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LOW-PERFORMING ENTERPRISES: COMPETITIVE ADVANTAGES, DISADVANTAGES, AND STRATEGIES

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***ABSTRACT**. The goal of this paper is to give a theoretical description of competitive advantages and disadvantages of Low-Performing Enterprises and, as a consequence, to analyse what competitive strategies are used by low-performing business. We analyse "an enterprise" functioning in a certain industry rather than "a firm" or "a corporation" having more than one enterprise and functioning in several industries. It allows us to maintain a rather abstract research level, without disclosing real facts, even though empirical data could give some additional validity to our research results.*

KEYWORDS: efficiency, effectiveness, competitive advantages, low-performing enterprise, competitive strategy.

JEL classification: D20, D24, D40, M13, M1.

Introduction

So far, in the management literature, there seems to be no direct answer to the question how low-performing enterprises (LPEs) compete. Researchers, who analyse competitive strategies of small and medium-sized enterprises (SMEs) under SMEs performance level, have concluded that *firms in the „worst" category* appeared to have *no identifiable strategy* (*see* Jones and Tilley, 2003).

Meanwhile, other authors, who analyse company strategies disregarding their size, state that perhaps the lack of available financial resources provides an explanation for tendency of *low-performing firms* to exhibit *no clear strategy* to chart their future and cope with their present (Davis and Pett, 2002). If they have no clear strategy how to improve current performance, could LPEs have competitive strategy of one kind or another how at least to maintain current performance level and remain in business? Could they compete in a virtually different way than high-performing enterprises (HPEs)?

So far, limited interest in this issue discloses theoretical urgency of the problem. Besides, being aware of how LPEs compete, it might be easier to understand exceptional characteristics of HPEs competitive strategies. As for practical implications, lack of knowledge on LPEs competitiveness impedes their status improvement or rendering of proper support.

Competitive strategy research is inseparable from competitive advantage and disadvantage analysis. The existence of enterprises without *any* competitive advantage might be hardly possible. In exceptional cases, they might appear out of pure luck. Anyway, in most cases, such enterprises would be condemned for quick extinction because other or new competitors with bigger or smaller competitive advantages would simply push them out. In other words, so far, it is not clear what competitive *advantages* of LPEs are compared with HPEs or what aspect is used in defining very high-performing organisations as having no advantage at all. No doubt that HPEs are superior by many parameters and have got more possibilities for survival, nevertheless, clarification of advantages and disadvantages that are special to LPEs, might give a better understanding of strategies that are more characteristic to low-performing business.

The goal of this paper is to give a theoretical description of competitive advantages and disadvantages of LPEs and, as a consequence, to analyse what competitive strategies are used by low-performing business. As far as we know, this is an initial attempt to apply systematic research approach to LPEs competitiveness despite some other important studies (see, e.g., Rhyne, 1987; Fiegenbaum, Hart, and Schendel, 1996; Davis and Pett, 2002; McGahan, Porter, 2003) that are directly or indirectly related to our research object. Therefore, it is very important to take notice of research limitations that, on the other hand, may be considered as advantages to some extent.

To start with, it should be emphasized that the article deals with how LPEs compete rather than how they should do it. In other words, research is based on positive rather than normative methodology; the latter is not being applied in the initial stage of research, as the results are not verified. We analyse "an enterprise" functioning in a certain industry rather than "a firm" or "a corporation" having more than one enterprise and functioning in several industries. We do not take into account global competition, national diversities, different market dimensions, size of enterprises, etc. We speak about production and service enterprises, though, in some cases, without going into detail, we use the terms describing “manufacturing”. It allows us to maintain a rather abstract research level, without disclosing real facts, even though empirical data could give some additional validity to our research results.

It should be noted that this type of research can be facilitated and made more reliable by analogous research that investigates competitive advantages, disadvantages and competitive strategies in organizations with low performance level in reality but classified according to other (not performance) criteria. For example, SMEs research seems to be useful as their performance level is often low (Jones and Tilley, 2003). Certainly, SMEs and LPEs are not identical theoretically, as they are different kind of organizations classified under unrelated parameters.

Firstly, this paper, briefly describes “strategic reference point” theory, which this research is partially based on. *Secondly*, it presents the concept of LPEs as well as, *thirdly*, concepts of competitive strategy and competitive advantage. *Fourthly*, the paper aims to disclose LPEs competitive advantages and disadvantages. It names and deals with two competitive advantages that, so far, have not been considered in management literature: lower alternative costs or lower “satisficing” objectives, and lower enterprise’ visibility. *Fifthly*, the paper discloses and analyses competitive strategies that can be attributed to LPEs; three new, more or less viable strategies are listed here in addition to those already discussed in management papers, namely, imitate-and-disimprove, negative differentiation, and focusing on less attractive market segments. *Finally*, the paper offers some suggestions for further research and presents conclusions.

1. Strategic reference point theory

Strategic reference point (SRP) theory (Fiegenbaum, Hart, and Schendel, 1996) states that the differences of people and organisation behaviour depend on the fact how they realise themselves being „above“ or „below“ the „reference point“. From the strategic management point of view, „strategic reference points“ are important.

Without trying to describe SRP theory in detail, we would like to mention only one instance of „strategic reference point“, which is the most relevant to this paper. It can be *average industry performance* that can be used as a basis for the split of all organisations into being „above“ and „below“ this reference point; in other words, into „high-performing“ and „low-performing“ organizations.

According to Fiegenbaum, Hart and Schendel (1996), the position of the firm relative to its strategic reference point would be expected to relate to a number of significant cognitive, organization process, and behavioural characteristics. It is worth mentioning that the authors presented a summary of propositions, stated elsewhere in literature, about these expected relations:

1. *Firms above reference point*:
   - ✓ satisfied with current situation (“Sitting on the top of the world”);
   - ✓ perceive new issues as threat, potential loss, negatively;
   - ✓ organizational processes are constricted, rigid, centralized;
   - ✓ nature of response or behaviour is risk-averse, conservative, and defensive.
2. *Firms below reference point*:
   - ✓ dissatisfied with current situation (“At the bottom looking up”);
   - ✓ perceive new issues as opportunity, potential gain, positively;
   - ✓ organizational processes are open, flexible, decentralized;
   - ✓ nature of response or behaviour is risk-taking, daring, and offensive.

It should be notified that, according to this theory, behaviour of organisations depends on their *perception* of position with regards to strategic reference point rather than on scientifically approved and externally selected criteria. Hence, their situation perception might be inadequate to the actual situation – they might overestimate or underestimate themselves and choose the ways of activities that are not adequate to real situation but comply more or less with the above mentioned SRP theory statements.

