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# "GENERIC STRATEGIES AND COMPETITIVE ADVANTAGE: NEW PARAMETERS IN THE 21ST CENTURY"

**A dissertation thesis submitted for the degree of**

**Master in Business Administration (MBA) – Direction in Internal Audit**

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ABSTRACT

The corporate strategy is a very complicated issue and critical for the survival and growth of any firm. Many factors determine a company's strategy. One of them is the type of competitive advantage pursued. Michael porter's theory for generic strategies has helped many managers throughout the years in finding their way of achieving superior performance and gaining their own share in the target market. The aim of this dissertation is to delve into porter's generic strategies and investigate their relationship with achieving competitive advantage. Based on the extant literature regarding the link of strategy with sustainable competitive advantage and qualitative data from executives in companies following different generic strategies, the present thesis will hopefully provide insights on the relevance of the three generic strategies in the 21st century and on their importance for achieving excellence. The present thesis also investigates the role of internal audit in each type of competitive strategy. Findings hopefully provide useful guidance for managers seeking a sustainable competitive advantage.

## KEY WORDS

**COMPETITIVE ADVANTAGE, GENERIC STRATEGIES, DIFFERENTIATION, COST LEADERSHIP, INTERNAL AUDIT**

## Acknowledgements

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# INTRODUCTION

The present thesis focuses on the notion of competitive advantage and investigates how a firm's competitiveness is affected by the type of generic strategy pursued and the role of internal audit. More ally, in the first chapter of the theoretical part, there is a general introduction in the terms of strategy and corporate culture. There is also a brief explanation of two important tools for strategic analysis, namely Porter's 5 forces and SWOT analysis. In the second chapter, the reader can find a compendious but yet concise analysis of the term competitive advantage and its importance for companies and organizations. The third chapter is related to Porter's Generic Strategies. Michael Porter, one of the most important academics in the field of strategy, has contrived three generic strategies for achieving above average performance. These strategies are: a) cost leadership b) differentiation and c) focus. In chapters 3 and 4, there is an in-depth explanation of Porter's theory and its link with competitive advantage. Chapter 5 explores the connection between the role of Internal Audit and the achievement of competitive advantage.

The second part of the thesis describes a) the research goals of the study, b) the methodology followed to accomplish those goals which included a qualitative research conducted through in-depth interviews with managers of 8 big companies that clearly follow a specific generic strategy, and c) the analysis of the qualitative data.

The results of the survey revealed, among other, that the companies who ask for IA's help are very successful in both financial terms and in terms of goal achievement. On the other hand, companies who do not advise Internal Auditors, encounter difficulties in achieving their role.

It is undoubtable that in the future, the Internal Audit function will be even more connected to the overall achievement of competitive advantage.

# Theoretical Background

## The importance of Strategy Formulation and Implementation

### Definition & Intention of Strategy

The term strategy existed years ago and was mostly used by the military forces. Strategy is a way of planning future actions in order to achieve your goals. The term mentioned above, does not only describe military actions, it also stands for every single entity who wants to fulfill an ambition or a task and uses the mind to create a plan[1].

So, it could be maintained that strategy is the way in which someone uses his mind in a more complicated way, in order to achieve the desired results. As stated before, strategy can be used from anyone and exists everywhere. For instance, animals use strategy to gain their food, students also use strategy in order to pass a class, etc.

But when it comes to business, the term strategy becomes more complicated. Kenneth Andrews (1979, p. 18-19), Harvard Business School Professor and editor of the HBR, in his book The Concept of Corporate Strategy presents a lengthy definition of what business strategy really is by stating that "Corporate strategy is the pattern of decisions in a company that determines and reveals its objectives, purposes, or goals, produces the principal policies and plans for achieving those goals, and defines the range of business the company is to pursue, the kind of economic and human organization it is or intends to be, and the nature of the economic and non-economic contribution it intends to make to its shareholders, employees, customers, and communities". Michael Porter (1996) founder of the field of modern strategy, stated that "strategy is about being different".

Another important person in the field of business strategy is Professor Henry Mintzberg. In his book, The Rise and Fall of Strategic Planning (1994, pg.33), he supported that the term strategy is more complicated than it is presented. Based on his view, strategy is a multidimensional term which is consisted by five dimensions and it is known as the 5 P of Mintzberg.

| Plan – Pattern – Ploy – Position – Perspective |
| --- |

Mintzberg's 5 Ps'

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[1] DISTANCE CONSULTING. (2012). Strategy: Definitions and Meaning. Retrieved from https://nickols.us/strategy_definition.htm

Summing up, strategy is an integrated plan which identifies the long-term goals of an organization and guides the uses of resources, both tangible and intangible, to achieve competitive advantage.

Taking into consideration the theories of all these important academics mentioned above, we can conclude to three main aspects that formulate strategy and its intention:

<u>Adapt in a constantly changing environment</u>

Organizations, to survive, should accept that nothing lasts whereas everything changes. The key to success when dealing with change lies in the willingness to accept change and to respond at lightning speed to the demands placed by our environment with empathy for all those who are involved. It is needed to recognize this and to master the techniques to become part of that natural order, so that the organization survives and thrives in the storm of change.[2]

<u>Plan the long-term scope of activities and direction of an organisation</u>

There is broad agreement among nonprofit leaders and experts that planning is a critical component of good management and governance. Planning helps assure that an organisation remains relevant and responsive to the needs of its community and contributes to organisational stability and growth. Most groups find it practical to define objectives for a 12-month period, and to design strategies and programs to meet them. Longer-range planning – planning beyond the next year or two – often seems more difficult and less rewarding (Gantz, 1993).

