inherently conservative since, from their vantage point, they seek to preserve the basis of their superiority – be it position or possession. That is, they seek to hold on to what they already have. In contrast, the action-based perspective is inherently less conservative in that there is nothing particular to hold on to since all bases of competitive advantage are seen as transient and therefore competitiveness is the outcome of a series of (continual) moves strung together.

If the competitive edge is moving away from products and technologies to customer value and more temporary advantages, as some propose (e.g. D'Aveni, 2010; McGrath, 2013), then what matters most is who can deliver the desired value proposition to the consumer most appropriately and quickly. Here, execution is what really matters. This means not just the ability to do something but agility in doing it. This shifts the frame, with a premium on speed, resilience, improvisation, flexibility, and the like. The main barrier then is not that of entry/mobility or resource inimitability so much as that of execution (Guillen and García-Canal, 2012), as manifested through a firm's mindset and business model.

Action-based business models, articulating the logic of action and conceptualized as a set of activities that underpin firm action(s), represent a distinct way of competing than those that rely predominantly on industry positioning or the possession of critical resources/capabilities. As such, they place greater emphasis on *how* firms choose to organize and conduct their economic activity and exploit business opportunities, rather than on *what* provides competitive advantage. Accordingly, the emphasis shifts from what a firm *has* to what a firm *does with what it has*, i.e. its actions.

The argument we have put forward shifts the frame in three important ways: First, it shifts the focus from equilibrium to disequilibrium. Established theory as well as firms both tend to be focused more on the former whereas the basis of competition is shifting toward the latter. Second, it relaxes the assumption that resources have to start off being valuable. For firms with more prosaic resources, the main challenge becomes one of how to explore opportunities and build on what(ever) they do possess, *regardless of whether they are valuable or not*, to ultimately create an advantage(Madhok and Keyhani, 2012). Such a process (a) emphasizes an entrepreneurial mindset (b) shifts focus from advantage to opportunities, and (c) invites attention to the importance of action in realizing the potential latent in the opportunities. Third, it shifts the focus of competition from the lens of firm ability to firm agility. Additionally, it also shifts the emphasis from possession, i.e. who *has the best* product, technology or idea to who *is best* at execution of the same (Guillen and García-Canal, 2012; Radjou et al., 2012).

In summing up and concluding, traditional theoretical lenses tend to explain established firm competitiveness through a focus on either position or possession. This raises a challenge when attempting to strategize in situations where the firm has neither a particularly advantageous position nor a clear resource advantage. The action-based perspective that we advance is more dynamic and complements the logics of position and possession, thus broadening our understanding of firm competitiveness. The argument allows scholars to better understand interfirm rivalry and dynamics in fast-changing environments. Particularly in such contexts, it complements as well as improves on previous explanations and established theoretical frameworks to help explain the emergence, vitality and expansion of many seemingly disadvantaged firms in recent years. Of course, an important question, and major challenge, is whether and how agile firms are able to maintain their agility as and when they become more established. Opportunities abound for research to extend and test the ideas presented here and we hope that this paper instigates scholars to join this conversation and do so.

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