It means that in the split of enterprises, disregarding their dependence on self-perception, into „high“ and „low“ performing, some „low-performing enterprises“ (or on the contrary „high-performing enterprises) could consider themselves to be HPEs and attempt to act *as* HPEs (or on the contrary as LPEs) under SRP theory. For example, it is quite possible that LPE is satisfied with the current situation; is inflexible, conservative, etc. The survival of such enterprise in business is hardly possible.

Summarising, after the evaluation of SRP theory, the following conclusions are drawn: 1) presumably HPEs and LPEs compete *differently*; 2) adequate self-perception can facilitate effective competition. In the latter case, practical significance of this research can be disclosed by positive methodology: we can state that the first step to LPEs greater success could be clearer self-cognition or self-perception including the realization that they have not been very successful. Meanwhile, analysis is continued *how* LPEs compete.

Thus, SRP theory can be considered one of the key theories, which is applied partly in further analysis. Also, some other papers (Ma, 2000; Davis and Pett, 2002) that will be of particular importance in our further research are based in part on SPR theory.

2. Conception of low-performing business

Low-performing business is not a popular topic of management research. Besides, performance conception has not been set yet in management papers (Ostroff and Schmitt, 1993; Davis and Pett, 2002). Therefore, more thorough investigation is needed to perceive better this type of business. *Firstly*, it is necessary to describe the conception of business organisation „performance“; *secondly*, to define „low-performing business“ in comparison with „high-performing business“; *thirdly*, to show the relativity of this definition.

On the whole, two criteria can be used for performance evaluation: organisation efficiency and/or organisation effectiveness. As Pfeffer and Salancik (2003) state, efficiency and effectiveness are independent standards for evaluating organizations: organizations can be both efficient and effective, neither efficient nor effective, effective but not efficient, or efficient but not effective.

Notice should be taken that some outstanding management researchers (e.g., Drucker, 1993; Pfeffer and Salancik, 2003) criticize Taylorism and neo-classical economic theories and emphasize the importance of effectiveness, considering efficiency to be a less important performance measure. Meanwhile other management researchers (e.g., Davis and Pett, 2002) view *both* criteria as being of equal significance. Therefore, to substantiate the use of performance conception, it is necessary to define both, efficiency and effectiveness, and to decide upon which performance criterion or both should be applied.

It should be remarked also that, in this paper, the perception of efficiency and effectiveness is not related to any exact indicators, which allows preserving a rather abstract research level and evaluating research papers that put stress on different performance indicators.

Conception of efficiency. Most of the authors define efficiency in the same way: efficiency is a ratio of production and costs or of „output“ and „input“; the higher the ratio, the greater the efficiency.

Efficiency does not depend on external evaluation: „Efficiency is relatively value free. /.../ For example, what is produced is not considered. The output may be antibiotics or atomic bombs, processed food, clothing, or automobiles“ (Pfeffer and Salancik, 2003, p.34). Also, it does not matter whether manufactured goods are of high or low quality. The latter can be measured in dealing with effectiveness and not efficiency.

Economists (neo-classicists) used to consider efficiency to be the only performance measure for a long time. This type of approach could be criticized in a sense. This criticism is perfectly expressed in the radical remark by Drucker (1993): "Needless to say, one cannot shrug off all problems, but they can and should be minimized. Economists talk a great deal about the maximization of profit in business. This, as countless critics have pointed out, is so vague a concept. But „maximization of opportunities" is a meaningful, indeed a precise, definition of the entrepreneurial job. It implies that effectiveness rather than efficiency is essential in business" (Drucker, 1993, p.6).

After all, such criticism is only partially true because entrepreneur's (as a seeker's for new opportunities) contribution into company success seems to be overestimated. According to the evolution theory, routine and inert production process is an inherent quality that guarantees stability of enterprise activities and can contribute to the emergence of innovations (Nelson and Winter, 1982). In other words, effective utilization of new opportunities is partially based on efficient employment of existing opportunities; therefore, both parameters are important for performance evaluation.

Conception of effectiveness. Effectiveness refers to the resource-getting ability of an organization. In other words, effectiveness indicates organisation ability to grow, create and use new opportunities.

Conception of effectiveness is directly related to the evaluation of stakeholders' groups, which interests are in conflict: „what is effective for employees may be ineffective for owners, and what is effective for creditors may be ineffective for owners, and what is effective for creditors may be ineffective for customers" (Pfeffer and Salancik, 2003, 37 p.). Hence, an organisation should not be necessarily effective and beneficial with respect to all stakeholders.

Based on such conception of effectiveness, it can be asserted that *effectiveness as well as efficiency* is not eventually linked with rendering of benefit or added value to customers (or other stakeholders' group). Attraction of resources, organisation income, growth of market share rather than rendering of benefit to all or majority of stakeholders' groups is the essence when we speak about effectiveness. For instance, "ability to get corrupted", which is characteristic to the period of economic transformation (Lydeka, 2001), sometimes can be much more important to the success of organisation than manufacturing of qualitative products.

Typology of business enterprises according to performance parameters. Davis and Pett (2002) present typology where all operating business organisations based on their achievements in the past can be divided into four groups: low efficient and low effective; low efficient but high effective; high efficient and high effective; high efficient but low effective organization. The reference points between "low" and "high" variables of corresponding performance parameters are considered their medium values.

Similar to Davis and Pett (2002), we have specified three enterprise types based on the same parameters: LPEs, HPEs, and medium-performing enterprises (MPEs). Low performing enterprise conception, which is used in our research, can be disclosed in a graphic way (*Figure 1*).

LPEs are depicted in rectangle I, HPEs – in rectangle III. Whereas, MPEs are shown in rectangles II and IV because, according to Davis and Pett (2002), both low efficient / high effective and high efficient / low effective organisations are evaluated alike from the strategic point of view – they exhibit „strategic mediocrity“. To simplify our analysis, they are not going to be taken into account furthermore. Besides, as Fiegenbaum, Hart and Schendel (1996) affirm, it is rather problematic to make any generalization on the behaviour of firms that are quite close to the reference point.