<u>Achieve competitive advantage through the harmonization of both resources and capabilities.</u>

Resources are inputs into the production process. The individual resources of a firm include items of capital equipment, skills of individuals, patents, brand names, finance and so on. On the other hand, a capability is the capacity for a team of resources to

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[2] BUSINESS INSIDER. (2011). What Is The Key To Survival In A Constantly Changing Environment. Retrieved from https://www.businessinsider.com/what-is-the-key-to-survival-in-a-constantly-changing-environment-2011-3

perform some task of activity. While resources are the source of a firm's capabilities, capabilities are the main source of its competitive advantage. Both are the central considerations in formulating a firm's strategy: they are the primary constants upon which a firm can establish its identity and frame its strategy. The key to resource-based approach to strategy formulation is understanding the relationships between resources, capabilities, competitive advantage and profitability (Grant, 1991).

## Strategy and Corporate Culture

Strategy formulation and implementation depends on some very important issues. One of them is the corporate culture. An organization promotes itself through its culture as it is the window to society and of course, a weapon that can help with strategy formulation and in gaining a clear position in the market. According to James L. Heskett (2012) culture "can account for 20-30% of the differential in corporate performance when compared with 'culturally unremarkable' competitors".

John Coleman (2013) supports in his HBR article that each culture is unique, but there are 6 points that all great corporations have in common.

These are:

1. Vision

   A great culture starts with a vision statement. Good vision statements can help orient customers, suppliers and other stakeholders

2. Values

   A company's values are the core of its culture. While a vision articulates a company's purpose, values offer a set of guidelines on the behaviors and mindsets needed to achieve that vision.

3. Practices

   Values are of little importance unless they are enshrined in a company's practices. If an organization professes "people are our greatest asset," it should also be ready to invest in people in visible ways.

4. People

No company can build a coherent culture without people who either share its core values or possess the willingness and ability to embrace those values. That's why the greatest firms in the world also have some of the most stringent recruiting policies.

5. Narrative

Any organization has a unique history. The ability to unearth that history and craft it into a narrative is a core element of culture creation.

6. Place

Place shapes culture. Open architecture is more conducive to certain office behaviors, like collaboration. Certain cities and countries have local cultures that may reinforce or contradict the culture a firm is trying to create. Place impacts the values and behaviors of people in a workplace (Coleman, 2013).

According to all the above-mentioned theories and statements, it can be concluded that a company without a robust culture and core values, should not start planning its strategy formulation. On the contrary, it is wiser to start building and investing into a culture which by itself can in the future support any strategy plan.

## TOOLS FOR STRATEGIC ANALYSIS

Corporations with value-based management tend to find it easier to formulate a strategy. In order to do so, there are some theories which can help managers to completely understand and cope with competition and the whole company environment in order to create the appropriate strategy.

Two of these theories are Porter's 5 Forces and SWOT Analysis.

- Porter's 5 Forces

  Michael Porter (1979), once again, helped the business world by an in-depth analysis on the competitive forces that formulate strategy. These competitive forces are presented in the following table and can help managers to analyze the industry in which a firm performs. This analysis could possibly at the end of the day help any organization to gain and sustain competitive advantage.

| | |
|---|---|
| THREAT OF ENTRY | The threat of entry in an industry depends on the height of entry barriers that are present and on the reaction entrants can expect from incumbents. If entry barriers are low and newcomers expect little retaliation from the entrenched competitors, the threat of entry is high and industry profitability is moderated. It is the threat of entry, not whether entry actually occurs, that holds down profitability. Entry barriers are advantages that incumbents have relative to new entrants. There are seven major sources:<br>1. Supply-side economies of scale. 2. Demand-side benefits of scale. 3. Customer switching costs. 4. Capital requirements. 5. Incumbency advantages independent of size. 6. Unequal access to distribution channels. 7. Restrictive governmental Policy. |
| POWER OF SUPPLIERS | Powerful suppliers capture more of the value for themselves by charging higher prices, limiting quality or services, or shifting costs to industry participants. Powerful suppliers can squeeze profitability out of an industry that is unable to pass on cost increases in its own prices. Companies depend on a wide range of different supplier groups for inputs. A supplier group is powerful if:1. It is more concentrated than the industry it sells to. 2. The supplier group does not depend heavily on the industry for its revenues. 3. Industry participants face switching costs in changing suppliers. 4. Suppliers offer products that are differentiated. 5. There is no substitute for what the supplier group provides. 6. The supplier group can credibly threaten to integrate forward into the industry. |
| POWER OF BUYERS | Powerful customers can capture more value by forcing down prices, demanding better quality or more service (thereby driving up costs), and generally playing industry participants off against one another, all at the expense of industry profitability. Buyers are powerful if they have negotiating leverage relative to industry participants, especially if they are price sensitive, using their clout primarily to pressure price reductions. A customer group has negotiating leverage if: 1. There are few buyers, or each one purchases in volumes that are large relative to the size of a single vendor. 2. The industry's products are standardized or undifferentiated. 3. Buyers can credibly threaten to integrate backward and produce the industry's product themselves if vendors are too profitable. |
| THREAT OF SUBSTITUDE PRODUCTS | A substitute performs the same or a similar function as an industry's product by a different means. Videoconferencing is a substitute for travel. Plastic is a substitute for aluminum. E-mail is a substitute for express mail. Sometimes, the threat of substitution is downstream or indirect, when a substitute replaces a buyer industry's product. When the threat of substitutes is high, industry profitability suffers. Substitute products or services limit an industry's profit potential by placing a ceiling on prices. If an industry does not distance itself from substitutes through product performance, marketing, or other means, it will suffer in terms of profitability – and often growth potential. The threat of a substitute is high if: 1. It offers an attractive price-performance trade-off to the industry's product. 2. he buyer's cost of switching to the substitute is low. |
| RIVALRY AMONG EXISTING COMPETI-TORS | Rivalry among existing competitors takes many familiar forms, including price discounting, new product introductions, advertising campaigns, and service improvements. High rivalry limits the profitability of an industry. The degree to which rivalry drives down an industry's profit potential depends, first, on the intensity with which companies compete and, second, on the basis on which they compete. The intensity of rivalry is greatest if:<br>1. Competitors are numerous or are roughly equal in size<br>and power. 2. Industry growth is slow. Slow growth precipitates fight for market share. 3. Exit barriers are high. 4. Rivals are highly committed to the business and aspire for leadership, especially if they have goals that go beyond economic performance in the particular industry. 5. Firms cannot read each other's signals well because of lack of familiarity with one another, diverse approaches to competing, or differing goals. 6. Fixed costs are high and marginal costs are low. 7. The product is perishable. Perishability creates a strong temptation to cut prices and sell a product while it still has value. (Porter, 2008) |

