Sustainable Competitive Advantage With the Balanced Scorecard Approach

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INTRODUCTION

Why are some firms more successful than others? This question has been intensely debated by strategic management researchers over the last thirty years. Competitive advantage is recognised as being the major cause for explaining top organizational performance and is a fundamental goal of academic strategic management studies. Recently, there has been an increasing amount of empirical research on the subject of competitive advantage (Ray et al., 2004; Newbert, 2008) and about distinguishing competitive advantage from organisational performance (Powell, 2001). The relevance of competitive advantage is not simply determined by external factors, but also by those internal sources that have been considered critical for successful organisations. Porter (1985) says that competitive advantage is at the heart of organisational performance in the competitive business environment, and that the core of this view is that in order to achieve competitive advantage, firms should systematically provide added value to customers relative to the competition. Peteraf (1993) defined competitive advantage as being sustained performance above normal returns, and Barney (2002) claims that superior performance is obtained through the value generation of internal resources usage. The research of Wernerfelt (1984), Rumelt (1984), Barney (1986), Dierickx and Cool (1989), Amit and Schoemaker (1993) and Peteraf (1993) have all been recognised as a reference for the study of sustainable competitive advantage (SCA), based on the resource-based view of the firm approach (RBV). According to this view, a firm´s endowment of resources is that which gives it a sustainable competitive advantage. RBV highlighted the relevance of intangible resources as a crucial factor for SCA. Intangible assets, such as intellectual property, knowledge and skills of employees or relationships with our customers, are all sources of competitive advantages and long-term financial success, which are both increasingly important for organisations today (Kaplan & Norton, 1992, 1996, 2000). The competitive market environment and dealing with intangible assets have both become the main reason for SCA today for organisations, and they are needed to support organisations' strategy in reliable frameworks that measure strategy implementation, align business challenges with different internal activities, and include the management of IS/IT strategy, as well as other initiatives. The most globally-recognised management support system for fulfilling these organisational performance challenges is the Balanced Scorecard (BSC).

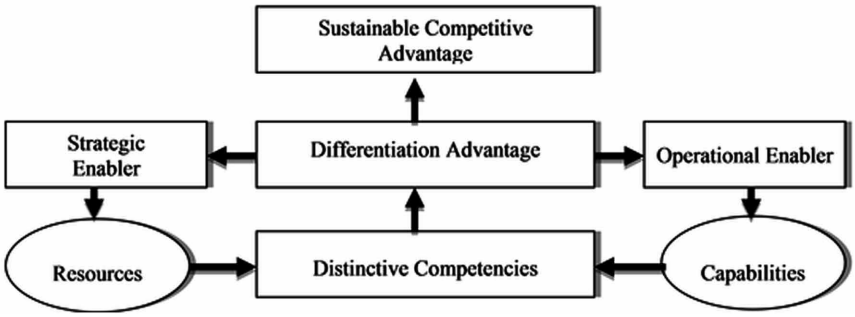
BACKGROUND

Sustainable Competitive Advantage

SCA is an organisation's ability to carry out the set of necessary steps for achieving lower costs than the competition in an efficient and unique way, creating differentiated value for buyers

DOI: 10.4018/978-1-5225-2255-3.ch496

Figure 1. How resources and capabilities combine to create differentiation



(Porter, 1985). SCA is the aim of every organisational strategy and it can be achieved in numerous ways. The rationale behind Porter´s view (Porter, 1985) is that a higher performance is correlated with competitive advantage, and that achieving an advantage will certainly result in superior performance (Reed & Defillipi, 1990). According to this approach, the organisational strategy definition depends on the external environment context. With the advent of the RBV approach, researchers focus mainly on the internal capabilities of the organisation, considering the external factors as background (Pralahad & Hamel, 1990; Spanos & Lioukas, 2001). The ultimate organisational goal is to achieve a superior return on capital through the identification, development, protection and allocation of resources and capabilities, and thus supply the organisation with a SCA (Amit & Shoemaker, 1993). RBV focusses on the development of resources and capabilities, supported by the belief that the set of resources in companies are heterogeneous, valuable and scarce (Collis & Montgomery, 1995; Hamel, 1994; Prahalad & Hamel, 1990), which are recognised as being a source of SCA (Barney, 1991; Barney & Wright, 1998; Wright, McMahan, & McWilliams, 1994). This approach assumes that firms can only create a SCA if they have superior resources, in conjunction with organisational capabilities, and that this combination is the best entry barrier for competition (Barney, 1991) (Figure 1).

Barney (1991) claims that for creating differentiating advantage, firm´s resources and capabilities must be valuable, rare, imperfectly imitable, and non-substitutable (VRIN). Intangible resources are the main drivers of performance sustainability across firms, and are usually tacit, difficult to codify (Kogut & Zander, 1992; Conner & Prahalad, 1996), and hard to acquire or develop, replicate, accumulate (Itami, 1987; Winter, 1987), and to be imitated by others (Rumelt, 1986: Dierickx & Cool, 1989; Nelson, 1991). It is this difficultly of imitation which makes them valuable and a SCA for a company (Lippman & Rumelt, 1982; Hall, 1993). Although subject to some criticism, some RBV authors (Peteraf & Barney, 2003; Amit & Schoemaker, 1993: Mahoney & Pandian, 1992; Conner, 1991; Barney, 1991; Wernerfelt, 1984) recognise the existence of bridges between both approaches and their complementarity in explaining the sources of firm performance (Foss, 1996). Teece, Pisano, and Shuen (1997), however, hold the opinion that an organisation has to establish dynamic capabilities to ensure its SCA. The dynamic capabilities view (DCV), which is supported by the RBV approach, notes that the dynamic capabilities of an organisation need to transform their resources into competitive advantages in order to generate competitive advantage. DCV emphasises the organisations' adaptability to the environment and their capability of creating and absorbing new knowledge, which is one important basis of its dynamic capabilities (Zollo & Winter, 2002).

According to the knowledge-based view (KBV), knowledge seems to be the most critical input and value source for a firms' process activi-