

THE ROLES OF COMPETITIVE CONGRUENCE AND STRATEGY COHERENCE IN COMPETITIVE ADVANTAGE AND FIRM PERFORMANCE: AN EMPIRICAL INVESTIGATION

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ABSTRACT

A continuous process is described for gaining, maintaining, and extending competitive advantage. The process hinges on the interrelationship among three elements: 1. competitive congruence (developing the internal resources and competencies that will lead to competitive advantage); 2. strategy coherence (having a strategy of competitive advantage that will be supported at all decision-making levels in the organization); and 3. strategic choice (making the decisions and resource commitments that will support the efforts of the firm to achieve competitive advantage). A study of 45 firms in the managed care industry showed statistically significant results that this process was directly associated with firm performance. Firms possessing competitive congruence, with coherent strategies, were more profitable than strategically incongruent, incoherent firms, indicating that they made correct strategic choice decisions and commitments

THE COMPETITIVE ADVANTAGE PROCESS

Three elements are necessary for firms to establish a competitive advantage process, as they develop and implement strategies: 1. *Competitive congruence* - How can we develop the internal resources and competencies that will secure competitive advantage for our firm? 2. *Strategy coherence* - How can we have a strategy of competitive advantage that will be supported at all decision-making levels in our organization? and 3. *Strategic choice* - How can we make the right choices that will support the efforts of the firm to achieve competitive advantage? All elements of the model should be connected in the process and the three circles should overlap each other. The area where all three circles intersect represents optimum firm performance. The more effectively these elements are coordinated, the more the three circles overlap, enlarging the performance area.

THE COMPETITIVE ADVANTAGE PROCESS (COMBINING THE ELEMENTS)

Competitively congruent firms continuously identify strengths that become core competencies and capabilities and nurture them as sources of competitive advantage. These firms also are likely to possess coherent strategies and should outperform strategically incoherent/incongruent firms, that are unable to perpetuate this process or cannot develop new competencies and capabilities quickly [3]. Firms possessing coherent strategies across different strategic decision-making levels of management are more likely to make the right strategic choices [6], completing the first stage of the competitive advantage process. They tend to bundle resources effectively [8], choose favorable markets, commit resources

effectively, and enjoy higher levels of firm performance [6]. Profits among firms vary, largely because some firms possess more resources [1] or are more adept at turning core competencies and capabilities [4] into competitive advantage and competitive advantage into higher levels of firm performance [11].

PURPOSE OF THE STUDY

A study of 45 firms in the managed care industry investigated how competitive congruence and strategy coherence led firms to make the right strategic choices, which would lead to competitive advantage, exemplified by higher firm profits. It examined both the independent effect of competitive congruence and the combined effects of congruence and coherence on firm profitability. One recent research article demonstrated the importance of strategy coherence, but only considered business and operations levels [8]. Coherence across all three levels of strategy, rather than between business and operations levels alone, should lead to improved firm performance. As previously mentioned, at the corporate strategy level, the firm decides the nature of its business and answers questions related to the overall business direction of the firm and diversification [9]. Consequently, this study considered the importance of corporate level strategy to the success of the organization, by including it in the concept of coherence.

METHOD

Sample and Participants

Firms involved in this study were randomly selected managed care or third party administrator (TPA) firms, listed in the Business Insurance trade publication directory [2]. Each of the firms met criteria of size, marketing focus, and geographic location. Selected firms reported at least \$3 million in annual sales over the past three years, generated at least half of their revenue from managed care activities, and had a physical presence in the middle Atlantic states of Pennsylvania, Virginia, Maryland, Kentucky, Tennessee, Georgia, North Carolina, and South Carolina. Sixty firms met these criteria, and 45 firms voluntarily agreed to participate in the study, producing a 75% response rate. Participants were members of top management, with titles of vice president or higher. Confidentiality and anonymity were assured, and data was aggregated for analysis purposes.

Variables

Profits - Respondents reported their firms' perceived range of profitability for the most recent three years as a measure of firm performance. Low profitability was defined as 5-10% EBIT; average 10-15%, and high over 15%.