**Table 1: Porter's 5 Forces**

Firms, through their strategies, can influence the five forces. If a firm can shape structure, it can fundamentally change an industry's attractiveness for better or for worse. Many successful strategies have shifted the rules of competition in this way. (Porter, 1985)

- SWOT Analysis

After analysing the external environment with the help of Porter's 5 forces, the next step is to perform another analysis which is called S.W.O.T.

This analysis is more centralised as it does not focus in the industry in which a company acts, but in the way that a specific company acts and how the external environment (industry) affects it. This important tool stands for the Strengths and the Weaknesses of a corporation as well as the Opportunities and Threats of the external environment.

SWOT analysis is a precursor to the strategic planning process. Ideally, SWOT analysis includes an in-depth data analysis, and input from a panel of SWOT analysis experts. Findings from the analysis are sorted into four categories: strengths, weaknesses, opportunities, and threats. Force field analysis supplements SWOT analysis by identifying the forces driving the strengths, weaknesses, opportunities, and threats. Such analysis promotes:

  - a better understanding of barriers to change, innovation, and the transfer of knowledge to practice
  - improved outcomes and
  - more efficient allocation of resources. (Harisson, 2010)

## Competitive Advantage: Definition and Importance

Competitive advantage is at the heart of a firm's performance in competitive markets. After several decades of vigorous expansion and prosperity, many firms lost insight of competitive advantage in their scramble for growth and pursuit of diversification. Today the importance of competitive advantage could hardly be greater. Firms throughout the world face slower growth as well as domestic and global competitors that are no longer acting as if the expanding pie was big enough for all. Competitive advantage grows fundamentally out of the value a firm is able to create for its buyers.

It may take the form of prices lower than competitors for equivalent benefits or the provision of unique benefits that more than offset a premium price (Porter, 1985).

If a company makes reality and daily routine the existence of these two words, namely competitive advantage, it means that the company is in a beneficial position among its rivals.

On the contrary, if a company has not achieved competitive advantage towards its rivals, it means that the company is in a weak position inside the industry and that it deals with many problems.

Nowadays, gaining competitive advantage seems to be harder than ever and the main reason is the augmentation of competition. Competition exists everywhere, from football teams to universities and generally to every single activity that involves two or more people who fight for the same thing. Hence, it is more than obvious that competition exists in every business industry between corporations that want to gain the same group of consumers. The more firms provide the same product or service, the more competitive the environment is.

Inside an industry there are direct and indirect competitors. For instance, in the transportations industry there are direct competitors such as Emirates, Turkish Airlines Qatar Airways who compete each other, but these companies also compete their indirect competitors such as trains, boats and buses. This doesn't mean that an airline company should directly compete a ferry or a train company, but it should adopt a strategy that will make the consumers to prefer an airplane to arrive at their destination.

## PORTER'S GENERIC STRATEGIES

Michael Porter through perennial research, contrived the three generic strategies for attaining above average performance in a specific industry. These strategies are: the cost leadership, the differentiation and the focus strategy. Porter (1985) states in his book Competitive Advantage that "*each of the generic strategies involves a fundamentally different route to competitive advantage, combining a choice about the type of competitive advantage sought with the scope of the strategic target in which competitive advantage is to be achieved. The cost leadership and differentiation* *strategies seek competitive advantage in a broad range of industry segments, while focus strategies aim at cost advantage (cost focus) or differentiation (differentiation focus) in a narrow segment*." The following table provides a brief description of the characteristics of each strategy, along with some relevant indicative examples.

| | Characteristics | Examples of Companies pursuing the specific generic strategy |
|---|---|---|
| **Cost Leadership** | 1.Broad range of industry segments. 2.The firm can compete on price with every other producer in the industry and earn higher unit profits. 3. Competitive advantage is achieved by driving down costs. | • LIDL<br>• JUMBO<br>• INDITEX<br>• IKEA<br>• RYANAIR |
| **Differentiation** | 1.Broad range of industry segments. 2.Customers perceive the product to be different and better than that of rivals. 3.The value added by the uniqueness allows the firm to charge a premium price for the product. | • EMIRATES<br>• STARBUCKS<br>• APPLE<br>• BMW |
| **Focus** | 1.Narrow industry segment. 2.The needs of the group can be better served by focusing entirely on it 3.Focus strategies are divided in -Cost focus: cost leader in a particular segment -Focus differentiation: differentiation in the chosen segment | • NANOU<br>• FERRARI |

**Table 2: The Characteristic of Porter's Generic Strategies.**

## Cost Leadership

Cost leadership is perhaps the clearest of the three generic strategies. In it a firm sets out to become the low-cost producer in its industry. The firm has a broad scope and serves many industry segments. The sources of cost advantages are varied and depend on the structure of the industry. They may include the pursuit of economies of scale, proprietary technology, and preferential access to ray materials and other factors. Being able to achieve costs underneath the average of the industry not only does it give a company the ability to be profitable even by selling in low prices, but to also be preferable to the consumers than its competitors are. If a firm can achieve and sustain overall cost leadership, then it will be an above-average performer in its industry provided it can command prices at or near the industry average.

