

# An Analysis of competitive Advantages of South African Manufacturing industries. A case study; Automotive Industries.

John M. Ikome

Department of Industrial Engineering, Faculty of Engineering  
Tshwane University of Technology  
Pretoria, South Africa.

[Ikome20022000@yahoo.com](mailto:Ikome20022000@yahoo.com)

Grace M. Kankan

Department of Industrial Engineering, Faculty of Engineering  
Tshwane University of Technology  
Pretoria, South Africa

[kanakanamg@tut.ac.za](mailto:kanakanamg@tut.ac.za)

**Abstract**—Now our days, every nation has a concern in effectively competing in the global market. Competitiveness does not depend only on the effectiveness of individual manufacturing companies, the socioeconomic system and other industries are also very important. Due to the rapidly changing environment of the free world markets, have to utilize their full competitive advantages in order to remain or become prosperous in future. This also implies that, political and economic leaders must evaluate the opportunities and threats posed in the external environment in order to build a national strategy that is appropriate to take advantage of the global competitiveness.

This paper will describe a logical and efficient process of developing a coherent competitive strategy in light of environmental forces that are present in the global market and then a conceptualized model is develop and apply to the South African Automotive Industries. It shows that, the research can offer a body of knowledge by giving the use of experimental support and further extending the Remedy Based View by investigating the comparative importance placed upon organizational internal traits towards attaining the competitive advantage and increasing firm performance.

**Keywords**— *competitive advantage, Firm's performance, conceptualize model, Globalization*

## I. INTRODUCTION

Now our days, every nation and organization has to deal with dynamic and uncertain environments in order to effectively compete in the global market. From the afore mention, in order for an organization to be successful, It must put greater strategies in place and also understand how changes in their competitive environment are unfolding. They should actively look for opportunities to exploit their strategic abilities, adapt and seek improvements in every area of the business, edifice awareness and understand their current strategies and successes. In today's competition, Organizations must be able to act quickly in response to opportunities and treats.

Managers operating in organizations perform a number of activities including planning and organizing the work of their subordinates, motivating them, controlling what happens and evaluating results. Decisions by managers have a strategic impact and contribute to strategic change. The organization is shown as one of a number of competitors in an industry and to a greater or lesser degree these competitors will be affected by the decisions, competitive strategies and innovation of the others. These inter-dependencies are crucial and consequently strategic decisions should always involve some assessment of their impact on other companies and their likely reaction. In order to succeed, organizations must compete effectively and out-perform their rivals in a dynamic environment.

This implies, a suitable way or methods need to be adopted that will create and add value for their customers. According to Pearson and Gordon [1], Strategic management is a critical and extremely important element of an organizational success. An organization needs to know what the business is about, what they are trying to achieve and the methods of achieving them. From a realistic point of view, it is a basic requirement to determine the effectiveness of every member's contribution. Executives who make long-range plans usually have a general assumption that, better times lies in future whereas this plans are merely extensions of where the organization had been in the past. But a number of environmental shocks undermined this

approach to strategic planning, rapid technological developments. The maturing or stagnation of certain markets, increases the international competition. Due to these changes, managers are forced to develop a systematic means of analyzing the environment and assessing their organization's strengths and weaknesses. In addition, also identify opportunities for competitive advantage [2].

### *Organizational performance*

The organizational performance is measured in terms of ROA (Return on Sale) and Sales Growth Ratios as these ratios are financial indication or performance measuring rations.

## II. LITERATURE REVIEW

According to a study carried out by H. Michael et. al [3], the competitive advantage and the organizational consequences are two special terms. But there is an apparently complex connection and general work has shown a considerable association between these two variables. Morgan & Auh [4], also supported this study and in addition, Rose et al. [5], inspected the organizational edge from the resource based view and concluded that, it can be used as conceptual guideline for business organization for enhancing their differential advantage position. The Performance via appliance and manipulation of known internal resources of organizations are also increased by using competencies. They put in to the body of knowledge by using experimental approach and resource based View. The organization's excellence can be enhanced by using these qualities.

