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COMPANY COMPETITIVENESS AND COMPETITIVE ADVANTAGES IN TOURISM AND HOSPITALITY*

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Abstract: Connection between competitive strategies and competitive advantages is described in details in this paper. Model of the research is located on the company level in tourism and hospitality. Applicative basis of the paper is founded on the Diamond of Competitiveness (Case Study) usage and is based on the qualitative research of small entrepreneurship in tourism and hospitality.
The fact that every strategy is based on creating and sustaining competitive advantages implies that the principal task of company management is shaping company's competitive advantages. Management uses its knowledge, controls available resources and manages business processes and events of a company in tourism and hospitality.

Key words: management strategies, competitiveness, competitive advantages, company in tourism and hospitality.

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INTRODUCTION

Company business takes place in a more and more unsafe surroundings. Companies are faced with sudden, unexpected and unpredictable changes on an everyday basis.

Management is faced with tasks and challenges which are becoming more and more complex. Need for gaining the best, i.e. obtaining better business results than the competitors.

This is how competitiveness becomes key question. Being competitive is not a matter of successes today, but a question of survival. While doing so, companies are expected to be flexible, innovative and to continuously improve their business.

Competitiveness of a company is a function with at least two sets of variables. On one hand, these are the favourable national, local and industrial conditions under which the company evolves. In fact, everything we call uncontrolled variables. On the other hand, competitiveness is a result of conscious efforts of company's key people, often even several generations to obtain results better than the direct competitors.

Competitive advantages of a company are obtained through having or creating certain specialities, which are wanted and accepted by the guests. It is that very speciality which differs a certain company from its competitors. Competitive advantages of a company can arise from the surrounding, but also from the company itself. Company which has competitive advantages has a task of creating added (greater) value according to the guests' expectations.

Qualitative indicator as the applicative basis of the paper has been gathered using the Diamond of competitiveness.

1. PARADIGMS OF COMPETITIVE ADVANTAGES

In the 80's, dominant paradigm when considering competitive advantages was the "five competitive forces" approach, directly derived from the *S-C-P (Structure – Conduct – Performance)*[2], sector organisation paradigm.

Model is based on the thesis that long-term sector profitability, as well as the company inside a sector, depends on the influence of the following five competitive forces:

1. strength of the competition within the sector;
2. existence of companies which are ready to enter a market if the profitability of the sector is large enough;
3. buyers shift to substitution products;

[2] Porter, M.E.; *How Competitive Forces Shape Strategy*; Harvard Business Rewiew, Vol. 57. , March/April, 1979, p. 137-145

4. negotiation power of the company;
5. negotiation power of the suppliers.

"*The resource – based View of the Firm*[3] emerges in the 90's. Creation of competitive advantages is connected to the resources a company. Main characteristics of obtaining competitive advantages are connected to key competences and company assets, and the mechanism of protection from competitors' imitation.

Newer approaches try to shape a theory based on the competences: *Theory of Competence – Based Competition* which has its source in the concept of ***Distinctive Competencies***. This new approach starts from an assumption that if a company want to survive the extremely turbulent surrounding, it has to determine and single out those business areas where it can accomplish the best results and then, this will be the basis for the overall businesses.

Hamel and *Prahalad*[4] stress that a company must have ***Core Competencies*** as a basis of a long-term success. It implies that the company needs to tie its success to its inner potentials and strengths, not only to mere opportunities usage in the existing services and markets.

Competences are distinguished from core competences by the fact that they do not produce superior performance and by the fact that they are not distinctive when compared to the competences possessed by other companies in the industry. On the other hand, competences are essential for survival in a particular line of business. Competences also have the potential to be developed into core competences.

