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Impact of Competitive Strategy on Organizational Performance: A Case study of Indian Telecom Sector

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ABSTRACT

The research study is aimed to investigate and assess the type of competitive strategies followed by the organizations under study and the perception of customers regarding the various performance variables (customer loyalty, company image and customer satisfaction) among the six mobile telecommunication service providers under study and subsequently evaluate the impact of competitive strategies on organizational performance of the firms in the context of Indian mobile telecommunication sector.

Keywords: Competitive strategy, cost leadership, differentiation, focus, telecommunications

INTRODUCTION

India is at present the second-largest telecom market in the world. The number of telephone subscribers in India increased from 1,174.80 million at the end of January 2017 to 1,188.55 million at the end of February 2017, thereby showing a monthly growth rate of 1.17%. The wireless segment accounts for 97.62 percent (FY 2016) of total telephone subscriptions dominated the market, with the wireline sector accounting for a total share of 2.4 percent only. During Financial Year 2007-16, wireless subscribers in the country increased at a CAGR of 22.94 percent, with the number of subscribers reaching to 1,058.85 million in FY2016. Also, the total wireless subscriber base (GSM, CDMA & LTE) increased from 1,150.45 million at the end of January 2017 to 1,164.20 million at the end of February 2017, thereby registering a monthly growth rate of 1.19%. The wireless subscription in urban areas increased from 660.63 million at the end of January 2017 to 671.63 million at the end of February 2017, and wireless subscription in rural areas increased from 489.82 million to 492.57 million during the same period. The monthly growth rates of urban and rural wireless subscription were 1.66% and 0.56% respectively. As on 28th February 2017, the private service providers held a market share of 91.19 percent of the wireless subscribers, while the two (PSU) Public Sector Units service providers, BSNL and MTNL have a total market share of 8.81%. The six service providers Bharti Airtel, Vodafone, Idea, Reliance Communication, Aircel and BSNL – accounting for almost 82 percent of the total subscriber base in the country. Reliance JioInfocomm Limited which was commercially launched on 5th September 2016 and has rapidly acquired a market share of 8.83 percent as on February 2017 was not included in the present study as the study was undertaken before the launch of Reliance JioInfocomm Limited.

2. LITERATURE REVIEW

According to Porter (1980) there are three generic strategies that enable an organization to defend itself and outperform the competition. These three strategies are cost leadership, differentiation and focus. The organization that does not develop a generic strategy tends to have a low level of performance that is "stuck in the middle" (Porter 1980). Research over the years in the area of generic organizational strategy with its impact on organizational performance has been undertaken. These researches have shown mixed results with respect to the impact of competitive strategy on performance. From the literature review, it appears evident that most of

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the researches undertaken have focussed on western countries (Ghobadin, Veetil& O' Regan 2006). The absence of similar research in India compiled with the inability to generalize the findings from one industry to other and from one country to another results in a theory gap in the current literature. A brief explanation of the strategy types is given below.

COMPETITIVE ADVANTAGE

COMPETITIVE SCOPE	Broad Target	Cost Leadership	Differentiation
	Narrow Target	Cost Focus	Differentiation Focus

Porter's (1985) generic strategies

Source: *Porter, 1985, p.12, Porter, M.E. (1985), Competitive advantage: Creating and sustaining superior performance, New York, Free Press*

In order to achieve cost leadership an organization must be willing to stop activities in which they don't have cost advantage and focus on areas like mass production and distribution, economies of scale, capacity utilization of resources (Malburg, 2000). Differentiation strategy remains effective when differentiated products are demanded by the customers. The products may have unique attributes which are widely demanded and valued by the customers. When the market is large and the buyers have homogeneous set of needs and one product doesn't fit all and thus differentiation strategy should be adopted. . Those organizations that seek to adopt a focus strategy have to identify a niche in a market which is profitable enough to operate and where cost leaders and differentiators are not operating. Focusing organization should have the necessary skills and expertise to cater to that niche. Further in order to capture that niche a firm may use a cost leadership strategy or a differentiation strategy. According to Michael E Porter "A firm that engages in each generic strategy but fails to achieve any of them is stuck in the middle". Porter refers to such firms as those that have no clear strategy. According to Dess and Rasheed (1992), it's important that we distinguish between firms that are stuck in the middle and those that seek to deliberately combine generic strategies of cost leadership and differentiation. Also Miller and Dess (1993) have found evidence that firms pursuing integrated strategy are equally successful as those that pursue either of the one generic strategy.

The dominant model of measuring firm performance has been centered around the narrow view of its measurement based primarily on financial indicators (Venkatraman and Ramanujam, 1986). There is a strong support in literature for using subjective constructs for measuring performance in firms (Dess and Robinson, 1984; Lee and Miller 1996; Homburg et al. 1999). In this study a broader conceptualization of firm performance using subjective measures of customer loyalty, company image and customer satisfaction has been used.

3. OBJECTIVES OF THE STUDY

To study impact of competitive strategy on organizational performance

4. DATA ANALYSIS

Type of Competitive Strategies adopted

Construct	*Mean Score (S.D) 1**	*Mean Score (S.D) 2*	*Mean Score (S.D) 3*	*Mean Score (S.D) 4*	*Mean Score (S.D) 5*	*Mean Score (S.D) 6*
Cost leadership	*1.26 (.832)*	*2.51 (.796)*	***4.14*** *(.341)*	***3.85*** *(.759)*	*1.79 (.629)*	*1.76 (.701)*
Differentiation	***3.55*** *(.654)*	*2.58 (.527)*	***3.67*** *(.489)*	*1.64 (.367)*	*2.43 (.745)*	*1.91 (.601)*
Focus	*1.47 (.385)*	*1.46 (.714)*	*2.23 (.615)*	*1.69 (.476)*	*1.93 (.547)*	***4.17*** *(.802)*

Source: *Data compilation by the scholar for the present study*
Note: *Scoring Scale: (ranging from 1→we do not use this strategy to 5→ being this strategy is very important for our organization)*
**1. Airtel; 2.BSNL; 3.Vodafone; 4.Aircel; 5. Reliance Communications; 6. Idea.*

From table 1 above it can be interpreted that Airtel, follows only one strategic type i.edifferentiation,*BSNL*is a "stuck in the middle" firm, *Vodafone* focuses on both cost leadership and differentiation strategy, *Aircel* adopts cost leadership strategy, *Reliance Communication* is a "stuck in the middle" firm and *Ideacellular* indicates adopts focus business strategy.