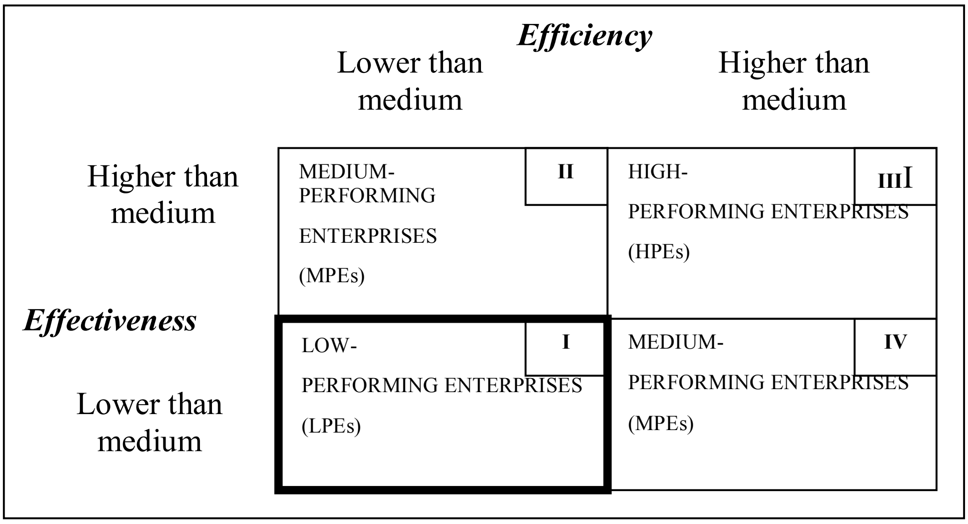

Figure 1. **Types of enterprises under performance parameters**

Relativeness of the conception of low-performing business. Davis and Pett (2002) claim "assessments of organisational performance should be relative". Relativeness is expressed by certain more or less subjectively selected reference points; in the latter case, these being medium efficiency / effectiveness parameters.

Moreover, the relativeness of such definition unfolds due to another reason: is it more significant to evaluate medium performance parameters of an appropriate industry or of the whole macroeconomic system? According to Porter (1980, 1998), the essence of competition is best reflected in carrying out research at *industry* level, which we fully agree upon. However, the question remains, which industries – high or low performing – to investigate for disclosing strategies applied by LPEs. That is to say, we need to evaluate *macro*-level too. These two different research conceptions are depicted in *Figure 2*.

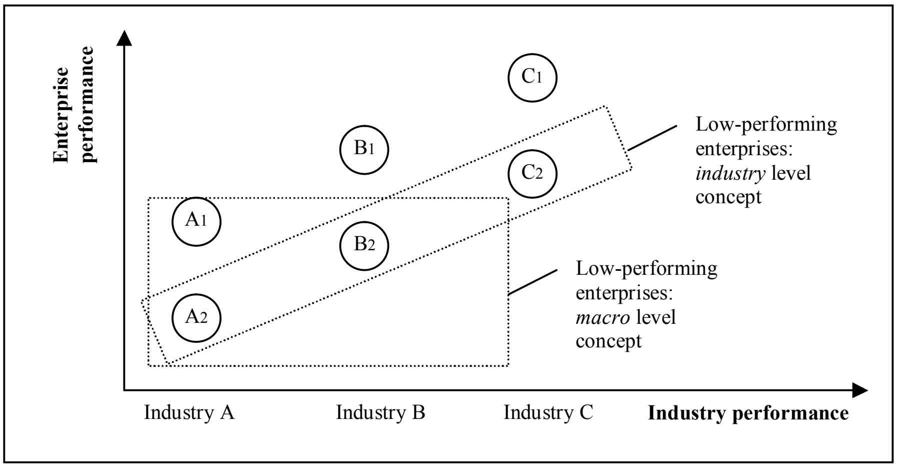

Figure 2. **Industry-level concept of LPEs *versus* macro-level concept of LPEs**

Based on these two different low-performing business conceptions, it can be assumed that it is better to perceive them as complementing each other rather than contradicting each other. That is to say that it is important to evaluate not only enterprise position among other enterprises operating in the same industry but also the industry performance at the macroeconomic system level.

The same enterprise (say, A_1) can be "high-performing" at the industry-level but "low-performing" at the macro-level. Whereas, another enterprise (say, C_2) can be "low-performing" at industry-level and "high-performing" at macro-level. This contradiction can be mitigated by taking into account both approaches together. The following regularity can be perceived here: „low-performing enterprise" at the industry level acquires more qualities of „high-performing enterprise" as the relevant industry is better performing at the macro-level and vice versa. Due to that, the main ways of „low-performing business" competition could be better disclosed by analysing mainly low-performing enterprises in lower-performing (than average) industries.

3. Conceptions of competitive strategy and competitive advantage

In this paper, we primarily consider strategy as a *pattern* of activity because, then, it allows us to regard both consciously perceived and unperceived strategies. LPEs might have less developed strategic planning (formal or in mind) process (Rhyne, 1987), however, it would not mean that such enterprises do not operate under some strategic pattern.

In the literature on strategic management, two prevailing approaches dealing with competitive strategies and competitive advantage are singled out: 1) structural or positioning approach related primarily to Porter's (1980, 1998) proceeding, and 2) resource-based view or internal resource approach (Wernerfelt, 1984; Prahalad and Hamel, 1990; Barney, 1991, 2001; Peteraf, 1993).

Under ***structural approach***, competitive strategy is comprehended as levying of offensive or defensive actions to acquire and/or maintain competitive advantage that could ensure long-term profitable and defendable position in industry. Hence, the securing of organisation favourable position is stressed in external environment. Competitive advantage is – "tautologically" (Hao Ma, 2000) – related to performance: it is a certain factor that enables to achieve and/or maintain superior performance than competitors. If there is no superior performance, there could be no competitive advantage.

According to this approach, competitive advantage arises through ability to create *higher added value* to consumers than competitors, i.e., ability to offer a better price and quality ratio to market or its segments: lower costs or differentiated products. Accordingly, Porter (1980) marks out three well-known "generic strategies": differentiation, cost leadership and focusing.

Contrary to structural approach, ***resource-based view*** does not relate competitive advantage to organisation position within industry but rather to internal resources. Basically, these approaches are compatible (Barney, 1991; Mehra and Floyd, 1998; Porter, 1998, *in* "Introduction"). Here, competitive strategy is perceived as actions to create/acquire and utilise necessary resources that could ensure higher performance.

Based on this approach, much attention is paid to the description of the characteristics of resources that could give competitive advantage. Barney (1991) names four necessary resource characteristics: *valuable*, in the sense that it exploits opportunities and/or neutralizes threats; *rare* among current and potential competitors; *imperfectly imitable*; and *non-substitutable*, in the sense that there cannot be strategically equivalent substitutes for this resource.

By the way, in this respect, competitive advantage is not separable from creation of added value: organisation is considered to have competitive advantage when it implements value-creating strategies.

Relativeness of competitive advantage. Further on, some deeper analysis of the conception of competitive advantage should be made, as it was done systematically by Hao Ma (2000) in his excellent paper called "Competitive Advantage and Firm Performance". Apparently, only based on this conception of competitive advantage it is possible to talk in principle about competitive advantages of LPEs.