Core competences are distinguished from competences in several ways:[5]

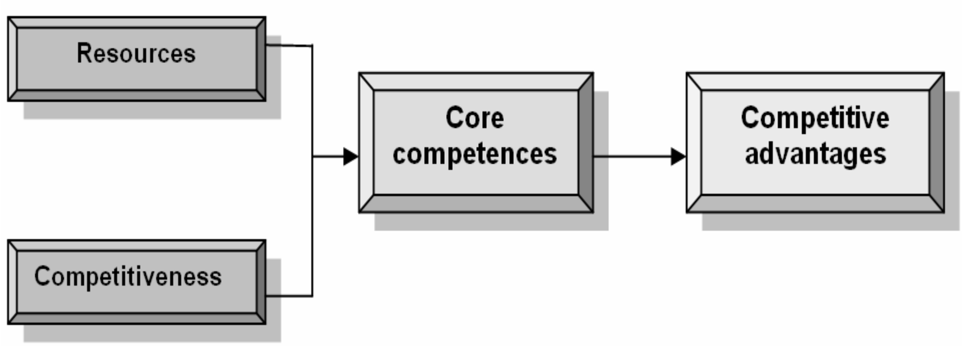
- they are only possessed by those companies whose performance is superior to the industry average;
- they are unique to the company;
- they are more complex;
- they are difficult to emulate (copy);
- they relate to fulfilling customer needs;
- they add greater value than 'general' competences;
- they are often based on distinctive relationships with customers, distributors suppliers;
- they are based upon superior organizational skills and knowledge.

[3] Tipuric, D; *Konkurentska sposobnost poduzeca*, Snergija, Zagreb, 1999, p. 4-7
[4] Prahalad, C.K., Hamel, G.; *The Core Competence of the Organization*; Harvard Business Rewiew, September/October, 1990., p. 105-111
[5] Evans, N., Campbell, D., Stonehouse,G.; *Strategic Management for travel and Tourism*; Butterworth-Heinemann, Oxford, 2003, p. 56-58

Core competence arises from the unique and distinctive way that the organization builds, develops, integrates and deploys its resources and competences. An existing core competence can be evaluated for:

- Customer focus - does it adequately focus on customer needs?
- Uniqueness - can it be imitated by competitors as if so, how easily?
- Flexibility - can it be easily adapted if market or industry conditions change?
- Contribution to value - to what extent does it add value to the product or service?
- Sustainability - how long can its superiority be sustained over time?

Picture no. 1: The links between resources, competences and competitive advantage



Source: Evans, N.; Campbell, D., Stonehouse, G.; Strategic Management for travel and Tourism, Butterworth-Heinemann, Oxford, 2003, p.50.

Kay[6] presented a slightly different explanation arguing that competitive advantage is based upon what he termed distinctive capability:

– Architecture
– Reputation
– Strategic assets
– Innovation.

[6] Kay, J.; *Foundations of Corporate Success*; Oxford University Press, Oxford, 1993, p. 50

In general, a conclusion could be made: there are two elementary 'schools' of competitive positioning of a company:

- School of competitive positioning is mainly based on the work of professor Michaela Porter from Harvard business school (1980, 1985, 1990) and stresses the importance of company's positioning compared to competitive surrounding or sector

- Resource or competitive school ***(Prahalad i Hamel, 1990.***[7]***; Heene i Sanchez, 1997.***[8]***)*** on the other hand, represents the opinion that the business competences (possibilities) themselves and their special ways of organizing their activities which determine the possibilities of outplaying the competition

Both of the schools have their advantages and they both give explanations of competitive advantages' key concepts as the overall strategy aim. Basically, a job is in competitive advantage if it has larger income than the competitors. Larger profit enables reinvesting in strategy more confirming its position above the competitors.

When the superiority is maintained through a longer period, competitive advantage is shaped in such a way that it can only be lost if management does not succeed in reinvesting the superior profit in a way that the competitive advantage cannot be maintained.

No matter the amount of the average profit, some organizations are more successful that the other. This also applies to hospitality, as well as any other sector. It is obvious that that the superiors have something special, which the weaker ones do not have and this enables them to outplay their competitors.