An over view of historical data of R. Christensen [6], shows the hypothesis of stable differential edge and better-quality performance of leading firms. They focus mainly on companies such as General Motors, DuPont, Standard Oil and IBM. In the early 1980s large work of Porter [7], gave us the hypothesis of sustainable competency that was strongly established as the prime account of sustained superior performance. Firms gain control by capturing high market position in outstanding industries [8]. Reichhart & Holweg [9], examined three industries that have the greatest supremacy. These were pharmaceuticals, brewing and computers. These are among the industries used to support theories of competitive lead. He argued about it that the performance speculation could easily be manipulated by incorporating false and unreliable models about it as how the performance could be circulated in a fair competitive process. According to a related research done by J. Fahy [10], argued about the realization of a sustainable position. It can lead to superior presentation usually considered in conservative terms such as share in the market and fertility. We can state it as the financial performance measurement approach. In other words if we take this view strictly the competitive circumference and performance are two unrelated ideas and proportions. Firms have to spotlight their managerial strategies in achieving and supporting vicious edge over their competitors.

In the case of some small businesses, external forces can dictate whether the business stays solvent or not, and major problem for many small businesses concerns the management of cash flow. To succeed, a business must have clearly defined objectives and fully developed strategy for achieving them. Due to this, business plans are developed which shows the purpose of the business and what it intends to accomplish. A good business plan helps to give method and substance to an entrepreneurial vision, providing a mechanism that enables owners, managers and workers alike to function effectively.

### *The Competitive Environment*

It is of great importance for an organization to be well informed about it competitive environment and at the same time, essential for all managers to have some insight into how their organization is affected by the environment. It is also desirable for them to consider how some of the environmental forces might be influenced and managed to gain benefits for the organization. This is less possible generally in the case of small businesses as they are relatively less powerful. However, small organizations should examine their environment for

opportunities and threats in order to establish where they can gain competitive advantage and wherever their resources might become most usefully concentrated[11].

This could be achieved by applying a thinking strategy which requires an awareness of alternative strategic purposes, objectives and the ability to recognize critically different environments. Furthermore, it requires the ability to diagnose an organization in terms of various critical characteristics and to be able to shape those characteristics so that the organization best fitted to its environment in order to achieve its strategic purposes and objectives. In a complex and dynamic modern

environment, it is without doubt that, it is difficult to forecast the intrinsic uncertainties and can also make it highly unpredictable and potentially chaotic.

From an industrial engineering point of view, individual managers would develop their environmental and strategic awareness through experience and perception. By thinking about their observations and experiences, it is particularly important to assess the significance of what happens and what can be observed to be happening. However, in considering future strategic changes there will be an additional need to: (supplies, customers, competitors, technology, demand, government and legislation etc). Decision making could be advantageous if managers are encouraged to think about future changes, to ask questions and to query assumptions.

This will also increase their insight and awareness of strategic decision making [12]. Effective strategic management involves more than just a few easy steps. It requires managers to think strategically, develop the ability to see things in motion and make sense out of a cloudy and uncertain future by seeing the interdependency of key factors.

This ability requires more than a passing awareness of significant social, political, legal, economic and technological trends. Managers who think strategically are able to envision their organizations in the context of world trends and events and to spot important interdependencies. This makes them to focus on how their organization should act and react to emerging opportunities and treats. For any organization, decision making can be drastically affected due to uncertainty in environmental influences which constitute powerful forces. For some manufacturing and service businesses the most powerful force will be customers and for others it may be competition [13].

In the extent to which the environment is changeable or turbulent, depends on six factors: changeability of the market environment, speed of change, fertility of technology, intensity of competition, discrimination by customers, and pressures from governments and influence groups [14]. According to Phongpetra & Johri [15], the more turbulent the environment is, the more aggressive the firm must be in terms of competitive strategies and entrepreneurialism or change orientation if it is to be successful or stay in business.

It is important for managers to appreciate where the greatest opportunities and threats lie at any time and focus attention on those areas which are currently affecting the organization and which require strategic attention.

### III. MODEL DESCRIPTION AND DISCUSSION

#### *Strategic Approach*

According to R Makadok [16], strategic management is a continues planning, monitoring, analysis and assessment of all that is necessary for an organization to meet its goals and objectives. This is concerned with understanding, choosing and implementing the strategy that an organization has put in place to follows and managers should be aware of the issues which must be addressed if changes in strategy are to be formulated and implemented effectively

In addition, they should be aware of the managerial and behavioral processes which take place within organizations in order that they can understand how changes actually come about. Strategic management is an ongoing process of ensuring a competitively superior fit between the organization and its ever-changing environment. Strategic management is the process that defines the organization's mission, scans the environment to ascertain opportunities then merges this assessment with an evaluation of the organization's strengths and weaknesses to identify an exploitable position in which the organization will have a competitive advantage.