According to Porter (1998), the presence of competitive advantage means ability to act *absolutely* superior (i.e., unique) than competitors in at least one of many (e.g., uniqueness of product, supply system or marketing approach) dimensions of customer satisfaction within the industry. Apparently, under resource-based view, competitive advantage is also considered absolute, i.e., the firm either has valuable, rare, imperfectly imitable and non-substitutable resources that determine superior performance or not (Hao Ma, 2000).

Hao Ma (2000) reasons that it is more significant to evaluate the relativeness of competitive advantage in comparison with competitive advantages of the rivals: „Competitive advantage, as a relational term, depends on the reference point. That is, we must answer questions such as „against whom?" and „on what?" Does competitive advantage mean that one firm must be superior than all rivals?" (Hao Ma, 2000). His answer is "no", because by separating the categories of competitive advantage and performance, an organization could have more than one competitive advantage that can lead to superior performance or there might be lack of them for it.

Taking into account the diversity of competitive advantages and disadvantages described in strategic management literature (Porter, 1980, 1998; Lieberman and Montgomery, 1988, 1998; Barney, 1986a, 1991; Prahalad and Hamel, 1990; Leonard-Barton, 1992; *etc.*), we can agree with Hao Ma (2000) that a firm can have one or several "discrete" competitive advantages under certain aspects of activities. At the same time, it may not have "compound" competitive advantage in the sense of superior performance compared to some other rivals in the same industry. It means that the presence of discrete or some competitive advantages does not necessarily determine superior performance (Hao Ma, 2000); this case is inherent to LPEs.

On the other hand, a relative competitive advantage could not guarantee the survival of an organisation. Also, it depends on the magnitude of competitive advantages and their importance in the appropriate market context (Hao Ma, 2000), luck (Barney, 1986b; Hao Ma, 2000), governmental actions expressed through competitive forces (Porter, 1998, *in* "Introduction"), and on effective usage of existing competitive advantages within the industry, i.e., on the effectiveness of strategies of all enterprises.

This conception of competitive advantage seems to be appropriate both statically and dynamically. As Robinson, Fornell and Sullivan assert (1992), in the industry evolution process, different capabilities become more important in different industry cycles. According to them, from the *dynamic* point of view, "comparative" competitive advantage is more important than absolute. Meanwhile, Dorothy Leonard-Barton (1992) discloses the "paradox" that the core capabilities strengthen and limit the development of new products and processes at the same time, which makes us think that, from the *statical* point of view, relative (or comparative) competitive advantage is of greater importance.

Thus, what in one case is considered to be a competitive advantage, in the other case, can be perceived as competitive disadvantage. Therefore, the remark that sometimes management intentionally sacrifices a competitive advantage in order to achieve other competitive advantage of higher performance would be noteworthy in LPEs analysis based on normative methodology.

4. The competitive advantages and disadvantages of LPEs

Competitive advantages of LPEs. Porter notes (1998) in describing leading companies, "the ability of firms to shape industry structure places a particular burden on industry leaders. /.../ A leader, then, must constantly balance its own competitive position against the health of the industry as a whole. Often leaders are better off taking actions to improve or protect industry structure rather than seeking greater competitive advantage for themselves" (Porter, 1998, p.8). For instance, it appears that high performers do not resort to profit-dissipating rivalry to fend off imitation, perhaps in the interest of preserving industry structure (McGahan, Porter, 2003).

It means that LPEs have not got this type of a „burden"; they care less of „health of the industry" and the like. In other words, lower performance determines *lower alternative costs*, which can relatively give a competitive advantage. In common, it should be noted that development process encompasses the growth of both opportunities and objectives that are adjusted and optimised in the process (Kvedaravicius, 1997; Kvedaravicius and Kavaliauskas, 2001). Hence, we could assume that low-performing enterprise is low developed as business organization; of course, it does not mean that this enterprise is low developed as social organization at the same time, as sociality is not measured by business criteria. Then, its business objectives will be lower in the absolute value compared with high-performing (and better developed in business sense) enterprises. Thus, competitive advantage with lower alternative costs can be described in a little bit different way – as *lower business objectives* of employees or enterprise.

Here, attention should be paid that there could be no contradiction between the statement of SRP theory that organizations below the reference point are "at the bottom looking up", and our assumptions that LPEs tend to have lower objectives. LPEs „maximum" objectives without regarding opportunities can be high or too high, however, such enterprises probably „satisfice" with really lower objectives. „Satisficing" objectives can be defined as „maximum" objectives taking into account real opportunities. Opportunity evaluation process is carried out naturally by the way of trials and errors: when something does not happen to be achieved, lower objectives come up that comply with opportunities. Eventually, we can assume that the choice of strategy is affected not by the size of objectives without regarding opportunities but rather satisficing by minimum business subjects.

Under development theory approach, „satisficing" objective size and development level of business objects seem to correlate positively. As shown in *Figure 3*, the higher performance and the higher development level, the higher „satisficing" objectives and vice versa.

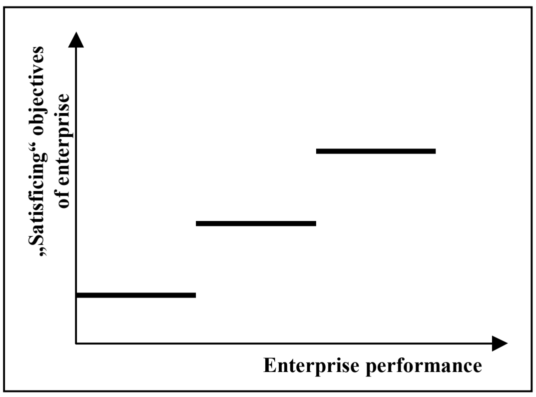

Figure 3. **Relationship between „satisficing" objectives of enterprise and enterprise performance**

In fact, this competitive advantage can enable LPEs to utilise these opportunities, which are not attractive or limiting to HPEs, and that serves to survival of the former ones. For instance, low-performing enterprises can focus on the market segments that are less profitable and/or lower revenue driven. On the other hand, HPEs may hinder LPEs in exploiting this competitive advantage (for example, with such barrier as price and/or, quality damping in unattractive market segments). That is to say, LPEs lower objectives can become additional costs to HPEs in competitive struggle, whereas, such competitive advantage does not cost anything to LPEs.

Other relative competitive advantage of LPEs or rather competitive disadvantage of HPEs comes up from "outside" and not "inside". Furthermore, LPEs survival can be influenced by their relatively low visibility in the market.

