

A Shift from Sustainable Competitive Advantage to Transient Advantage: Why Sustainable Competitive Advantage is Obsolete

Chang Liu

School of University of Manchester, Manchester, UK

Abstract

This essay aims to discuss whether sustainable competitive advantage is obsolete, and introduce the point that transient advantage is more effective than sustainable competitive advantage. To demonstrate this view, this essay applies the life cycle stage theory to prove that there is no kind of competitive advantage could be lasted for long in theory. Then, this essay tries to prove that sustainable competitive advantage is not efficient enough to cope with the new competition challenges from unstable environment and the blurring bound of industries by examples of enterprises in reality, and sustainable competitive advantage is not a guarantee for profit, either, combining the situation of COVID-19. In addition to these three reasons, this essay shows the negative consequence of firmly entrenched in outdated sustainable competitive advantages without flexible adaption through the failure of Nokia.

Keywords

Sustainable Competitive Advantage; Transient Advantage; Competing Environment.

1. Introduction

A The notion of establishing and maintaining competitive advantages has got a dominant influence on most executives for around four decades. It was reinforced especially by Michael Potter, who believed the core task of a business was to generate competitive advantages within an industry. Thus, the Five-Forces Model was created to help a firm better position itself and acquire competitive advantages (Voyles, 2019).

However, it becomes more difficult to maintain sustainable competitive advantages in a dynamic, unpredictable, and uncertain environment (Stoyanova, 2018). The rapid development of technology is changing the consumption patterns. It also creates a mass of new entrants which bring threats to traditional firms. Customers' expectations for firms are upgrading from high-quality products and services to an environmental-friendly development mode to meet climate change targets. Moreover, Covid-19 in 2020 threatened almost all businesses, whether they have sustainable competitive advantages or not. Therefore, is it proper to say that sustainable competitive advantage is now obsolete to produce a steady stream of profits?

This statement is reasonable but too absolute. Sticking to sustainable competitive advantages is not wrong, nevertheless, just not enough for today's competing environment. Firms should shift their focus from sustainable competitive advantages to transient advantages, to cope with the market full of complexity and volatility.

2. Competitive Advantage

Competitive advantage is defined as the factors or attributes with which a company can perform better than its competitors (Amadeo, 2020). It is concerned that firms with competitive advantages create superior values which lead them to a privileged position in consumers' minds (Kaleka, 2017). There are always two foundational assumptions in the strategy field, one is that industry structure is supposed to be steady, the other is that

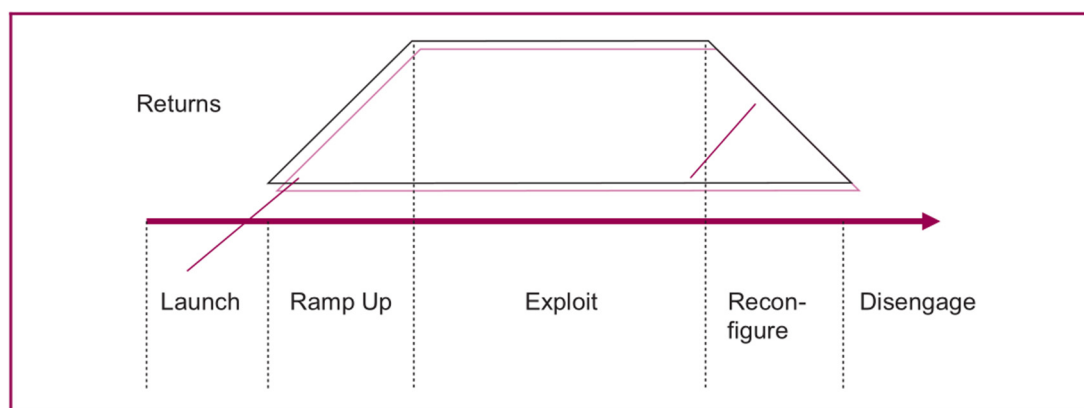
competitive advantages are sustainable once they are formed (Leavy, 2013, citing McGrath, 2013). Do sustainable competitive advantages really exist? There are companies whose sustainable competitive advantages are still making a huge contribution to earn profits (McGrath, 2014). IKEA, which matched different institutional demands of the global market based on its traditional competency (Novicevic, 2012), is a proper example. Moreover, long-term advantages like customer relationships, which is always critical for industries such as food and aircraft construction (Stoyanova, 2018). Therefore, sustainable competitive advantage is not completely obsolete. Nonetheless, it is not the situation for most enterprises, especially organizations that offer extremely similar products and services (Stoyanova, 2018).

Nowadays, maintaining sustainable competitive advantages are indeed less considered to be the core strategy by more enterprises. Transient advantages are, instead (McGrath, 2013). There are three main reasons to support this view.

3. Reasons for the Obsolescence of Sustainable Advantages

3.1. Life Cycle Stage of Advantage

It is impractical to expect competitive advantages to last for long because any competitive advantage follows the same life cycle, no matter how long it lasts. Figure 1 showed the five stages in the wave of transient advantage. The exploit stage is the one when competitive advantages are believed to keep bringing profits. However, none of these advantages can escape the fate to be eroded in the Disengage stage (Leavy, 2013).