Being an above average performer does not absolutely mean that a corporation with this title has to be cost leader. It is undoubtable that the cost leader will be the most profitable one, but other companies in the same industry can also achieve cost leadership if they are in the lowest quartile of costs. Many firms have underestimated the theory above and have made some serious strategic mistakes by not understanding that when more than one aspiring cost leaders exist, competition among them is usually strong because every point of market share is perceived as crucial (Porter, 1985).

Some of the prerequisites for companies who want to be the cost leaders include:

| |
|---|
| • economies of scale |
| • vertical linkages with the value chains of suppliers |
| • policy choices |
| • market adjustment |
| • being present in the most customer-attractive locations |

**Table 3: Important Premises for a Cost Leader.**

Achieving cost leadership, provides the firms with advantages such as being able to put barriers of entry to potential competitors, having the ability to deal with substitute products, gaining low production cost and being capable of winning a “price fight” that may arise inside the industry. On the other hand, when a firm has adopted a cost leadership strategy, it should be aware of some disadvantages that may prove to be disastrous for the company

These could be:

| |
|---|
| • Downsizing of quality |

| |
|---|
| • Risk of rapid technological change |
| • Risk of copying their technology |
| • Decrease in product reliability |
| • New consumer preferences |

**Table 4: Disadvantages of Cost Leadership.**

## DIFFERENTIATION

The second Porter's generic strategy is differentiation. In this type of strategy an organization has to be unique in its industry in order to achieve earning a premium price for the uniqueness of the product or service. A differentiation strategy advocates that a business must offer products or services that are valuable and unique to buyers above and beyond a low price. The ability for a company to offer a premium price for their products or services hinges upon how valuable and unique these offerings are in the marketplace. A differentiator invests its resources to gain a competitive advantage from superior innovation, excellent quality and responsiveness to customer needs. Differentiation is concerned with how a firm competes—the ways in which it can offer uniqueness to customers. Such uniqueness might relate to consistency (McDonald's), reliability (Federal Express), status (American Express), quality (BMW), and innovation (Apple)  (Hill et al., Gareth, 2007).

Michael Porter (1980) supports that there are three main risks regarding the differentiation strategy:

| |
|---|
| • The differential cost between low-cost competitors and the differentiated firm becomes too great for differentiation to hold brand loyalty. Buyers thus sacrifice some of the features, services, or image possessed by the differentiated firm for large cost savings |
| • Buyers' need for the differentiating factor falls. This can occur as buyers become more sophisticated |

| |
|---|
| • Imitation narrows perceived differentiation (Porter, 1980) |

**Table 5: Risks of Differentiation Strategy**

## Focus

Focus is the last out of the three generic strategies. In focus strategy a company focuses on a specific and narrow segment of the market and tailors its strategy in order to serve them to the exclusion of others.

The focus strategy has two variants. In cost focus a firm seeks a cost advantage in its target segment, while in differentiation focus a firm tries to be differentiated from others. Both variants of the focus strategy rest on differences between a focuser's target segments and other segments in the industry. The target segments must either have buyers with unusual needs or else the production and delivery system that best serves the target segment must differ from that of other industry segments. Cost focus exploits differences in cost behavior in some segments, while differentiation focus exploits the special needs of buyers in certain segments. Such differences imply that the segments are poorly served by broadly-targeted competitors who serve them at the same time as they serve others. The focuser can thus achieve competitive advantage by dedicating itself to the segments exclusively. (Porter, 1985)

## The link of Generic Strategies with Competitive Advantage

Michael Porter (1998) stated that competitive advantage is about how a firm puts the generic strategies into practice. The two basic categories of competitive advantage (cost advantage and differentiation advantage), along with the scope of activities that a firm seeks to achieve lead to the three generic strategies: cost leadership, differentiation, focus.

Each of the generic strategies involves a fundamentally different route to competitive advantage, combining a choice about the type of competitive advantage sought with the scope of the strategic target in which competitive advantage is to be achieved (Porter,1985).

The notion underlying the concept of generic strategies is that competitive advantage is at the heart of any strategy, and achieving competitive advantage requires a firm to make a choice-if a firm is to attain a competitive advantage, it must make a choice about the type of competitive advantage it seeks to attain and the scope within which it will attain it. Being "all things to all people" is a recipe for strategic mediocrity and below-average performance because it often means that a firm has no competitive advantage at all.

## THE ROLE OF INTERNAL AUDIT IN ACHIEVING COMPETITIVE ADVANTAGE

Internal audit is a dynamic profession involved in helping organizations achieve their objectives. It is concerned with evaluating and improving the effectiveness of risk management, control and governance processes in an organization. To do this, internal auditors work with management to systematically review systems and operations. These reviews (audits) are aimed at identifying how well risks are managed including whether the right processes are in place, and whether agreed procedures are being adhered to. Audits can also identify areas where efficiencies or innovations might be made. Internal audits are organized under an ongoing program of review and advisory activity that is based on the strategic needs of an organization (The IIA, 2012).

The role of internal audit is to provide independent assurance. Unlike external auditors, they look beyond financial risks and statements to consider wider issues such as the organization's reputation, growth, its impact on the environment and the way it treats its employees (The IIA, 2012).