Visibility in strategic and financial management literature is widely investigated and is considered to be a very important phenomenon (Pfeffer and Salancik, 2003; Golightly, 1978; Leonard-Barton, 1992; Baker, Powell and Weaver, 1999; Ackert and Athanassakos, 2001), however, the relationship between enterprise performance and visibility as one of relative competitive advantages is dealt rarely and indirectly.

As Leonard-Barton states (1992), organisation departments that employ talented, ambitious and more visible people, attract additional resources easier; those departments develop the same "core capabilities" that might become an obstacle or "core rigidity" in change implementation. According to Ackert and Athanassakos (2001), reliable enterprises, which shares are highly counted on stock exchanges, receive much attention from market analysts and investors. That attention encourages them to continue in the same way. Moreover, it should be noted that in consumer societies people with pecuniary success attract bigger attention.

The same type of relationship seems to exist between enterprise performance and visibility. It goes without saying that higher enterprise' performance level determines greater visibility and vice versa.

Regarding resource dependence perspective, visibility is one of the conditions, which affect the extent to which an organization complies with control attempts of social actors (Pfeffer and Salancik, 2003). Thus, firms with superior performance are more visible, better known, better remembered and institutionalised (like the peak of an iceberg), and, as a result, they are more affected by various influential groups (for instance, by consumers, financial institutions, communities, authorities). We can assume that the higher enterprise performance, the stronger its market power that is usually beneficial to one part of the stakeholders (perceived as an opportunity) and harmful to the others (perceived as a threat). Therefore, the relevant stakeholders are more interested in promoting or degrading such enterprise or its products and making its visibility and external control stronger.

Thus, environment impact can be either positive or negative on different aspects of activities, and, accordingly, to selected opportunities and further performance. That gives rise to certain advantages and disadvantages. For example, good visibility of high-performing business makes firm produce high quality products taking into account such needs of society like environmental protection or safety. Meanwhile, due to less attention, low-performing business manages to avoid this type of restrictions (they are often justifiable by society), which give to business relative competitive advantage, and contributes to its survival in the market. *Figure 4* discloses graphically different enterprise visibility and the level of external control based on enterprise performance level.

Here, visibility is shown as a pyramid metaphor, i.e., the growth of business performance causes the equal increase of visibility. The metaphor of the Eiffel Tower could be even more exact where only a small part of business is "on the top", while the majority is "at the bottom" in the sense of visibility: very few individual or separate businesses can be seen (i.e., they receive the exclusive attention of the stakeholders) that drown more or less the rest of businesses; the latter remain almost invisible. Therefore, the iceberg metaphor could be also applicable here: the minority is visible while the majority – not; the latter seem to be invisible.

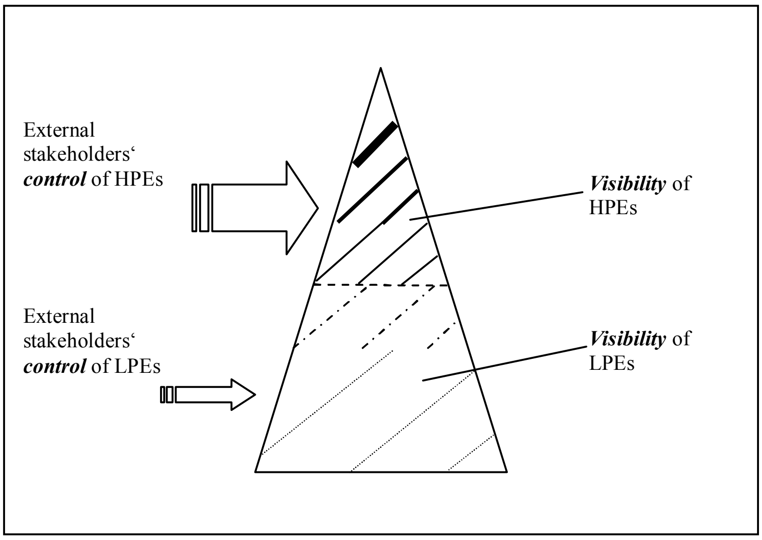

Figure 4. **Relationship between enterprise performance, visibility, and external control of organization**

Nevertheless, "an almost invisible business" is not necessarily of "a shadow character", in other words, this business should not be "blackened". Hence, three types of business can be distinguished *according to the colouring*:

- *transparent* – visible through, „crystal", fully ethical or legal, not catching attention and completely „open" business;
- *shadow* – invisible, „dark", completely „black" or illegal, unethical, „closed" business;
- *colourful* – versatile business, having bright and dim sides, with certain business characteristics more visible than others.

In other words, simultaneously, business could be more or less "green", "red", "orange" (ecological, philanthropic, showy), "brown" (with low quality elements), "black" (illegal, unethical) and the like with the corresponding tints.

The colourful business makes at least 98 per cent of all businesses because being transparent or completely "black" hinders further business development. Almost every enterprise can be too visible or too invisible. Without doubt, relative closure or relative openness is very important in the process of institutionalisation.

It is significant to consider business colourfulness as it helps to notify the whole diversity of business competitive strategies. Meanwhile, in the sense of LPEs, it is easier to avoid the raising of the dark sides that are not necessarily dominant in LPEs.

Low visibility gives rise both to cheating and authenticity or originality, which, in their turn, cause creativity or simply business satisfaction. In the latter case, the bond between low visibility and creativity opens up by evaluating the importance of ensuring secrecy in business. Thus, low visibility does not suppose only the choice of "black" or "shadow" ways of business; however, those "dark" business sides could be encountered in less visible business, namely, *ceteris paribus*, - in LPEs.

Taking into account that lower visibility enables LPEs to compete unethically and illegally, it should be noted that HPEs – better visible businesses – could compete in the same way, too. The difference is that more visible business has to create such opportunities by itself. How? Institutionalisation asks for creation of myths and stories for society and other stakeholders (Misruchi and Fein, 1999). Creation of negative opportunities (e.g., for society) costs money to HPEs, whereas, LPEs can benefit from the acquired "dark sides" of low visibility without any costs. Hence, usually almost invisible LPE can save money compared to HPE expenses for the creation of such opportunities. In this case, this competitive advantage can have an obvious financial expression: saved costs on image development, update, improvement and the like.

It should be notified that only one, namely, performance factor, does not determine visibility. It is also determined by the organisation size – the bigger the organisation, the more visible it is (Pfeffer and Salancik, 2003); the number of enterprises in the industry (the bigger the number of them, the lower the visibility of a separate enterprise, *ceteris paribus*); enterprise age (the older the organisation, the better the visibility); specifics of industry (for example, banking versus apiculture), etc. Actually, these factors are not the object of our research.

