International Journal of Commerce and Management Research
ISSN: 2455-1627; Impact Factor: RJIF 5.22
Received: 24-01-2019; Accepted: 27-02-2019
www.managejournal.com
Volume 5; Issue 2; March 2019; Page No. 57-60

Soft and hard skills of crafting a strategy for a sustainable competitive advantage in a troubled economy

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Abstract
Aaron Kapunula was part of the authorship of this article. Economic history of the free market capitalist's countries shows that the period of economic prosperity or expansion alternates with the period of contraction, recession, downsizing or depression. These alternating periods of expansion and contraction in economic activity has been called business cycles or trade cycles. A depression develops when overproduction, decreased demand, or a combination of both factors leads to the curtailment of production, dismissal of employees, and wage cuts. As a result, consumer purchasing power is reduced causing the crisis to become more acute. However, it is important to note that these fluctuations are recurrent, hence the need for companies to devise sustainable competitive strategies to ensure survival during periods of depression. Therefore, this paper focusses on strategies that companies can craft and adopt when going through a troubled economy in order to gain a sustainable competitive advantage.

Keywords: crafting strategy, competitive, sustainable

1. Introduction

Business Dictionary (2019) [1] refers to a recession as a period of general economic slowdown, which results in a period of decline in total output, income, employment, and trade lasting for a period of six months to a year. According to Nkuta (2015) [8], an economic depression occurs when a recession lasts for a period of more than two or more quarters. During the period of recession or depression, many workers lose their jobs which in turn causes loss of output, bankruptcies, sovereign debt defaults and reduced trade and commerce. Consumer confidence and investment also decreases causing the economy to shut down. Many industry leaders fall from the top during recession because they assume that a strong market position is an insurance policy against trouble, such that when a downturn hits, they tend to over react by slashing costs and staff indiscriminately, squeeze suppliers and avoid strategic acquisitions (Hill and Jones, 2008) [4]. Unfortunately, this seems to be a temporal measure to cushion the situation because, when the economy improves, they end up spending more in order to gain momentum.

It is argued that economic downturns create more opportunities for innovative companies to move forward from an average level into leadership positions, than any other time in business. This is attributed to the level of strategic planning activities that companies tend to engage in, in order to survive. Rather than hope for things to get better, strategic companies take action to improve their operations and position themselves for growth when the economy recovers. The challenge faced by most companies however, is keeping a company on track while the global economy is falling apart and keeping it functional until the economy recovers. The rapid pace of innovation and change in recent years has led to scholars and executives to search for an approach to strategy that is more dynamic than Michael Porters Classic "Five Forces", and Generic Strategies which are designed for companies to beat competition in an industry (Nkuta, 2015) [8].

Gulati and Nohria (2010) [3] acknowledge that little research has been done on strategies that can help companies to survive a recession, get ahead during a slow growth recovery and be ready to win when good times return. According their findings in their study conducted on corporate performance for 4700 companies during the past three global recessions that included the 1980 crisis (1980 - 1982), 1991 slow down (1990-1991), and 2000 bust (2000-2002) about 17 percent of the companies studied did not survive the recession. They either went bankrupt, were acquired or become private. Further, their findings also show that the survivors were painfully slow to recover from the battering. About 80 percent of them regained their growth rates for sales and profits three years after the recession. Only a small number of companies about 9 percent approximately from the sampled population flourished after a slow down and were observed to have been doing better on key financial parameters than they did before the recession and outperforming rivals in the industry by 10 percent in terms of sales and growth.

Three key observations from Gulati and Nohria (2010) [3] are noted in the quest for competitive strategies in a down turn;

- Firms that cut costs faster and deeper than rivals don't necessarily flourish. Instead they have the lowest probability of 21 percent of pulling ahead of competition when times get better.
- Businesses that bodily invest more than their rivals during a recession don't always farewell either. They enjoy only a 26 percent chance of becoming leaders after a down turn.
- Companies that were growth leaders coming into the recession don't always farewell either. They enjoy only a 26 percent chance of becoming leaders after a downturn.

Based on the findings alluded to, we can deduce that the need for survival strategies in slow down economy is critical. However, what strategies do companies need to deploy in order to win during the periods of recession? In trying to answer this question, we now shift our focus on some strategies that companies can devise to gain a sustainable competitive advantage in a depressed economy.

1.1 Sustainable and Competitive Strategy

Smith and Malaba (2015) [12] state that winning businesses, winning markets, increasing organizational revenue are the cornerstones for going into business and remaining in business. There are a number of strategies proposed by different scholars, however, this paper focuses on three key categories of strategies that can be deployed in times of down turn in an economy including; defensive strategies (preventive focused strategies), Offensive strategies (Promotion focused strategies) and Pragmatic strategies (optimal combination of defensive and offensive strategies), (Gulati and Nohria, 2010) [3].