A good strategic plan can go askew if management fails to translate that strategy into operational plans, structural designs, systems of motivation and communication, control systems, and other necessary means of implementation.

#### *Apply a Marketing Models for Product Strategy*

Two product planning methodologies are used independently or as complements to each other. They add accuracy to strategy at the level of product planning and implementation. An excellent similar reference for these and other marketing models is that of M. Lewis [17].

IV. MODEL DESCRIPTION AND DISCUSSION

*New Product Diffusion Models*

The *diffusion* process is the spread of an idea or the penetration of a market by a new product from its source of creation to its ultimate users or adopters. Note that *adoption* refers to the decision to use an innovation regularly, whereas *diffusion* is only concerned with initial trial of the product.

And there are two types of diffusion effects:

- *Innovation*: trial of product caused by advertising and promotions.
- *Imitation*: trial of product caused by word-of-mouth recommendations and reputation.

Prior to Bass [18], diffusion models were either pure innovative (assume diffusion only caused by external forces) or pure imitative (assume diffusion only caused by imitation / word of mouth). The modification of this model by combines innovative and imitative behavior into one model gives the model below :

$$n(t) = \dot{N}(t) = p(m - N(t)) + \frac{q}{m} N(t)(m - N(t))$$

$\underbrace{\hspace{10em}}$   
 innovation  
 effect  
 or  
 external  
 influence

$\underbrace{\hspace{10em}}$   
 imitation  
 effect  
 or  
 internal  
 influence

(1)

Where parameters:

- $n(t) = \dot{N}(t)$  = Magnitude of trial demand (= the number of adopters at time  $t$  = derivative of  $N$  with respect to  $t$ )
- $N(t)$  = Cumulative number of adopters
- $m$  = Potential number of ultimate adopters
- $p$  = Influence parameter for innovation
- $q$  = Influence parameter for imitation

This expression is re-modified for additional intuitive understanding using the equivalent representation:

$$\dot{N}(t) = [m - N(t)] \left[ p + \frac{q}{m} X(t) \right]$$

$\underbrace{\hspace{10em}}$   
 unpenetrated  
 market size

$\underbrace{\hspace{10em}}$   
 adoptive pressure  
 $p$ =innovative  
 $q$ =imitative

(2)

This can be interpreted as representing one group of innovators and one group of imitators, or as representing both the internal and external influences on all adopters.

### *Important Guidelines of the model*

- The model forecasts *total* market potential for a product, *not* sales for a particular organization. The organization's sales would depend on market share of the total product, which depends on particular product variables like quality, cost, and promotion, and distribution. Combining it with a conjoint analysis, helps with the big picture; use or other methods to forecast market share. In practice the actual coefficients are usually estimated by the correlation of past products.
- Coefficients for past products are generally available in tables, or may be estimated by regression. It should be noted that, this models only represent demand associated with the trial of a product. Additional terms need to be added to account for repeat purchase.
- This model is a predictive model that is most appropriate for forecasting sales of a *sporadic* new technology or durable product that has no competitors. In such situations, the success of the product may be particularly uncertain, and the model forecast may only depict one possible outcome of a competitive advantage.

### *Conjoint Analysis*

Conjoint analysis is a market research methodology for modeling the market. A quantitative, grass-roots approach, conjoint analysis is used to predict consumer preferences for multi attribute alternatives. It is based on economic and psychological research on consumer behavior, especially at the individual level, which is considered key to making accurate predictions of the total market. The subject of a conjoint study can be either a physical product or a service, and the market can include both new and existing products/services.

### *Competitive advantage*

Real competitive advantage implies that, companies are able to satisfy customer needs more effectively than their competitors. This implies, a business must add value if it is to be successful and gain market shares. In other to achieve the aforementioned, an organization need to; understanding its customer's needs and also get the product closer to them. In particular understanding their perception of value and a commitment to; (quality, high level of all-round service and speedy reaction to competitive opportunities and threats).