On the other hand, low performance by itself and its caused lower visibility as well as lower objectives determine ***competitive disadvantages of LPEs***.

LPEs seem to lack financial, technical, managerial, or knowledge resources necessary to become more dynamic or competitive (Davis and Pett, 2002). Besides, low-efficient enterprises often lack motivation and are inertive to acquire new knowledge; they avoid the use of consultancy services or even do not apply their accumulated knowledge due to „intellectual slack" (Leibenstein, 1966) or, according to our vocabulary, due to „satisficing" objectives.

Here, attention should be drawn to SMEs research which deals with their competitive disadvantages because there can be quite a few similarities between SMEs and LPEs in this respect. According to Jones (Jones and Tilley, 2003), „the availability of skilled human resources is perhaps the main restriction of [small and medium sized] firms to growth rapidly" (Jones and Tilley, 2003, p.24). Thus, analogically to SMEs, alongside with the lack of managerial resources in LPEs, the lack of skilled human resources could be detected, too.

Eventually, low-performing enterprises (LPEs) are less trusted by consumers, potential employees, financial institutions, etc. because these enterprises and their products look risky (they are less known, visible). For this reason, it becomes more difficult to attract the missing resources; it increases LPEs costs and reduces their possibilities to survive in the future.

Undoubtedly, this type of enterprises has got more disadvantages than advantages. As these disadvantages are almost obvious, there is no need to investigate them further on here. Freedom of strategic choice by LPEs could be more restricted than HPEs due to numerous competitive disadvantages, though LPEs depend less directly on their stakeholders due to their lower visibility. Their choice is affected by less directly felt but very strong forces (e.g., "market laws", "invisible hand" or Porter's "Five Forces").

By finalizing LPEs competitive advantage and disadvantage analysis, we can assert that LPEs can have other than our observed and dealt with advantages and disadvantages that are assessed under performance parameters. Additionally, LPEs can have other specific advantages and disadvantages; however, this is not the subject of our research.

5. Competitive strategies of LPEs

Based on the previous assumptions, LPEs particular strategies could be identified. Certain competitive strategies are either assigned or not to LPEs taking into account their potential effectiveness or viability in competitive struggle.

LPEs strategies can be classified and analysed according to their ascription to the relevant strategic management approaches:

- structural or positioning approach;
- resource-based or internal resources approach.

LPEs positioning strategies. LPEs strategic analysis should be started with ***imitation strategies*** as they are predominant in the quantitative sense in many types of business, even though their practical use both in scientific papers and business culture has been underestimated for a long time, while the importance of innovation and differentiation strategies in competition has been praised (Levitt, 1967; Bolton, 1993; Schnaars, 1994; Aldrich and Argelia, 2001).

Firstly, innovation from imitation differs by the *level* of novelty that exists in developed products or organisational processes (Downie, 1968; Levitt, 1967; Bolton, 1993; Schnaars, 1994). Innovation contains an element of imitation, in the sense that new practice is rooted in, develops from, the practice of the present. Meanwhile, imitation contains some elements of novelty; there is no perfect imitation. Therefore, innovation differs from imitation *quantitatively*: imitation contains fewer elements of novelty (or fewer elements are developed in imitation).

In identifying imitation strategies, *qualitative* differences between innovation and imitation development are more important (Levitt, 1967; Bolton, 1993; Schnaars, 1994). Firstly, innovation differs from imitation by the way of knowledge acquisition: „learning-by-doing" is innovated through experience within the organization, whereas, „leaning-by-watching" is imitated by importing the ideas from outside. As imitation is not a perfect copy of innovation, in imitation, innovation adaptation or development process takes place, which is called "reverse R&D" or „reverse engineering". Other qualitative difference is related to product or process implementation timing. Innovation is implemented prior to imitation; imitation follows innovation. Moreover, there could also be an element waiting because innovation is more risky than imitation; waiting and watching can help to avoid mistakes, however, it can not be beneficial to wait too long.

Finally, it should be noted that the implementation of imitations requires financial resources (Segerstrom, 1991), anyway, to imitate costs less than to innovate (Baldwin and Childs, 1969; Link and Neufeld, 1986; Cho, Kim, Rhee, 1998); typically, imitation is not so easy (Jovanovic and MacDonald, 1994). Above all, it means that imitation is not a passive way of activities; it is a beneficial pursuit and can bring success like innovation.

Schnaars (1994) distinguishes three imitation strategies:

- lower prices;
- imitate-and-improve (similar as Levitt's (1967) "innovative imitation" strategy);
- seeking market power through imitation.

As the last of these strategies is directly related to competitive ways of big (i.e., assessed according to the size, not performance parameter) organisations, further on, we are going to investigate only the first two strategies. In particular, we would like to notify the obvious parallels with Porter's (1980, 1998) low cost and differentiation strategies: the main point is how to create higher added value to consumers.

So, what imitation strategies are characteristic to LPEs if enterprises compete this way?

No doubt, *lower price* strategy is often used in LPEs imitation strategy. It is cheaper to copy a prototype than to develop it as usually LPEs resources are smaller; therefore, the focus on low price similar quality products is an opportunity for profitable activities. In addition, they can compete easier not due to the cost leadership but due to lower satisficing needs or alternative costs, for example, relying on lower profit.

Imitate-and-improve strategy is based on relatively high level of innovativeness (imitiation differs from innovation by novelty level): the principle of it is "second but better". The need to overcome "the best" low-performing enterprises by imitation (as well as innovation) seems to bring failure in most cases. Due to competitive disadvantages, LPEs mostly are content with what has been left by HPEs, i.e., they try to avoid any competion with them. Because of that, LPEs usually apply effectively imitate-and-improve strategy that is a niche strategy too and is focused on less atractive market segments (see below).

We can distinguish the other, radically different imitate-and-improve LPEs imitation strategy. It can be called "*imitate-and-disimprove*" strategy. Its main principle is imitate and *worsen* (the strategy users even might not understand it) the quality of products or working conditions in order to save costs, i.e., to use cheaper substitutes of necessary resources. Quite often, this type of strategy leads to enterprise collapse or continuation of its existence (on another point, in the latter case, the motivation factor could be important). Despite the fact, it seems to be used quite widely (e.g., in dress-making enterprises) with the aim to improve performance and even change the strategy, therefore, the naming of this strategy is significant. It is related to the further analysed "negative differentiation" strategy, thus, it is not worth to be analysed in more detail (they differ from each other like imitation from innovation). It could be remarked that the viability or effectiveness of this strategy is determined by the LPEs low visibility competitive advantage.