1.1.1 Defensive Strategies (Promotion Focused)

These strategies focus on avoiding loses and minimizing downside risks. Prevention focused leaders according to Gulati and Nohria (2010) [3], cut back on almost every item of cost and investment and reduce expenditures significantly more than their competitors. Companies who deploy defensive strategies implement policies designed to reduce operating costs, shrink discretionary expenditures, eliminate frills, rationalize business portfolios, lower head counts and preserve cash. As much as possible companies may postpone making fresh investments in Research and Development (R&D), developing new businesses, or buying assets such as plants and machinery. Defensive strategies help companies to retain valuable customers that can be taken away by competitors, (Ogden, 1999) [9].

The rationale here is to maintain a strategic position in an economic environment which is slowing down and lowering the risk of losses that they may be incurred due to reduced economic activity on the environment.

1.1.2 Conditions for Defensive Strategy to Secure Competitive Advantage

Smith and Malaba (2015) [12] proposes the following options for companies that may intend to use this strategy

- Keep prices low on product lines that match the characteristics of the challenger's brand
- Sign exclusive agreements with dealers/ distributors to keep competitors from using same ones
- Offer free/low cost training to product users
- Give current buyers preferential treatment (discounts, coupons etc.)
- Sign exclusive contracts with the best suppliers to block access to aggressive rival

1.1.3 Offensive Strategy (Promotional Strategies)

An offensive strategy is a strategy implemented by a company that intends to stay ahead of its competition, through investments in technology and research and development (Law dictionary, 2019) [13]. According to Gulati and Nohria (2010) [3], organizations that focus purely on promotion develop a culture of optimism that leads to deny the gravity of a crisis for a long time. They argue that some businesses pursue opportunity even in the face of adversity. They use a recession as a pretext to push change through, get closer to customers who may be ignored by competitors, make strategic investments that have long-term pay offs and act opportunistically to acquire talent, assets or businesses. Whereas prevention focused oriented companies aim to lower costs, promotional focused enterprises are unable to reduce costs and hence increase their costs in the long run.

1.1.4 Conditions for Offensive Strategy to Secure Competitive Advantage

- Having product features that deliver superior performance or lower user costs differentiates a product from other competing products thereby making it more competitive. New entrants entering markets with radically new products usually come from markets unrelated to that which they are invading (Markides; 2000) [7] these are the threats that require organisations to keep updating its product features.
- Having the ability to give buyer more responsive after sale support. This is even more important for products that are service oriented.
- Having resources to escalate the marketing effort in an under marketed or completely untargeted (not marketed) industry. By doing this companies can avoid direct competition but still pursue an offensive strategy. According to Porter (1985) [11] a defending firm may attempt to lower its intensity and potential for harm, by directing the attack to areas where the firm is less vulnerable, or in areas which are less desirable to the attacker.
- Pioneering a new distribution channel. This gives the competitive edge of having the best suppliers, best location as well as establishing relations with the best customers.
- Forward Integration – It is a form of vertical integration and involves having capability to bypass wholesale distributors and sell direct to the end user
- Almost all strategic offensives should be tied to what a firm does best – strength and capabilities such as key skills - unique functional competences – superior ability to perform key activities

1.1.5 Pragmatic Strategies (Optimal combination of defensive and offensive strategies)

Pragmatic companies are most likely to outperform their competitors after a recession. According to one CEO of a Pragmatic company it is argued that, as much as cost cutting is essential to surviving a recession, investment is equally important to spur growth and as such companies need to manage both at the same time**.** In this approach, a little offense as well as a little defense will make companies to win during a recession**.** Gulati and Nohria (2010) [3], propose that companies may combine three defensive/offensive approaches to improve efficiency.

1.1.5.1 Reducing number of employees

Reducing number of employees in a company as a cost reduction measure can be referred to as a retrenchment strategy. According to Phiri (2016) [10] retrenchment strategy also occurs when an organization regroups through cost and asset reduction to reserve declining sales and profits. During retrenchments, strategists work with limited resources and face pressure from shareholders, employees and the media. He argues that retrenchments can entail selling off land and buildings to raise needed cash, pruning product lines, closing marginal businesses, closing obsolete factories, automating processes, reducing the numbers of employees and instituting expense control systems.

1.1.5.2 Developing new markets

This strategy involves the introduction of products or services into new geographical areas. David (2011) [2] argues that market developments strategy works best when channels of distributions are available that are reliable, inexpensive and of good quality. It can be applied to organizations which are very successful at what they do. At times a business entity may decide to develop a market when new untapped or unsaturated markets exist. A market can also be developed when an organization has the needed capital and human resources to manage expanded operations.

1.1.5.3 Investing in new assets

Companies may decide to expand their operations through investing in new assets such as machinery and buildings. Acquisition of new businesses can also be considering under this strategy. Acquisition strategy is a comprehensive plan that identifies the acquisition approach that program management will follow to manage program risks and meet program objectives. This strategy is beneficial for companies that intend to grow their business (Hill, 2017) [6].