In sum, internal auditors through a combination of assurance and consulting, need to make sure that stakeholder's and manager's expectations regarding the strategy of the organization are followed by all of the departments and finally, to help managers decide whether the strategy followed was successful or not. In order to align the Internal Audit function with the strategic objectives and therefore with gaining competitive advantage there are some steps that should not be covered:

| |
|---|
| • Define stakeholder expectations. |
| • Articulate the mission, structure, resource model, working practices, and communication protocols for the internal audit function. |
| • Develop a formal strategic plan and assess company risks. |
| • Establish short- and long-term budgets for the internal audit function. |
| • Determine clear lines of communication between the internal audit function and all company stakeholders (primarily with senior management and the audit committee). |
| • Measure the results of the internal audit function. |

**Table 6: Steps to Align Internal Audit with Strategic Objectives.**

Internal auditors perform their role by working with boards of directors, audit committees, and senior managers to help them understand the consequences of risks and ineffective processes to manage them. They encourage and support managers to have appropriate systems in place. Internal auditors then report to senior management and the audit committee on how effectively these systems of control are operating. In such a way, the corporation succeeds in aligning the internal audit function with its strategic objectives (Basioudis, 2012).

Once an organization sets its strategy, there are countless risk factors that could impact whether the goals come to fruition. Sector disruption, supply chain issues, customer disloyalty, a brand reputation incident, cyber-security breach, or even internal fraud, could bring the best-laid-plans unstuck. However, Internal Audit is in a very unique position to help organizations alleviate the threat of these complexities. Internal Audit should help management understand what the key risks are to the success of their strategy and should then provide assurance that the key controls to managing those risks are sound. The role of Internal audit is rarely to help set a strategy, as this is generally the remit of management and the board. Rather, internal audit's role should be to audit processes for the development and implementation of strategy.[3]

# Empirical analysis

*Research Methodology Approach*

The main goal of the research is to delve into Porter's generic strategies and investigate their relationship with achieving competitive advantage. Based on the extant literature regarding the link of strategy with sustainable competitive advantage and qualitative data from executives in companies following different generic strategies, the present thesis will hopefully provide novel insights on the relevance of the three generic strategies in the 21st century and on their importance for achieving excellence. Through this research, the role of Internal Audit in gaining and sustaining a competitive advantage will be also examined. Finally, a comparison between the effectiveness of

[3] KPMG Internal Audit and Strategy: A vital connection. Retrieved from: https://home.kpmg.com/be/en/home/insights/2017/04/internal-audit-strategy.html

the three alternative strategies will provide useful guidance for managers seeking a sustainable competitive advantage.

The methodology followed for the execution of this research was a qualitative research through in-depth interviews. The profile of target respondents included executives in companies that clearly follow a specific generic strategy and possess a big share in the market that they perform. The answers were analyzed with content analysis, by firstly gathering all the answers, analyzing each one separately and then comparing the differences or similarities between them. Then a narrative for each question was written which contained the summary of responses.

The period of data collection was July 2018- September 2018. The questionnaires were answered via real time interviews, Skype interviews, and through emails. The answers come only from executives (general managers, financial managers and product managers) as they are the only ones to deeply know and understand the corporate strategy. The companies that participated in this research are from the following industries:

-FMCG

-Pharmaceuticals

-Fashion

-Manufacturing

-Energy

-Agricultural Services & Products

-Demographics

-Gourmet Food Retail Industry

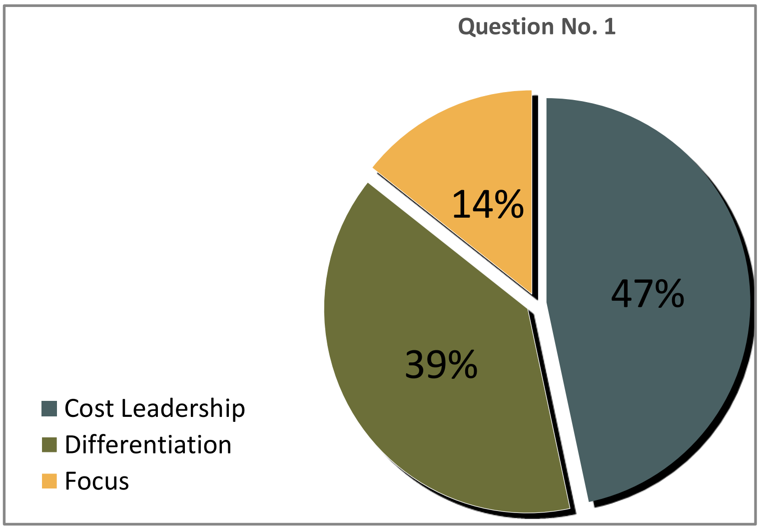
Please note that the name of the companies participating in the research cannot be revealed as we formally declared that all information provided by respondents will be treated as highly confidential and fully anonymity will be preserved. The thesis will only provide general conclusions and guidelines, and by no means will a company/strategy be mentioned.

## Analysis Of The Results

In this section, based on content analysis, the in-depth interviews and qualitative data collected are analyzed.

**Company profile – Generic Strategy pursued**

The answers of the 8 participants were divided in 2 cost leaders, 2 differentiation strategies and 4 focus differentiation strategies.




As it is depicted above, the majority of the responders follow the focus strategy, next come the companies which are the cost leaders of the industry and last, the companies who follow a differentiation strategy

In the analysis that follows below, the results are grouped in 3 categories. The first contains the answers of the cost leaders, the second contains the results of the companies who follow the differentiation strategy and the third the results of the focused strategy companies.