In short, we can assume that three imitation strategies are characteristic to LPEs: lower prices, imitate-and-improve (in case it is focused on less attractive market segments) and imitate-and-disimprove.

Differentiation strategy. After the comparison of imitation and innovation (differentiation) strategies, the question may arise whether LPEs can compete by using differentiation strategy?

Based on LPEs competitive advantage and disadvantage analysis, we can assert that it is more difficult to implement innovations in this type of enterprises due to the restricted resources. They need more resources than imitation, and often the trials could end with the failure. Apparently, LPEs can use the differentiation strategy effectively if it is a niche strategy as well and is focused on less attractive market segments (see below).

„Negative differentiation" strategy. As Metcalfe notes (1998), there could be "quality *reducing* innovations" (Metcalfe, 1998, p.87). Even though LPEs use imitation strategies quite often, they seem to develop and implement innovations with the same ease, but those can be the ones that are not acceptable by HPEs. Taking into account the real abundance of low quality products and services, we can assume that such "negative" or even "destructive" strategies are quite widespread. The low quality product (service) from consumer perspective can be defined as a product that consumer will never purchase again remembering its low quality.

For a potential buyer to buy a low quality product, it should look like high quality product, i.e., product image ("outside") should be similar to or undistinguishable from high quality products. From entrepreneur point of view, a product *must* be „vendible" and *can* be „serviceable" to consumer or society. The sales are not ensured by product qualities but by the right or wrong information about it and its manufacturing organisation, i.e., good enough product or organisation image. In other words, vendibility and not quality is the essence of business; low quality can ensure more or less success under certain circumstances. Such circumstance can be at least the presence of the above-mentioned competitive advantage – low visibility.

Also, the objects of negative differentiation can be the requirements of safety, environmental protection or working climate, social and business ethics, etc., when efforts are put to reduce the costs at the expense of others, which HPEs cannot afford due to very high visibility. Thus, negative differentiation strategy seems to be applicable to LPEs due to their relatively low visibility.

It is obvious that our approach goes against the prevailing "value creation" concept (or broadens it), which says that business success is inseparable from value creation process (see Porter, 1980, 1998; Barney, 1991; Hao Ma, 2000, 2004). This approach does not seem to take into account the low visibility competitive advantage of an enterprise that might cause the relative effectiveness of the negative differentiation strategy.

However, it should be noted that the word "negative" is not necessarily related to any kind of ethics: this and other descriptive strategies *a priori* are value free in ethical sense. It simply means that when using that strategy, the interests of stakeholders' (consumers, suppliers, employees, etc.) groups are not taken into account; sometimes the interests of the latter could be unethical, therefore, disregard of them can stipulate ethical activities. For instance, in a very intolerant society, low visibility will give greater opportunity to hire intolerable people avoiding negative reaction of consumers, suppliers, authorities and the like.

We can assume that, in some cases, lower visibility can ensure special conditions to act autonomously and to self-realise, which could be complicated in some other cases, nevertheless, more often, the use of the negative differentiation (as well as imitate-and-disimprove) strategy is not socially crucial.

The above-analysed strategies could be linked to market segmentation logic, and one more lpes positioning strategy can be named here: it is the *strategy of* ***"focusing on (for high-performing enterprises) less attractive market segments"***. As a matter of fact, every strategy is focused on one or several market segments (Mintzberg, 1998b). In other words, in practice, the above-mentioned strategies are inevitably focusing strategies, though, in this article, the strategies are analysed under *particular* market segments that LPEs are focused on in using one or another strategy.

Consumer number and profitability, income increase prospects, etc determine segment attractiveness. LPEs, usually lacking different kinds of resources (financial, human or technical), can rarely compete on the equal level with HPEs in very attractive segments. That is to say that lower alternative costs and lower ambitions make LPEs look for less attractive market segments.

We can suppose that LPEs usually use imitate-and-improve and value creating differentiation strategies effectively only in case they are focused on less attractive market segment strategies. Two reasons determine it: 1) HPEs usually compete by using strategies of relatively high innovation; 2) for LPEs compete directly or in the same way with HPEs is very risky as, then, the specific competitive advantages of the former would lose their significance.

Taking into account the same reasons, we can assert that the other above-mentioned LPEs competitive strategies (lower prices, imitate-and-disimprove, and negative differentiation) could be effective by focusing not only on less but also on very attractive market segments. Certainly, if, in an industry, one or several high-performing enterprises use lower price imitation strategy with the purpose of cost leadership, for low-performing enterprises, that strategy could become totally ineffective or effective by focusing only on less attractive market segments.

LPEs resource acquisition strategies. The representatives of resource-based view distinguish two main *strategies* (ways) for *resource acquisition from inside: individual* and *collective learning* (e.g., Prahalad and Hamel, 1990; Senge, 1990; Argyris, 1994).

It could be possible to reckon Galbraith's (1973) observation of the process of "*self-exploitation"* of small enterprises as an example of (individual and collective) learning. It would imply that by using the same amount of human resources within the organization and trespassing usual human limits, it is learnt to save up a part of costs. As Galbraith described small and at the same time low-performing enterprises, we can suppose that currently the „self-exploitation" process takes place in quite a number of LPEs (and SMEs).

If „self-exploitation" type of learning is more prominent in LPEs, the „common" learning is less developed in such enterprises, which is determined by relevant competitive advantages and disadvantages. LPEs and HPEs resource acquisition from within strategies seem to differ only quantitatively.

Resource acquisition from outside strategies. There are many more ways (strategies) of resource acquisition from outside. For example, the building of formal or informal networks with competitors, suppliers, customers, local community, government agencies, research centres, *etc.* through alliances, licensing, mergers, implementation of mutual projects, recoursing for governmental or other support (Prahalad and Hamel, 1990; Gomes-Casseres, 1994; Baron, 1995; Dyer and Singh, 1998; Doh, 2000). In short, it would be the collaboration with the external stakeholders.

We can assume that the above-mentioned resource acquisition from outside strategies is applicable to both, LPEs and HPEs. The main difference seems to be the possibilities of strategy application (or the effectiveness of these strategies) - in LPEs, it is much lower.

At least, a part of LPEs, due to higher inertia, lack of motivation and intellectual sluggishness, tend to consult less (see above), take credits or start any other kind of relations with potential partners.

On the other hand, due to lower visibility, often, their potential partners trust them less; they seem to be less profitable and more risky potential business-to-business users (for instance, consultants, bank service users) or less beneficial potential partners. For this reason, only other LPEs tend to collaborate more with those low-performing enterprises, and HPEs collaborate with them under less favourable conditions, therefore, it is more complicated for them to improve their status than for HPEs. As a result, we can witness a "vicious circle", which is quite difficult to break without external help (e.g., business promoting institutions, appropriate laws and regulations).