Source (Leavy, 2013)

Figure 1. The Five Stages of Transient advantage

Here is an example of Milliken & Company, which was famous as a textile and chemical company in the 1960s, then was known for producing advanced materials and flameproof products in the 1990s, at last, was a mainstay of producing specialty materials and high-IP specialty chemicals in 2000s (Leavy, 2013). Comparing to its initial competitors which vanished early in the global tides of textile manufacturing, Milliken & Company could survive because it realized to reallocate its resources to form new advantages to match the wave of globalization. This strongly illustrated that sustainability had never been the reason why advantages to be continued. Instead, replaceability and flexibility, two key characteristics of transient advantages, which help accelerate the process of the life cycle, make advantages continued.

As for the example of IKEA, IKEA maintained its traditional competency by making changes to respond to different challenges in the global market. A Competency Adaptation Framework could explain IKEA's success in its expanding to the Chinese market (Novicevic, 2012). To be specific, the purchasing power of Chinese consumers was so low that even IKEA, a low-cost

position in other markets, was deemed to be expensive. Moreover, low-cost providers were always considered as making compromises in quality in China. Thus, IKEA had no choice but to turn itself into a differentiator, trying to attract the middle class's preference in China. Another change IKEA had to make was its connection with end users. In China, where consumers purchase things for others as gifts more than for themselves, it was far more difficult for IKEA to get in touch with its actual end users. This forced IKEA to think of new ways of building social network. Therefore, IKEA penetrated the Chinese market successfully because it has never been stuck in what advantages it already had. It kept digging new transient advantages that are more flexible and adaptive to a new environment.

3.2. Dynamic Competing Environment

The competing environment is dynamic with uncertainty and unpredictability due to the rapid development of technology and the process of globalization (Stoyanova, 2018). These lead to two consequences, one is that new enterprises are born, bringing new sorts of threats for traditional firms, the other is that the industry lines are becoming blurring (McGrath, 2013).

New business patterns bring new challenges. For instance, Airbnb, a representative of sharing economy, is a neoteric customer-to-customer (C2C) business pattern based on the ripeness of internet technology. It provides accommodations to travelers with distinctive consuming experiences, which challenges not only the traditional hospitality industry but also traveling behaviors (Mao, 2017). There is recent evidence showing that sharing economy itself is a shock to the traditional hotel industry (Mody, 2019, citing Trivett, 2013), for its characteristics such as more customized products or services, light assets, and workforce operating pattern (Mao, 2017). In this example, the conventional advantages of hotels such as scale and quantity of hotels might not be effective enough to beat sharing economy. Hotels should pay more attention to customers' experiences to form new competitive advantages.

There are fewer boundaries between each industry. Firms producing cameras have to face competition with phone producers, because most smartphones have similar function and sharpness to professional cameras, and they can easily replace cameras in daily life for they are light and handy to take with. Printed media are also struck by smartphones because people can read the news by phone more conveniently than subscribing to the newspaper. It is hard for firms to imagine which rival from which industry is going to be their competitor.

Just as the saying goes, "You have to keep running to stay where you are." In a rapidly changing environment, firms must change at the same speed (Leavy, 2013). The theorist of Transient Advantage, Rita McGrath, also argued (2013), "Change is not the dangerous thing – stability is." That is why sustainable competitive advantages are not as effective as they used to be – they are too stable to respond to an inconstant world.