Competitive Congruence - This variable was measured by the respondent's ability to match sources of competitive advantage with core competencies and capabilities. Respondents identified what they perceived to be areas in which their firms enjoyed competitive advantage over rivals, as well as task or functional areas in which their firms met or exceeded objectives [7]. Strategically congruent responses indicated an awareness of the relationship between core capabilities and competitive advantage. For example a respondent identifying cost control as the firm's main core capability and cost leadership as a competitive advantage was classified as strategically congruent. However, a respondent identifying cost leadership as a competitive advantage and the firm's ability to deliver individualized, full service as a core capability was classified as strategically incongruent.

Strategy Coherence - Coordination among all three levels of strategy, including operations, business, and corporate levels, indicates the degree of strategy coherence. Ideally, operations level variables support business level variables, which support corporate level variables en route to achieving competitive advantage [5]. Coherence was measured by the strength of the relationship among the sets of variables contained in each decision-making level - corporate, business, and operations [8] and their effect on firm profits. Corporate level variables included type of corporate ownership, size, and geographic range. Business level variables included market focus, competitors, customer base, and pricing. Operations level variables included the specific, daily, functional activities of the firms - claims management, claims investigation, loss control, medical management, and utilization control. For example, for strategy coherence to exist, certain operations level variables would combine with business and corporate level variables and positively relate to firm profits.

RESULTS AND DISCUSSION

Multiple regression analysis results confirmed the connection between competitive congruence and strategy coherence. Furthermore, profits were higher in firms, where this condition existed [1] [8]. It is reasonable to assume that these strategically congruent, coherent firms made the right strategic choices to achieve higher profits. As previously mentioned, all strengths do not become core competencies and capabilities, and all core competencies and capabilities do not become competitive advantages. In addition, certain firm activities are more critical than others in a given industry or firm, and success in these areas can define success, mediocrity or failure for a firm.

For the firms studied in the managed care industry, the corporate level variables of ownership and geographic span of business; business level variables of choice of competitors and pricing; and operations level variables of loss control and utilization control strongly related to firm profitability. Profiling highly profitable firms in this industry, the most successful firms possessed the following characteristics: at the corporate-level, the parent firms or firms owned by a parent organization had a national presence; at the business-level, the firms were able to charge higher prices for services, while engaging multiple main competitors in the market; at the operations level, the emphasis was on loss control and minimal or no emphasis on the utilization control function.

Applying the competitive advantage process, management would examine these results and see that advantages exist for larger firms with geographic reach at the corporate-level. At the business level, competition appears not to adversely affect profits or the ability of the firm to charge higher prices. At the operations level, effective loss control is essential, but extensive efforts regarding utilization control may be wasted. Management would evaluate its individual situation continuously, relative to the profile and make adjustments as necessary. Also, management should identify areas, where strengths might be gained, to become new core competencies and capabilities or competitive advantages, propelling the firm to higher profits.

The variables that were not significantly related to profits may be important indirectly. Management should not interpret the results to mean that the firm only should concentrate on the significant activities at each decision-making level. However, the results imply that certain activities are most critical. Management should begin by supporting those essential activities and assigning priority to the ones which complement those activities, indirectly affecting profits. Functions that do not relate to these essential activities should be reviewed to determine their basis for continuation, because they may not contribute substantially to the competitive advantage process.

SUMMARY

This evidence indicates that firms perform at higher levels, when they are knowledgeable about core competencies and capabilities [10] and when firms understand the connection between core competencies and capabilities and competitive advantages [4]. Finally, the results offered strong support tying competitive congruence and strategy coherence to firm performance and confirming the importance of strategy coherence to firm performance [8] and suggesting that competitive congruence may couple positively with strategy coherence to affect firm performance. Not only should firms insure coherent strategies across decision-making levels, they also should be certain to possess an internal awareness of the connection between core competencies and competitive advantage, through competitive congruence, and commit necessary resources, through strategic choice.

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