**Competitive Advantage maintenance.**

This question aims in extracting information on how companies following the same generic strategy, formulate their corporate strategy in order to retain the competitive advantage in the industry that they perform.

Comments:

The conclusions that derive from this question are that regarding the Cost Leadership group, the companies try to sustain their competitive advantage through a cost reduction ratio along with low fare transportation costs (to reduce the cost of the final product) and of course through continuous advertising of the product. The companies in the Differentiation group mainly support that what matters the most in order to retain their competitive advantage is the uniqueness and the quality of the product, always seeking for new distinct products through deep research, in order to satisfy their customers. Finally, in the group of Focus differentiation strategy, the most important aspects are the quality of the products/services offered, the reliability of the brand through years, the relationship between the company and its suppliers, the specialized personnel and the innovation that is the result of continuous R&D.

**Unique selling proposition**

The purpose of this question is to understand how the unique selling proposition is differentiated depending on the generic strategy pursued.

Comments:

In the Cost Leadership group, the main characteristic is that the products uniqueness is the low price. On the other hand, in the Differentiation group, the main characteristic is the high quality of the products and services offered, as well as the prices that are almost forbidden for the average consumer. In the Focus differentiation group, the respondents supported that the unique selling proposition of their company is the exceptionality of their services, the reliability over their competitors and the share that they own in the market that they function and of course, the quality of the products.

**Company divisions involved in the effort of acquiring and maintaining the competitive advantage of the company.**

This questions aim is to find the divisions of the companies of each generic strategy, that are involved in the effort of implementing a specific strategy.

Comments:

The results are that in the Cost Leadership group, the divisions that play a vital role in the effort of acquiring and maintaining the competitive advantage of the company are mainly the procurement department, the sales department, the product and marketing department and the financial department. In the Differentiation group the most important departments are the sales department, the marketing department, the procurement, the financial and the designers department.

Finally, in the Focus Differentiation group the results are: the sales department, the business development department, the designer's department and the management. It can be easily excluded that there are not significant differences among the departments of companies with totally different strategies.

**Role of people/company employees and partners in successfully following the organizational strategy.**

The fifth question aims to identify the role that people, both employees and external parties, have in the overall implementation of the company's strategic plan, depending on the generic strategy pursued.

Comments:

In the Cost Leadership group, the key point is the teamwork that helps the companies to implement their strategy, the result driven employees and the conformance in a fast-changing environment. Also, respondents supported that the long-term relationship with suppliers help them in facing difficult situations. Another key answer from the cost leadership group is that they mentioned the term "corporate culture" which the foundation of having engaged employees. In both Differentiation and Focus Differentiation group again, we observe that the employee engagement is something very important as the respondents mentioned that the main body of the staff remains stable for years. Regarding the relationship with the suppliers the respondents supported that there is mutual trust and appreciation between the two.

**New ideas generation for competitive advantage enhancement.**

The aim of this question is to understand whether different generic strategies command for different levels of innovation to sustain competitive advantage.

Comments:

In the Cost Leadership group, the ideas are generated through 3 major paths. The first is consulting experts in order to prevent possible mistakes, the second path is the brainstorming meetings that help in producing new and fresh ideas and the third is to be able to respond in a fast-changing environment and thus to be able to adapt in changes. The Differentiation group supports that the main way is to monitor international trends of the market and based on customers’ needs to try producing unique products. The Focus differentiation group states that what helps them enhance their competitive advantage is the ability to provide to their customers direct access to innovative and thus high-quality products and services and also their contribution to society, to the Greek economy and to sustainable development. So indeed, different generic strategies command for different levels of innovation.

**Points of difference with competitors**

The aim of this question is to understand whether the generic strategy pursued affects ultimately the points of difference with the main competitors in the industry. By examining the results, it will be easy to extract important information for the point of excellence of each category.

Comments:

The main answer of the cost leaders is that they create economies of scales through the reduce of cost per unit due to the scale of their operations. Economies of scale is of vital importance when it comes to Cost Leadership strategies. Regarding the Differentiation group, again the answers were predictable. Both companies mutually agreed that their main difference from their competitors is their specialization and uniqueness of their employees and their products. In the Focus differentiation group, the answers are again more or less the same. The companies support that the main differences between them and their competitors are the high quality that they offer, the experience and reliability that they process through years of research and experience and the deep knowledge of the market.

**Industry barriers to entry and strategies employed to prevent the entrance of new competitors.**

The aim of this question is to understand whether different generic strategies command for different strategies to prevent new entrants in the industry.

Comments:

In the Cost Leadership group, the companies support that it is very difficult to enter the sector and that the biggest barrier is the cost of building a retail channel. In the Differentiation group the companies also support that it is not easy for a new competitor to enter the sector due to the personal relationship that exists between them and their customers and due to the knowledge, that is required for building a new company. In the Focus group companies also support that there is an endogenous difficulty for new companies to enter due to the nature of the specific market. They mentioned also the difficulty for new entrants due to the required expertise and knowledge. Also, the economic crisis and the cost of R&D makes it even harder.

**Financial performance and achievement of company goals based on generic strategy followed.**

That question's ambition is to evaluate the companies' success in terms of financial performance and goal achievement and to extract useful information on which generic strategy is considered more successful and vice versa.

Comments:

The Cost Leadership group companies are very successful and satisfied. The Differentiation group also is very satisfied in terms of financial performance and goal achievement. The Focus group is mainly satisfied as the two out of the 4 companies support that they are among the leaders of the industry, one company also supports that the management is satisfied but unfortunately one of them is totally not satisfied regarding the goal achievement and the financial performance. So, the conclusion here is that there is not a generic strategy more successful than another. It is confirmed that all different types of competitive strategy can be successful if well formulated and implemented.