2. COMPETITIVE STRATEGIES OF THE COMPANY

Point of the strategy as a choice of obtaining competitive advantages is in finding alternative strategies which will affirm the company on a certain market. Competitive behaviour is mostly focused on the previous experiences of the company, while strategic business behaviour is in its core focused on changes and adaptation, i.e. increased risk.

Strategies of competitiveness study the basis on which one unit of strategic business can obtain the competitive advantages on a chosen market or markets.

[7] Prahalad, C.K., Hamel, G.; *The Core Competence of the Organization*; Harvard Business Review, Sept./Oct., 1990, p. 70-79
[8] Hene, A., Sanchez, R.; *Competence based Strategic Management*; John Wiley-London, 1997, p. 46

Table no 1: List of operational efficiency related measures

Stage 1 Pre 1960's		
Budgetary control stage	Long range planning	
Stage 2 Early techniques (1969-1970's)		
Decision trees, Scenario planning, Product diversification	Theory «X» and «Y» Brainstorming	Management by Objectives (MBO) Zero based budgeting
Stage 3 The 1980's (Organisational positioning)		
Empowerment Corporate culture Portfolio planning model Quality circles	Just in time Management my walking around Value chain	Porters 5 forces Decentralisation Strategic business Units
Stage 4 The early 1990's (Maximising Internal Strengths)		
Core competencies Quality management Portfolio planning model quality Circles	Management of change and innovation Value added partnership	Benchmarking Value constellations
Stage 5 The late 1990's (Cost cutting measures)		
Delayering/downsizing/ rightsizing	Business Process Reengineering (BPR)	«lean production»
Stage 6 after 2000 (Adaptation towards consumer/ guest)		
Experience	Emotion	Event

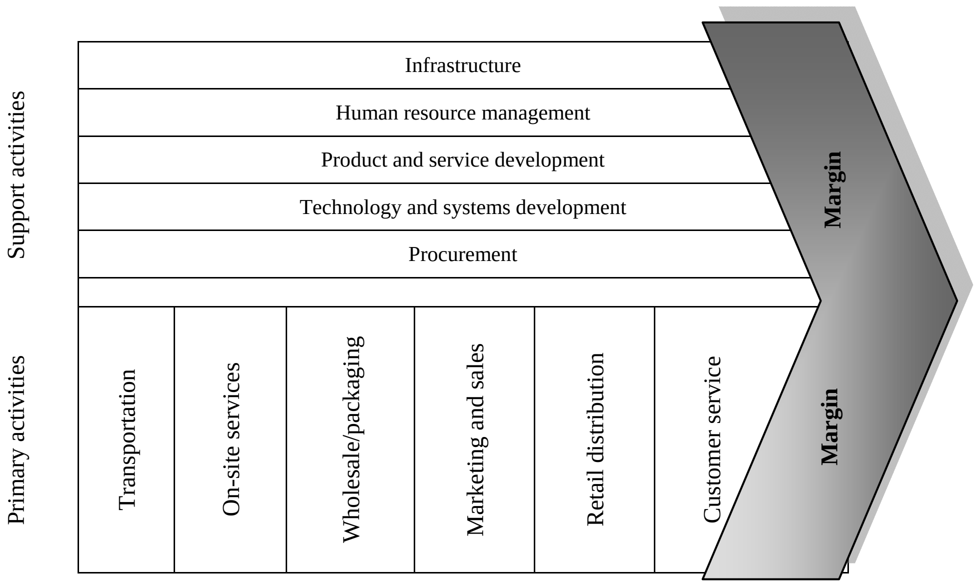
Source: adapted from: O´Regan, N., Ghobadian, A., Liu, J., *Enhancing Competitive Advantage in SME;* 28th European Small Business Seminar, Creating Jobs, New Demand on SME & Their Support Partners, Proceedings Volume 2., Vienna, Austria, September 1998., p. 560

Creating competitive advantage directly depends on the way the company runs its *value chain*, compared to value chains of their competitors.