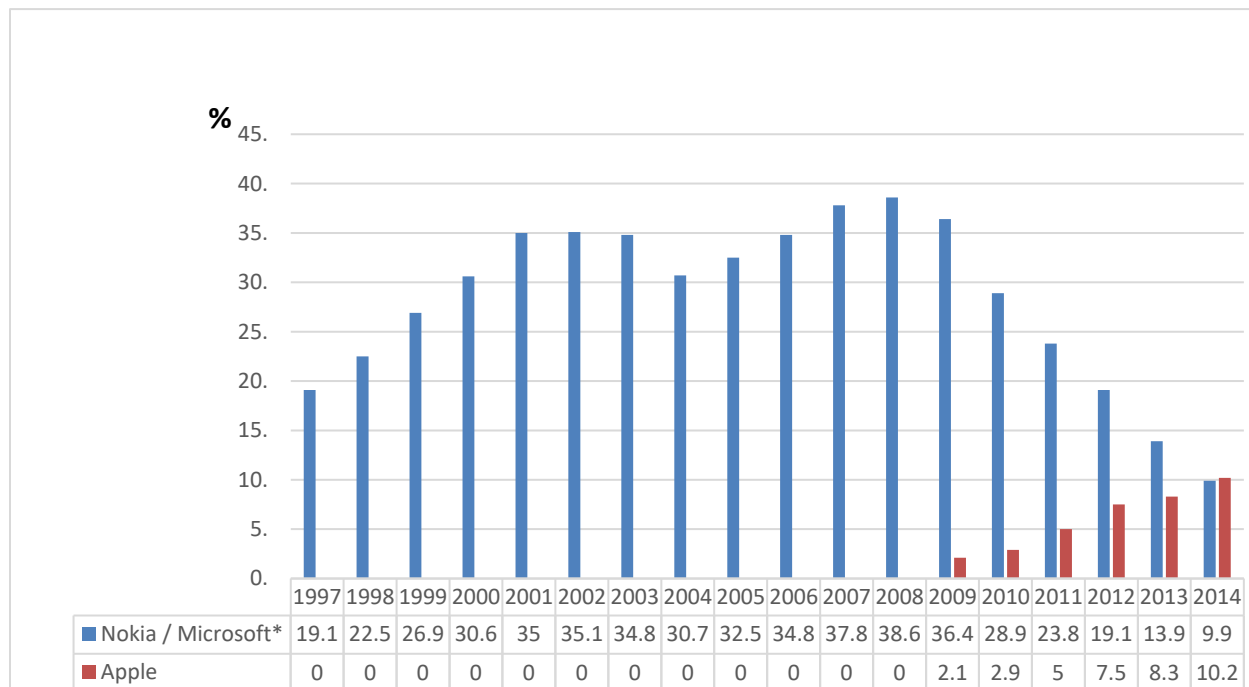
3.3. The Uncertainty of Steady Profit

Sustainable competitive advantages, no matter how long they can last, are not guarantees for the steady stream of profits. It is believed that competitive advantages in markets are linked to the potential of demand (Kaleka, 2017). There is no such guarantee that demand would forth come as long as there are competitive advantages. For example, potential purchasers might postpone or cancel orders for many reasons. The economic situation in a country might influence the purchasing power, in turn, affect consumers' purchasing decisions (Kaleka, 2017). Think of Covid-19 which impacted consumers' purchasing decisions. On the one hand, Covid-19 disrupted the developments of many industries, causing a huge scale of bankruptcies and unemployment, in turn, lowering the purchasing power. On the other hand, consumers' attitudes towards purchasing changed, too. Consumers might be more cautious to allocate money in case the price of daily necessities might increase someday. As a result, consumers are likely to reduce spending on hedonic consumption such as traveling and shopping. These

examples illustrated that even if firms are filled with competitive advantages, they still cannot prevent their profit from being attacked by unanticipated events.

4. Example of Nokia: Bad Consequence of Stuck in Outdated Advantages

These three reasons explained why it is reasonable to say that to some extent, sustainable competitive advantages are not enough for today's competition. In the real world, Nokia is a typical example to show that it is dangerous to be stuck in the outdated competitive advantages. Nokia used to be the dominant market leader in the mobile phone industry (Lamberg, 2019, citing Langlois, 1992; Finkelstein, 2006; Van Rooij, 2015). Among the reasons why Nokia's business declined and fell, the inappropriate investment towards its outdated Symbian software took an important responsibility. Why did Nokia insist on investing heavily in its software rather than other platforms – iOS and Android, which were proved to be successful after their emerging? The Symbian operating system once contributed a lot to the early success of Nokia, with which Nokia reached 38.6% (see Figure 2), the highest global market share in the early 2000s (Gartner, 2015).



Source (Gartner, 2015).

Figure 2. Global market share held by Nokia & Apple (1997-2014)

Nevertheless, it was this huge achievement created by the Symbian system that made managers of Nokia blindly confident. The modularity of software platforms was defined as a vital factor especially after a mass of applications emerging with smartphones. But the weakness of Symbian software was the lack of modularity. Instead of trying to improve the software, Nokia's action towards the dynamic environment was to continue to develop Symbian following the initial design (Lamberg, 2019). The consequence was that Nokia's market share was caught up and exceeded just in six years since Apple launched the first iPhone. As Lamberg speculated in his article (2019), if Nokia selected Android to be its system, Nokia would have continued its quality leader legend.

Forming transient advantages is not that hard. Rita McGrath argued (2019) that changes always happen during a long, long period. They always give enterprises opportunities to rebuild their

advantages to respond. But the premise is that the executives of companies should notice the changes before. It is worth mentioning that Nokia's top management and technology specialists had already recognized what kind of challenges they were facing to. They even discussed whether to use the Android system and dismissed the development of Symbian or not. But in the end, they chose to avoid new options and refused to make changes. Ironically, Nokia's dominant management philosophy was called 'strategic agility', which meant to change strategic direction with sensitivity in strategy, fluidity in resource, and unity in management leadership (Lamberg, 2019). But the fact was what they did was totally in the adverse direction to their strategy philosophy.

5. Conclusion

Sustainable competitive advantages are not totally obsolete. But flexibility and replicability should be added, which turned them to transient advantages, to respond to the complex and instable competing environment. There are three main ideas with examples to support the view. The life cycle of advantages determines that it is not reliable for advantages to be permanent. The dynamic environment is creating new business and blurring the industry lines, which requires firms to keep creating fresh advantages. Sustainable competitive advantages have never been a guarantee of steady profits. Moreover, this essay illustrated the consequence of being stuck in outdated advantages with the example of Nokia. In conclusion, firms should try their best to adapt their sustainable competitive advantages to the changing environment, making themselves more flexible to cope with new challenges.

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