**Role of Internal Audit in maintaining the company's competitive advantage.**

The purpose of this question is to is to understand whether the Internal Audit department is involved in strategic aspects of the firm and whether this involvement has positive outcomes for the company success, and then link that question to the previous one that has to do with financial performance and goal achievement.

Comments:

It is notable that in the Cost Leadership group the two answers are more or less the same. Both companies support that I.A. provides assurance and control in order to help them identify operational risks and to achieve their objectives. In the 2nd group, Differentiation, again the companies mutually agree that IA is of great importance for them as Internal Auditors guide the executives, help in the prosperity and add value to the company. In the 3rd group, Focus Differentiation, two out of four companies praise the role of Internal Auditors as they support that IA help them comply with laws and regulations and also they help by consulting them regarding the competitive advantage they follow and help them in building a strong corporate strategy. The other two companies do not consult IAs'. One of them that almost performs in monopoly, this is not a problem as the company is successful in terms of financial performance and goal achievement. On the contrary, the other company that does not have an Internal Audit function and acts in a fully competitive industry, fails in terms of financial performance and goal achievement. It can be concluded that an Internal Audit department is indispensable for any type of company, regardless of the competitive strategy pursued, and that apart from having an IA department, companies should make sure that its members are critically involved in the strategy formulation and implementation stage in order to be aware of the problems that need to be solved in order to be able to follow a specific strategic plan.

Based on the two remaining questions of the questionnaire, a SWOT analysis is performed in order to identify the Strengths and Weaknesses of the companies and also the Opportunities and Threats of the Industry where they perform. The results of the SWOT analysis performed are depicted below:

| | COST LEADERSHIP |
|---|---|
| Strengths | distribution channels, brand awareness, know-how, products and prices, healthy financial situation |
| Weaknesses | principal-agent issue, poor identification of market segmentation |
| Opportunities | expansion abroad |
| Threats | growing competition, major Chinese players of the industry |

**Table 7: SWOT Analysis Results of the Cost Leadership group.**

| | DIFFERENTIATION |
|---|---|
| Strengths | brand name, personal relationship with customers, ability to overcome difficult projects, quality, uniqueness |
| Weaknesses | customer perception |
| Opportunities | expansion abroad |
| Threats | rapid technological advancements, the economic crisis, competition from low cost competitors |

**Table 8: SWOT Analysis Results of the Differentiation group.**

| | FOCUS |
|---|---|
| Strengths | knowledge of the market, high level of service/products, culture, continuous innovation, uniqueness |
| Weaknesses | employee dissatisfaction, bureaucracy |
| Opportunities | technological advance, expansion abroad, governmental regulations that give opportunities for R&D and expansion |

| | FOCUS |
|---|---|
| Threats | competition, the economic crisis, changes in taxation, clawbacks and rebates, rapid technological advancements |

**Table 9: SWOT Analysis Results of the Focus group.**

What is understood from the SWOT Analysis is that the main strengths of Cost Leaders are the access that they have in distribution channels, the brand awareness and the know-how of the market. Differentiation and Focus Differentiation groups, support that their main strengths are their brand name, the quality and the unique experience that they provide to the consumers, and the robust culture for exceptionality. Regarding the weaknesses, Cost Leaders support that their main problems are principal-agent issues and the poor identification of market segmentation. On the other hand, Differentiation and Focus Differentiation groups support that their main problems are employee dissatisfaction, and the bureaucracy that exists in their culture. It is also important that the Differentiation group mentioned as a weakness the perception that customers have of expensive products and the ability to replace them with alternative ones. Regarding the opportunities that exist in the market, all groups answered that the main opportunity is to expand their business abroad. Finally, Cost leaders seem to be mainly threatened by more cost-effective competitors such as the Chinese players in some industries, whereas Differentiators are mostly worried about rapid technological advancements and their ability to be constantly innovative.

# Conclusions & Policy Proposals

This chapter exhibits the conclusions, suggestions and limitations of this thesis. Based on the final conclusions of the empirical analysis, there are suggestions that can help managers and strategists in future evolvement.

Corporate strategy depicts an organization's mission, vision and goals. Essentially, strategy is the benchmark that guides a company in achieving its long-term goals. Strategy also aims, among other things, in acquiring and maintaining competitive advantage for the corporation. An enterprise is considered to have a competitive advantage over its competitors when the sustainability of returns exceeds its industry average. In some cases, the competitive advantage is gained through technological developments, but it is often difficult to maintain. Additionally, in the theoretical part was emphasized that through innovation, flexibility in change, rational information and value creation for the customer, the business increases its competitiveness. In other words, these sources of competitiveness, as they are characterized, lead companies to competitive advantages. Through the uniqueness of each business, value is created for customers. Companies that achieve greater value for their customers than their competitors, are those maintaining competitive advantages. Also, it has become clear that competitive advantage can be made sustainable when a business is always one step ahead of its competitors and possesses this kind of knowledge that competitors cannot copy either due to lack of knowledge or due to lack of access in distribution channels, etc. Sustainable competitive advantage arises from the pursuit of a value creation strategy that competitors cannot copy.

The findings of the empirical part totally seal all the theories mentioned in the first part of the thesis. More specifically, in the first question it is understood that companies who follow different generic strategies use different means to maintain competitive advantage. Cost leadership stands for cost reduction in order to be able to provide lower prices. In the differentiation group the respondents supported that in order to maintain their competitive advantage they need to do research in order to have new and unique products. In the Focus differentiation group, the answers are more or less the same with the Differentiators, the only change is that in the focus differentiation group companies focus at a specific audience. Through the third question we understand that there is a difference between the unique selling proposition between different generic strategies. Cost leaders provide low prices, differentiators provide unique and expensive products, focus differentiators also provide unique and high-quality products as well as reliability to the market.