Value Chain is a methodical way of examining all company activities and the shapes of their interaction with the aim of analysing the source of competitive advantages.[9]

[9] Tipuric, D i ostali; ***Konkurentska sposobnost poduzeca***, Sinergija, Zagreb, 1999., p. 11.

Picture no. 2: The Value Chain



Source: adapted from: Poon, A.; ***Tourism, Technology and Competitive Strategy***; Wallingford: CABI, 1993, p. 57

Value chain shows total value which is made by the company. This chain consists of primary and support activities included in value adding process and margin.

The service profit chain establishes links between profitability, customer loyalty and employee satisfaction, loyalty and productivity.

The links in the chain according to ***Heskett*** are as follows:[10]

- Profit and growth are stimulated primarily by customer loyalty.
- Customer loyalty is a direct result of customer satisfaction.
- Customer satisfaction is largely influenced by the value of services provided to customers.
- Value is created by satisfied, loyal, and productive employees.
- Employee satisfaction results primarily from high quality support services and policies that enable employees to deliver results to customers.

[10] Heskett, J.L., Sasser, W.E., Schlesinger, L.A., ***The Service Profit Chain***; Simon & Schuster, New York, 1997., p.143.

Competitive advantages of a company are derived from all business activities of the value chain in a company.

Poon’s framework

Poon developed a rather different approach which takes into account the realities of the industry. The key realities identified were:

1. The service orientation of the industry and its need to focus on the quality of service delivery which in turn is inextricably linked with the development of human resources.
2. The increasing sophistication of travel and leisure consumers.
3. The industry-wide diffusion of information technology.
4. The radical transformation of the industry, which requires continuous innovation to ensure competitive success, is achieved.

In order successfully to respond to these industry realities Poon postulates that travel and tourism organizations need to apply four principles in developing their competitive strategies:

1. Put customers first.
2. Be a leader in quality.
3. Develop radical innovations.
4. Strengthen the organization's strategic position within the industry's value chain.

Porter’s generic strategy

Porter argues that an organization must make two key decisions on its strategy:

1. Should the strategy be one of differentiation or cost leadership?
2. Should the scope of the strategy be broad or narrow?

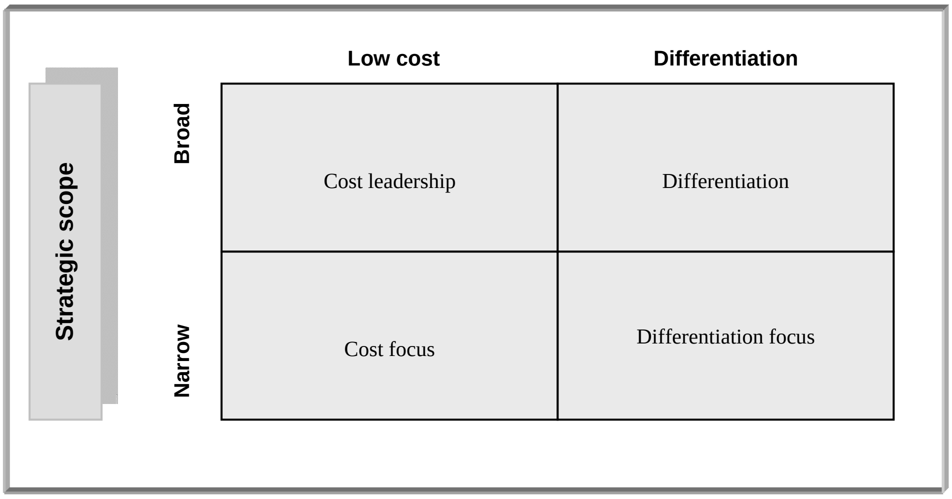
Generic strategies model is based on two values:[11]

1. ***Market width,*** depending on the fact if the company wants to gain control of the whole market or only a segment of the market (special tourist segment, different geographical areas which the tourists come from etc.)