Small organizations which understand their customers can create competitive advantage and so benefit from higher prices and loyalty of customers. Higher capacity utilization can then help to reduce costs. While it is important to use all resources efficiently and properly; it is also critical to ensure that the potential value of the outputs is maximized by ensuring they fully meet the needs of the customers for whom they are intended.

An organization achieves this when it sees its customers' objectives as its own objectives and enables its customers to easily add more value or, in the case of final consumers, feel they are gaining true value for money.

### *Organizational strategy*

It is a summary of an organizational business plans to achieve its goals, improves and sustains it position in the industry or market. In other words, this strategy is all about competitive advantage and generally deals with long term prosperity and asset growth. Thus businesses need strategy in order to ensure that resources are allocated in the most effective way the conceptualized strategic model in figure 1, demonstrate some of the method that a strategic advantage could be achieved.

This is particularly important when it comes to major resource allocation decisions. In this way inconsistent flitting from short term opportunity is avoided and business expertise and leadership can be built up. Finally, the purpose of the strategy must also be ensure and an awareness of when change is necessary and thus the ability to be flexible [19]. Business strategy is concerned with how to make an individual business survive and grow and be profitable in the long term. The main consideration of the conceptualized model in figure 1 is as follows, the:

- creation of customers
- identification of customer needs and how best they can be satisfied
- identification of appropriate market niches where no competition exists
- application of technology and its future development or substitution
- understanding of competitors and how direct competition may be avoided

- Motivation of people to put their efforts and enthusiasm behind the strategic aims of the business.
- feedback control that informs the organization if its mission is being accomplished or failing

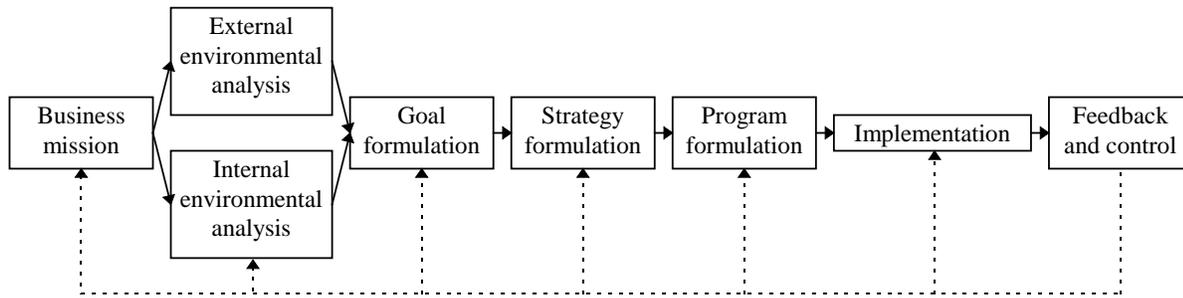


Fig.1 Conceptualized feedback strategic model.

A business strategy could follow one of three modes: planning, entrepreneurial, and adaptive. This was argued by Portar [20] that the right choice depends on contingency variables such as the size and age of the organization and the power of key decision makers.

The planning mode is a strategy approach that includes a clear statement of objectives, systematic analysis of the organization and the environment, in addition, a plan of action to reach those objectives.

Managers should follow the planning mode when the organization is mature, well established and resources are adequate to engage in opportunity analysis and also senior management is in agreement to the organization's objectives and environmental uncertainty that is at a low level. In such a scenario, different conditions may favor one of the other modes. [21],

#### *Planning for Competitive Advantage*

There are a couple of aspects in respect to an organization's competitive advantage which implies, if an organization gains an advantage, the business will survive and also if the advantage is significant, the organization will flourish. According to C. Montgomery [22], an organization can choose between three general strategy types to build a competitive advantage which includes: a differentiation strategy, low-cost strategy, and a location strategy. A firm that uses a differentiation strategy competes on the basis of its ability to do things differently than their major competitor does. A firm that uses a low-cost strategy builds competitive advantage by producing goods or services at the lowest possible cost. And if entrepreneurs persist in their ability to keep costs lower than others, their organizations flourish. In contrast to the cost leadership and differentiation strategies, which are based on the creation of competitive advantage over an entire market segment, Porter's focus or location strategy recommends focus on market positions e.g., specific targeted groups and particular portions of the product variety or a narrower geographical market. Competitors using location strategies are specialists. They serve a narrow market

fragment that can be local or national. Location strategists build special skills that are uniquely matched to a specific market; they are rewarded with high profit margins. Effective entrepreneurs are aware that establishing and maintaining a competitive advantage is a great challenge. Without careful attention, competitive advantage can be easily lost [23].