Taking into account both complimenting and complying structural and resource-based approaches (as well as other strategic management approaches), we can get a more reliable view how LPEs compete or should compete in seeking to improve performance. Further research is necessary to assure greater reliability of current analysis. Then, other research directions including LPEs and their competitive advantages and disadvantages as well as their competitive strategies can be suggested.

Some suggestions for further research and conclusions

Firstly, it is obvious that the above-described research should be substantiated empirically. Besides, to clarify better how LPEs compete, it is useful to be more aware of competitive strategies used by HPEs exclusively. Quite considerable similar research has been carried out both, *explicitly* and *implicitly*, however, it has not taken into consideration the fact that LPEs competition differs (quantitatively and even qualitatively) from HPEs. In short, further research on strategies is necessary based on enterprise performance level.

Research on LPEs competitive advantage, disadvantage and strategies can be useful for SMEs research as a big *part* of LPEs is together with SMEs. Distinguishing of such factors as size and performance and their influence on the choice of strategies would be beneficial to the research of both LPEs and SMEs. These are different perspectives, which if assessed can help to avoid various contradictions, description of "exceptions" or doubtful generalisations (e.g., whether SMEs are innovative, flexible or only a small part of them can do it). We think that, according to size and performance, 4 types of enterprises can be distinguished: a small (and medium) LPE; a large LPE; a small (and medium) HPE; and a large HPE. Taking into consideration every type of enterprise, synergetic effect could be possible in the research of both directions.

We have distinguished six competitive positioning strategies that are characteristic to LPEs: lower prices, imitate-and-improve, imitate-and-disimprove, differentiation, negative differentiation, and focusing on less attractive (for HPEs) market segments. The imitate-and-improve and differentiation strategies of LPEs could be used effectively only when they are matched with the focus on less attractive market segment strategy.

With regards to resource acquisition strategies, we can assert that LPEs use the same strategies as HPEs do, only the effectiveness of their use differs, i.e., it is more difficult to LPEs to apply effectively resource (from inside or outside) acquisition strategies.

Therefore, additional research is necessary to facilitate the development of LPEs. We think that the idea to restrict or do not create favourable conditions for LPEs due to unethical or illegal activities of some LPEs could be harmful and unbeneficial in social and economic aspects. Some of LPEs operate in *worse* competitive environment than HPEs: the latter usually get bigger (direct and indirect) governmental support.

Let us end this paper in such way: if a small business is “beautiful” (Schumacher, 1973), then, a low-performing business could be called “marvellous”, - how come that it exists, in spite of a lot of disadvantages, weaknesses, threats and bad opportunities?

Research limitations and implications: We analyse “an enterprise” functioning in a certain industry rather than “a firm” or “a corporation” having more than one enterprise and functioning in several industries. We do not take into account global competition, national diversities, different market dimensions, size of enterprises, etc. We speak about production and service enterprises, though, in some cases, without going into detail, we use the terms describing “manufacturing”. It allows us to maintain a rather abstract research level, without disclosing real facts, even though empirical data could give some additional validity to our research results.

Originality of paper: As far as we know, this is an initial attempt to analyse LPEs competitive advantages, disadvantages and strategies in a systematic way. The paper names and deals with two (relative) competitive advantages that, so far, have not been considered in management literature and are attributable to LPEs: lower alternative costs or lower “satisficing” objectives, and lower enterprise’ visibility. It also discloses and analyses new, ascribed to LPEs competitive strategies: imitate-and-disimprove, negative differentiation, and focusing on less attractive market segments.

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MAŽO REZULTATYVUMO ĮMONĖS: KONKURENCINIAI PRANAŠUMAI, TRŪKUMAI IR STRATEGIJOS

Zigmas Lydeka, Justas Kavaliauskas

SANTRAUKA

Straipsnyje yra teoriškai atskleisti mažo rezultatyvumo įmonių konkurenciniai pranašumai bei trūkumai, išanalizuoti, kokiomis konkurencinėmis strategijomis tokio tipo įmonės naudojasi ar turėtų naudotis. Straipsnyje atskleidžiamos ir analizuojamos mažo rezultatyvumo įmonėms priskirtinos konkurencinės strategijos; prie kelių jau nagrinėtų vadybos literatūroje strategijų papildomai priskiriamos tokios trys naujai įvardytos daugiau ar mažiau veiksmingos strategijos, kaip "imitacijos-bloginimo", "neigiamos diferenciacijos" ir "fokusavimo į mažiau patrauklius rinkos segmentus". Galiausiai, pateikiami tam tikri pasiūlymai tolimesniems tyrimams.

Reikia pastebėti, kad dydžio ar rezultatyvumo parametrų poveikio strategijų pasirinkimui atskyrimas būtų naudingas tiek mažo rezultatyvumo, tiek smulkių bei vidutinių įmonių veiklos tyrimams. Mūsų manymu, būtų vertinga išskirti atitinkamai keturis įmonių tipus pagal dydžio ir rezultatyvumo parametrus: smulki (arba vidutinė) mažo rezultatyvumo įmonė; stambi mažo rezultatyvumo įmonė; smulki (arba vidutinė) aukšto rezultatyvumo įmonė; stambi aukšto rezultatyvumo įmonė.

Šiame straipsnyje išskyrėme šešias mažo rezultatyvumo įmonėms būdingas konkurencines pozicionavimo strategijas: "žemų kainų"; "imitavimo-gerinimo"; "imitavimo-bloginimo"; "diferenciacijos"; "neigiamos diferenciacijos"; "fokusavimo į mažiau patrauklius (aukšto rezultatyvumo įmonėms) rinkos segmentus". Ko gero, "imitavimo-gerinimo" bei "diferencijavimo" strategijas mažo rezultatyvumo įmonės gali efektyviai naudoti, dažniausiai, tik tuomet, jei jos derinamos su "fokusavimo į mažiau patrauklius rinkos segmentus strategija".

Straipsnio autoriai savo tyrimu siekė pateikti savo teorinį supratimą apie įmonių rezultatyvumo bei konkurencinių pranašumų ir strategijų sąveiką. Tuo pačiu manome, kad straipsnyje pristatyti pamąstymai yra diskutuotini, reikalauja gilesnės argumentacijos bei papildymo empirinių tyrimų medžiaga.

REIKŠMINIAI ŽODŽIAI: efektyvumas, efektingumas, mažo rezultatyvumo įmonė, konkurenciniai pranašumai, konkuravimo strategija.