2. ***Relative competitive advantages***, which shows the ways of controlling the market (by special tourist programs or low expenses)

[11] Cerovic, Z; ***Hotelski menadzment***, Fakultet za turisticki i hotelski menadzment u Opatiji, Opatija, 2003. p. 280.

Picture no. 3: The generic strategy framework



Source: Evans, N., Campbell, D., Stonehouse, G.; ***Strategic Management for travel and Tourism***; Butterworth-Heinemann, Oxford, 2003, p. 211

Porter's generic strategy framework comprises of three main alternatives: differentiation, cost leadership and focus.

Differentiation strategy

This strategy stresses the competition with the help of special characteristics of tourism programs in the overall market. These new tourist programs shape special characteristics of a company, by which the company will be recognized in the overall market. To obtain the set goal, it is necessary to have certain advantages in explorative-developmental, technological, innovative field, field of marketing and quality, which would ensure continuous development of differentiate programs.

To develop a special program which would be competitive, management of the company has to state the needs and desires of the guests, taking into account the existing offer in the market.

Exploring the market plays an important role when introducing new programs which also implicates large cost increase. Successful implementation of differentiation enables hospitality company to maintain high prices of differentiated tourist programs, and at the same time, gaining profit.

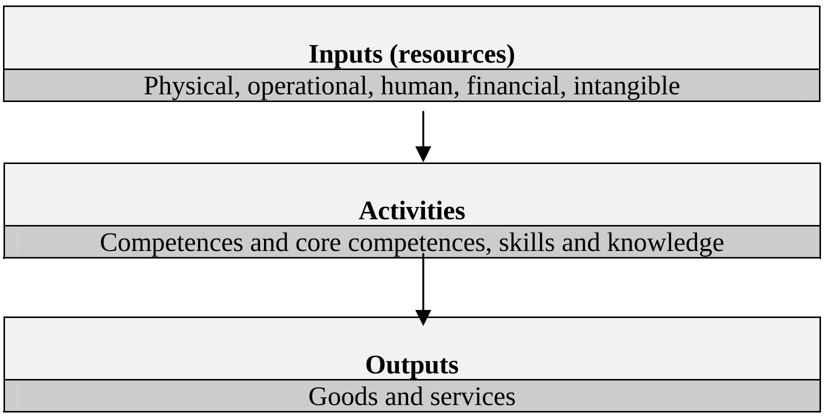
- *Cost leadership strategy*

When considering cost leadership strategy, stress is put on the competition with the help of low cost on the overall market. Suitability of this strategy is largest on the market which has been marked by the largest number of tourists sensitive to price changes. That is how even with lower cost of hospitality services, higher competitive position in the market can be obtained.

Obtaining the lowest possible cost, company uses the following methods and techniques:

- *TPC –Traditional Product Costing* follows direct cost and indirect by the cost places
- *PBC – Process Based Costing* follows cost according to service creation process flow, by phases
- *ABC – Activity Based Costing*, follows cost of each individual activity as a basis for influencing those activities which can cut their costs
- *Value Added Method*, divides all activities on those which add and those which do not add new values. In that way it is possible to eliminate those activities which do not take part in creating value added
- *Target Costing*, states cost on competitive level, thereafter all the company activities endeavour to reduce the level of the targeted cost

Picture no. 4: A simplified schematic of the value adding process



Source: Evans, N., Campbell, D., Stonehouse, G.; ***Strategic Management for travel and Tourism***; Butterworth-Heinemann, Oxford, 2003, p. 62

- *Focus strategy*

A focus strategy is aimed at a segment of the market for a product rather than at the whole market, therefore, it is also referred to as strategy of selective offer on selective markets. Focus strategy is aimed at two segments:

Satisfying the needs of a certain market segment meets specific needs of the narrow group of tourists, those which large competitors are not ready to please. Most often these are specific, unique services of high quality which demand extremely high flexibility, proficiency, innovations and speciality. Prices of these services are extremely high and the service which is provided is characterized by quality and uniqueness.