#### *Competitive Strategy*

In connection with the entry of the South African Republic into the Single Market, there appears a need to adjust to the global market. Adjustment to the global Market is a permanent process, which has to consider creating a more favorable environment for doing business. From an industrial engineering viewpoint, it is a critical aspect that needs great competitive strategy to be put in place in order to prepare for the rising competition on the global market in terms of expectations, awareness of pressure on cutting cost and increasing quality in order to be more competitive on foreign and domestic markets.

Internationalization and globalization are the dominating mega trend influencing the automotive industry in South Africa. Following the enlargement of the African market, these trends probably will accelerate in the African industries. New environments will be affected by technological change, liberalization of markets, an ongoing transition of non-African-member, deviating

factor conditions as well as a pressure of global industrial firms to increase competitiveness. Firms operating in these conditions want to have complex strategies by combining growth, customer focus and innovation.

## V. CONCLUSION

Strategic Management & Entrepreneurship (SM&E) deals with the creation, growth, transformation and performance of firms and industries. It also investigates the effectiveness of various attributes and actions of an organization and its top management teams in order to gain competitive advantage including achieving set objectives. This helps to create an attitude of filtering the visions of entrepreneurs through rational analysis and decision-making. According to B. Menguc & S. Auh [24], the main objective of strategic management is to, guide the flow of ideas, visions and convert them into business decisions.

All the above studies of different researchers support the association between the competitive advantage and firm performance in a positive way. The nature and effects of organizational competence empirically recommend a productive opportunity for taking the advantage on other organizations and it also help in further research for searching the methods of increasing the competitiveness in the global market. Competitive advantage and performance are two special terms that are required for an organization to gain market shares and keep customers loyal to them. Overall studies have shown a significant relationship between organizational competitive advantage and strategies. The conceptualize model shows that, an organization can easily pushed on amplification about how performance should be distributed in a strong-willed development method in order to gain a great global competitive advantage.

When we talk about the new qualities of a firm's products this is actually the increasing of its value and ultimately it gives back to the firm in shape of increased profits. According to M. Porter [25], the practical improvement of a global institute lies to a great degree in its skill to identify and transfer tactical knowledge between its geographically dispersed locations. These studies provide large support for the importance of competence as a base of advantage in enhancing an organization's revenue.

The middle management synchronization on competencies is related with higher performance and it is very important to keep an eye on the management for gaining the high performance. This is a very important association among competitive advantage and the sales assessment of the organizations. This research can offer the body of knowledge by giving the use of experimental support and further extending the Recourse Based View by investigating the comparative importance placed upon organizational internal traits towards attaining the competitive advantage and increasing firm performance which includes the automotive, textile manufacturing and many other manufacturing organizations in South Africa.

In addition, this research may help to look ahead to the competencies that a firm may need to develop for future victory as well as decision makers who follow competency judgment procedure to recognize important drift or precipitate. It also explain what any firm management can use to improve the firm's competitive advantage to gain the higher performance and in future it will help to explore how these relations can be sustained.

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#### BIOGRAPHY

**John M. Ikome** (Ph.d. Industrial Engineering, current pursuit) is an Industrial Engineer by profession and currently holds a Master's Degree in Industrial Engineering specializations in Technology Management; obtained from Tshwane University of Technology Pretoria, South Africa. He lectures in a number of Universities across South Africa which included; Tshwane University of Technology and Vaal University of Technology South Africa. He was previously working with the French South Africa Schneider Electric and also Technology Transfers and Innovation (TTI) as an Innovation Research Analyst.

He is interested in Engineering and innovation research and is currently a member of Southern African Institute of Industrial Engineers (SAIIE) and Engineering Council of South Africa (ECSA). And also, has over eight to ten research publications around the world.

**Dr. Grace M. Kanakana** is a South African by Nationality and works with the Tshwane University of Technology and she is currently the Head of department of Industrial Engineering and acting Dean of Research for the Tshwane University of Technology. She currently has multiple publications around the world and interested in engineering and innovation