In the fourth question which aims in finding the divisions that are involved in the effort of implementing a specific generic strategy, it can be easily understood that there are not significant differences. The departments that all respondents mentioned are the financial department, the sales department, the designers and the procurement department.

Question number 5 aims to identify the role that people have in the overall implementation of the Strategic plan. Cost Leaders answered that conformance in a fast-changing environment and teamwork are the main characteristics needed while Differentiators and Focus Differentiators supported that employee engagement and mutual trust and appreciation between the company and its suppliers are of vital importance. In the sixth question, regarding the point of excellence of each generic strategy, based on the answers the following information is extracted:

| | POINTS OF EXCELLENCE |
|---|---|
| Cost Leadership | cost per unit, economies of scale, access to difficult distribution channels |
| Differentiation | specialisation, uniqueness, high quality |
| Focus Differentiation | specialisation, uniqueness, high quality, experience, liability, knowledge of the market |

**Table 10: Points of Excellence of each Generic Strategies**

Question's number 7 goal is to ensure that different generic strategies need different strategic plans to prevent new entrants. Indeed, the answers help us understand that there are main differences and are depicted below:

| | STRATEGIES TO PREVENT NEW ENTRANTS |
|---|---|
| Cost Leadership | access to distribution channels, descent retail channel, effective strategic skills, financial stability |

| | STRATEGIES TO PREVENT NEW ENTRANTS |
|---|---|
| Differentiation | knowledge, relationship between company and customers |
| Focus Differentiation | expertise, continuous R&D |

**Table 11: Strategies to Prevent new Entrants**

The major finding of the research has to do with the role of Internal Audit and its effect in corporations. While all corporations stated that they are successful in terms of goal achievement and financial performance, one company stated the contrary. The fact is that successful companies occupy an Internal Audit function while the "not so successful" company has never consulted an Internal Auditor. A lot of companies may survive without consulting an Internal Auditor, but when it comes to gaining and maintaining competitive advantage in an environment where strong competition exists, every single function of a company should be under control and "investigation". This is the role of IA. To help organizations alleviate the threat of these complexities.

Finally, by performing a SWOT Analysis the most important findings were two. The first has to do with the opportunities where all respondents mutually agreed that the main opportunity is the opportunity of expanding abroad while the main threat is the effects of the economic crisis in Greece. Both Cost Leaders and Differentiators agreed that the current financial situation of our country is not fertile for new investments that's why they seek opportunities for expanding in countries where the financial situation, the legislation and the taxation is more helpful for corporations.

## LIMITATIONS AND RECOMMENDATIONS FOR FURTHER RESEARCH.

The main limitation was that data collection was limited to a relatively small sample size, only 8 respondents, and to only one country. The length of the questionnaire also presented to be a limitation, and lack of interest to participate was observed from the respondents.

To completely understand the link of Internal Audit with corporate strategy and competitive advantage, further research should be executed in order to examine the role of generic strategies and IA relative to competitive advantage and higher performance in particular industries. Another field that should also be examined is the revision of the whole competitive advantage theories and the new parameters that should be added due to the digitalization of the modern market.

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# Appendix

**<u>Questionnaire:</u>**

*Dear Sirs/Madams,*

The main goal of the thesis is to delve into Porter's generic strategies and investigate their relationship with achieving competitive advantage. Based on the extant literature regarding the link of strategy with sustainable competitive advantage and qualitative data from executives in companies following different generic strategies, the present thesis will hopefully provide novel insights on the relevance of the three generic strategies in the 21st century and on their importance for achieving excellence. Finally, a comparison between the effectiveness of the three alternative strategies will provide useful guidance for managers seeking a sustainable competitive advantage.

We formally declare that all information provided by respondents will be treated as highly confidential and fully anonymity will be preserved. The thesis will only provide general conclusions and guidelines, and by no means will a company or strategy be mentioned.

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**Department of Economics**
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**Master in Business Administration – Internal Audit**

1. In which of the three competitive advantage categories does your company better fits?

   ○ Cost Leadership (If a firm is targeting customers in an industry based on offering low prices or the lowest price in the industry).

   ○ Differentiation (If it targets customers on attributes other than price (e.g., via higher product quality or service) to command a higher price).

- Focus (If it is focusing in a narrow segment, it is following a focus strategy. A firm may be attempting to offer a lower cost in a particular niche market (focused cost leadership) or differentiate itself in a particular market (focused differentiation).

2. How do you manage to maintain this competitive advantage?
3. What is the unique selling proposition of your company?
4. Which company divisions are involved in the effort of acquiring and maintaining the competitive advantage of the company (either cost leadership, differentiation or focused strategy)?
5. What is the role of people/company employees and partners in successfully following the strategy of the organisation?
6. How do you generate new ideas in order to sustain your competitive advantage?
7. Which are the main differences between your company and its competitors?
8. Is it easy or not for a new competitor to enter the sector? What strategies could you employ to make it harder?
9. How successful do you consider your company in terms of financial performance and goal achievement?
10. What is the role of Internal Audit in maintaining the company’s competitive advantage?
11. Which are your strenghts and your weaknesses?
12. Which are the opportunities and the threats of the industry?

## AUTHOR DECLARATION

"I hereby declare that, in accordance with article 8 of Law 1599/1986 and article 2.4.6 par. 3 of Law 1256/1982, this thesis/dissertation is solely a product of personal work and does not infringe any intellectual property rights of third parties and is not the product of a partial or total plagiarism, and the sources used are strictly limited to the bibliographic references."