Lower cost than the competitors emerges as a result of the hospitality companies' specificity. Most often these are small hospitality companies (small family hotels, pensions, rural tourism etc.). Porter diamond's analysis, i.e. Diamond of competitiveness is explained on the model of small entrepreneurship in tourism and hospitality.

3. CASE STUDY: PORTER'S DIAMOND ANALYSIS OF SMALL ENTREPRENEURSHIP IN TOURISM AND HOSPITALITY

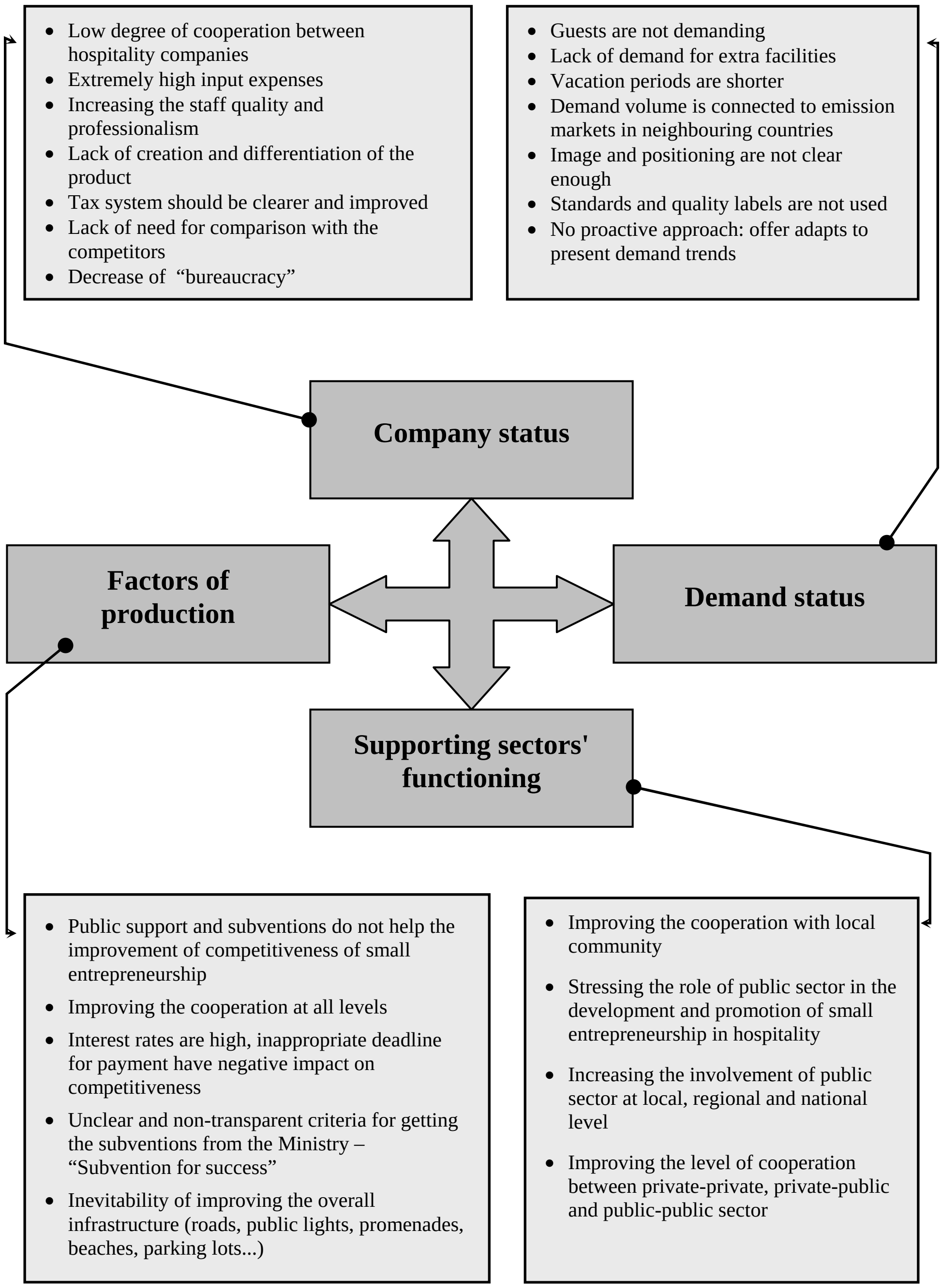
Competitive advantage is necessary and useful, but in the same time inadequate to ensure the success in a long run. Small business subjects need to educate themselves, raise the quality of their products and services, perfect their knowledge and using technologies, as well as the ways they offer and promote their services.