Perception of Customers regarding Organizational Performance

Construct	*Mean Score**	*Standard Deviation*	*% of mean score*
1. Customer loyalty	***3.39***	*0.453*	*67.80*
2. Customer satisfaction	***3.36***	*0.352*	*66.20*
3. Company image	***3.15***	*0.364*	*63.00*
Overall Organizational Performance	***3.30***		*66.00*

Source: *Data compilation by the scholar for the present study*
Note:*Scoring Scale: 1→ Strongly Disagree 2→ Disagree 3→ Neither Agree nor Disagree 4→ Agree 5→ Strongly Agree.*

The perception of the customers of the six sample organizations regarding the overall organizational performance and its facets is provided in Table above. An overall mean score = 3.30 (% of mean score = 66%) indicates that the customers of the sample organizations are fairly satisfied with their service providers. The standard deviation of 0.411 also supports that the result is reasonably trustworthy. Further, for all the facets that have been utilized to measure the organizational performance in the current study, a mean score of above 3.00

has been reported, indicating satisfaction of customers with all the facets of organizational performance. Mean scores of more than 2.50 represents satisfaction with organizational performance and its various facets, whereas mean responses of less than 2.5 represents dissatisfaction with the organization. Among the facets, of organizational performance for the sample organizations under study, *Customer loyalty* facet (mean score= 3.39; % of mean score=67.80%), whereas for *Customer satisfaction*(mean score= 3.36; % of mean score= 66.20) and for *Company image* (mean score= 3.15; % of mean score=63.00%), facet reported the lowest satisfaction. The standard deviation figures reveal that the results are very much reliable in a sense that the responses of the sample users on different variables do not depict much variability. The performance facet wise perception of the customers of the six sample mobile telecom organizations under study is provided in Table above.

CAUSE-AND-EFFECT RELATIONSHIPS

The present study is aimed to empirically evaluate the impact of existing competitive strategies (cost leadership, differentiation and focus) on the organization performance of the six sample telecommunication service providers.In the present study, the Pearson Product Moment Correlation (PPMC) was utilized to examine whether or not a linear relationship existed between the types of competitive strategies and organizational performance. As is indicated from the Table 3, the competitive strategy (Cost leadership, differentiation and focus) adopted by an organization is positively, strongly and significantly correlated (r=.590, 613, .373; p<.01) with organizational performance. This indicates that a firm should adopt a competitive strategy in order to have higher organizational performance.

Table 3.Competitive Strategy and Organizational Performance: Correlation

CORRELATION		
Construct		**ORGANIZATIONAL PERFORMANCE**
Cost Leadership	Pearson Correlation	**.590***
Differentiation		**.613***
Focus		**.473***
	Sig. (2-tailed)	.000

** p<.01*

Further, in order to to ascertain the nature of causal linkages (if any) that exists amongst the Porters generic strategic types (Cost leadership, differentiation and focus) and performance indicators (customer loyalty, customer satisfaction and company image).

The complete model of causal relationships, was put to test at once using structural equation modeling (by means of AMOS 20) which indicated that the data fits the model quite well. Further, the results obtained thereof are detailed in the following sections.

Competitive Strategy and Organizational Performance (Fit indices)

Fit Indices	***Structural Model Fit***	
	Adequate fit	***Achieved fit***
CMIN/DF	*≤ 2*	*1.86*
GFI	*≥ .90*	*.929*
AGFI	*≥ .90*	*.937*
RMSEA	*< .06 (Reasonable fit upto .08)*	***.09***
TLI	*≥ .90*	*.902*
CFI	*≥ .90*	*.951*

Source: *Data compilation by the scholar for the present study*
Source: Malhotra at el., (2011), Kline (2005), Holmes-Smith et al. (2004), Byrne (2001), Hullandet al. (1996), and Kline (2005).

Impact of elements of Competitive Strategy on Performance indicators

Independent variables	***Dependent Variable***		
	Customer Loyalty	***Company Image***	***Customer Satisfaction***
Cost Leadership	***.113*****	***.291****	***.136******
Differentiation	***.347****	***.371****	***.372****
Focus	***.2723****	***.339****	***.311****
R^2	***.31*****	***.41*****	***.34*****

Source: *Data compilation by the scholar for the present study*
Note: *p < .001; ** p < .01; ***p < .05

5. CONCULSION

The findings obtained in the present study reveal that there exists a cause-and-effect relationship between competitive strategy with respect to the organizational performance. The findings of this study indicated that a positive relationship existed among the six sample mobile telecommunication service providers with respect to the competitive strategies and organizational performance. The results obtained provided fairly strong evidence in support of the propounded idea that the existence of a competitive strategy is positively correlated with organizational performance. Organizations having a clear business-level strategy by adopting one of the strategy namely cost-leadership, differentiation or focus perform better than those organizations which are “stuck in the middle”. Also it was found that organizations that adopt more than one strategic type i.e adopt an integrated strategy also perform better than those organizations that are stuck in the middle.

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