Companies deploying defensive moves are selective, they cut costs mainly by slashing the number of employees relative to their competitors. However, offensive moves are comprehensive, they develop new business opportunities by making significant greater investments than their rivals do in R&D and marketing and they invest in assets such as plants and machinery

Pragmatic Strategies are advantageous because they improving operational efficiency. Companies that attend to improving operational efficiency do better than companies that implement aggressive cost-reduction. This is because employee morale is better at companies that stress operational efficiency. Often. Employees in such companies appreciate management's commitment to them and hence are more creative at reducing costs. They do not spend time worrying about security as do employees belonging to companies that rely on deep staff cuts. Although layoffs may reduce costs quickly, they make recovery more difficult. People are keen to work for organization's that reduce head count in difficult times. Moreover, as these companies rehire, costs shoot up.

In contrast, companies that respond to a slowdown by re-examining every aspect of their business models from how they have configured supply chains how they are organized and structured reduce costs on a permanent basis. When demand returns, costs will stay low, allowing their profits to grow faster than those of competitors (Gulati and Nohria, 2010) [3].

1.2 Other Strategies for a Sustainable Competitive Advantage

1.2.1 Market Penetration Strategy

Market penetration strategy is suitable when the current market in which an entity is operating in is not yet saturated by a typical product. It is referred to as a strategy that seeks to increase market share for present products or services in present number of sales persons, increasing advertising expenditures, offering extensive sales, promotion items or increasing publicity (David, 2011) [2]. Phiri (2016) [10] adds that market penetration as a strategy is quite advantageous to the organization because it helps the organization to grow in the business industry. Through increased spending on advertising and increasing publicity efforts for example, the company is able to raise massive awareness of its products to the public which is more likely to increase the sales levels of the firm.

1.2.2 Product Development Strategy

The product development strategy helps companies to post high sales volume by improving or modifying present products or services for product development to be successful, large research and development expenditures have to be incurred by the firm. This is important so that they keep up to the level of technological advancement. A business entity can apply this strategy when it has successful products that are in the maturity stage of the product life cycle. The idea is to attract satisfied customers to try new improved products as a result of their positive experience with the organizations present product or service (Phiri, 2016) [10].

1.2.3 Diversification Strategy

This growth strategy is usually applied in situations where a company decides to sell new products to the market. Diversification therefore qualifies as a growth strategy because its aim is to expand the company's operations of its products and survives. This type of strategy however, can be very risky at times as the company decision to invest in businesses that are less viable and may end up making loses. A small company will need to plan carefully when deciding to use a diversification growth strategy. As such, a company may need to carry out market research to determine if consumers in the new market will potentially like the new product or service.

1.2.4 Divestiture

This strategy entails selling of a division or part of a company. Often, divestiture is used to raise capital for further strategic acquisitions or investments. It can be part of an overall retrenchment strategy to rid of part of an organizations businesses that are unprofitable and require too much capital or that do not fit well with the firms' other activities. It is quite popular for firms to focus on their core business and become less divestiture.

1.2.5 Liquidation

This strategy results in selling all of a company's assets, in parts for their tangible worth. According to David (2011) [2], liquidation is recognition of defeat and consequently can be an emotionally difficult strategy. However, companies may decide to cease operating than to continue losing large sums of money. Usually liquidation is caused by bad planning and being too highly leveraged which in turn tends to crush a business quickly. For example, Post Newspaper went into liquidation because the company was not able to withstand the economic pressure that it had to go through. Liquidation represents an orderly and planned means of obtaining the greatest possible cash for an organizations asset. In this regard, a company can firstly declare bankruptcy first then liquidate various divisions to rise needed capital.

1.2.6 Vertical Integration

Vertical integration is a strategy that many companies use to gain control over their industry's value chain. This strategy is one of the major considerations when developing corporate level strategy. The important question in corporate strategy is, whether the company should participate in one activity (one industry) or many activities (many industries) along the industry value chain. For example, the company has to decide if it only manufactures its products or would engage in retailing and after-sales services as well. Two issues have to be considered before integration:

1.2.6.1 Costs
An organization should vertically integrate when costs of making the product inside the company are lower than the costs of buying that product in the market.

1.2.6.2 Scope of the firm
A firm should consider whether moving into new industries would not dilute its current competencies. New activities in a company are also harder to manage and control. The answers to previous questions determine if a company will pursue none, partial or full vertical integration. There are two types of vertical integration strategies that organizations can pursue;

1.2.7 Forward integration
If the manufacturing company engages in sales or after-sales industries it pursues forward integration strategy. This strategy is implemented when the company wants to achieve higher economies of scale and larger market share. Forward integration strategy became very popular with increasing internet appearance. Many manufacturing companies have built their online stores and started selling their products directly to consumers, bypassing retailers.

1.2.8 Backward integration
When the same manufacturing company starts making intermediate goods for itself or takes over its previous suppliers, it pursues backward integration strategy. Firms implement backward integration strategy in order to secure stable input of resources and become more efficient. Backward integration strategy is most beneficial when (Hill, 2017) [6].

2. Conclusion
Attaining a sustainable competitive strategy requires for companies to deploy and implement some of the strategies proposed in this paper. However, companies may use one or more of the proposed strategies simultaneously to grow their business operations. Few progressive business leaders have a master plan when they enter a recession. They embark on efforts designed to discover what works and combine those findings in a portfolio of initiatives that improve efficiency along with market and asset developments.

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