Experience has shown that specific areas (state, tourism destinations, companies) using the Diamond of competitiveness, have more efficiently given optimal conditions: companies, demand, production factors and public sector.

Diamond of competitiveness tries to state the elements of the system which help pleasing the guest, in a way that it grades the state on four main components. Following picture clearly shows main weaknesses which directly influence the decrease the competitiveness of this sector. In that way, it is possible to state the direction of the effort of raising the competitiveness of the tourist market on a higher level.

Competitiveness understands the appropriate *Diamond of competitiveness*, i.e. the atmosphere which stimulates the process of innovations and quality improvement, high operational effectiveness in creating competitive activities and high level of productivity in usage of resources.

Picture no. 5. Diamond of competitiveness evaluation



Source: Milohnic, I.; *Menadzment konkurentskih prednosti malog poduzetnistva u ugostiteljstvu*; (doctoral thesis), Faculty of Tourism and Hospitality Management, Opatija, 2006, p. 207

1. *State of the company*, considering mutual coordination, cooperation, merging, legal standing points, tax system etc.

2. *State of the factors of production* represents the second component of the *Diamond of competitiveness*, and it is connected to resource basis and attractions, staff quality, infrastructure, financial and other resources.

3. *State of demand*, as the third component which is being estimated is connected to motivation, needs and guests' expectations, as well as the degree of the guests' pleasure with the services provided and products, considering the facilities, attractions and experience.

4. *Supporting factors functioning* is connected to functioning of private and public sector, distributors and all stakeholders with the mutual aim: clear and successful development

Qualitative indicator as the applicative basis of the paper has been gathered using the Diamond of competitiveness *is* shown in the Picture no.5, where the most important weaknesses have been stressed and they should be taken into account in improving the overall competitiveness.

Diamond of competitiveness is marked with certain downsides when considering extra facilities, activities and experiences which can be experienced in this segment. Attention should be focused on improving the target market focus and practice, and extra facilities, and among other, creating new experiences and stories.

Taking everything into account, there is a low degree of cooperation and communication between public and private sector. Different interests, directions of development and inadequate cooperation between the key subjects with local and regional authorities, have a negative impact on the overall competitiveness when considering public services and private offer.

CONCLUDING REMARKS

Significance of competitiveness in tourism and hospitality can be seen first of all in the *challenges* which are characteristic for this sector, and are connected to continuous improvements and innovations with the basic aims of guests' satisfaction. It implies creating value added – new product or service to ensure more competitive market position, i.e. gaining new profits.

Competitive advantages emerge as an answer to the basic question: How to improve its position in relation to competitors in the future? Achieving this is the easiest for those companies which have strengths and capacities for quick transformation of particular products' production or, services.

Fast adaptation to the need for change and adaptation to consumers' demand are core advantage of small economy subjects. It is the flexibility, creativity and dynamics which create the basis for competitive advantages of small hospitality companies.

Overall picture of the present situation points to the need of offering value added, investing extra efforts in repositioning small entrepreneurship in hospitality with implementing value added to create new market position. Increasing the competitiveness of companies in tourism and hospitality should be carried out at all levels, according to the existing programs of European Union.

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