

# Enterprise strategy and competitive advantage

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## ABSTRACT

This paper delves into the intricate relationship between corporate strategy and competitive advantage. It elucidates the foundational theories of both concepts, explores the various influences shaping corporate strategies, and investigates the sources and drivers of sustained competitive advantage. Additionally, the study examines the issues prevalent in strategic management and underscores the importance of aligning corporate culture with strategy to foster a competitive edge. Through an analytical approach, the paper categorizes corporate strategy schools of thought by their perspective on competitive advantage and asserts that the core subject of corporate strategy theory is the attainment and maintenance of competitive advantage. The findings reveal that challenges in strategy formulation and execution, along with a disregard for the dynamic business context, often result in strategic shortcomings. The construction of a corporate culture that is deeply integrated with strategy is proposed as a key driver for continuous competitive advantage.

## KEYWORDS

Enterprise strategy; Competitive advantage.

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## 1. INTRODUCTION

The intricate tapestry of corporate strategy and competitive advantage serves as the cornerstone of organizational success. In this exploration, we begin by defining the concept of corporate strategy and identify the multifaceted factors influencing its development, including vision, external environment, and internal dynamics. We then dissect the anatomy of corporate strategy into its hierarchical components: corporate-level strategy, business unit strategy, and functional department strategy. Moving to the realm of competitive advantage, we discuss its definition, sources, and the forces that contribute to its sustainability. The nexus between corporate strategy and competitive advantage is scrutinized, demonstrating how strategic management schools of thought diverge based on their competitive advantage viewpoint. The paper further investigates the prevalent strategic management issues and posits the role of a robust corporate culture in propelling a firm towards its strategic objectives. This introduction sets the stage for a comprehensive analysis of how corporate strategy can be leveraged to secure and maintain a competitive edge in an ever-evolving business landscape.

## 2. BASIC THEORY OF CORPORATE STRATEGY

### 2.1. Concept of enterprise strategy

In a dynamic and complex business environment, for enterprises to achieve long-term survival and development, they need to formulate an overarching development strategy, which is the corporate strategy. That is to say, while ensuring the achievement of business objectives, enterprises should

identify the opportunities and challenges in the environment, clarify the scope of business operations, direction of growth, and competitive measures, adjust the corporate structure, and allocate resources to gain a certain competitive advantage.

## **2.2. Influencing factors of enterprise strategy**

As the overall and guiding plan for an enterprise, corporate strategy is characterized by its directive nature, comprehensiveness, long-term perspective, competitiveness, systematic approach, and inherent risks. It is influenced by the following factors:

### **2.2.1. Vision Planning**

Vision planning is the compass that guides a firm towards its future destination. A well-articulated vision provides a sense of purpose and direction, influencing the formulation of corporate strategy. It paints a clear picture of what the company aspires to become, often setting ambitious targets that challenge the organization to excel and innovate. A compelling vision aligns the organization's efforts, energizes stakeholders, and serves as a benchmark for measuring strategic success. As such, it is critical that the vision is forward-looking, reflecting the aspirations of the firm while remaining grounded in the realities of the market and the firm's capabilities. The vision must be communicated effectively throughout the organization to ensure that every member understands and integrates it into their daily activities and decision-making processes. The vision planning phase also involves setting the tone for the organizational culture, which plays a crucial role in strategy implementation.

### **2.2.2. External Environment**

The external environment is a pivotal factor affecting corporate strategy, encompassing economic, technological, political, legal, socio-cultural, and competitive elements. A comprehensive environmental scan, often referred to as a PESTEL analysis, helps firms to identify opportunities and threats outside their immediate control. Economic trends can dictate market growth or contraction, technological advancements can disrupt or create markets, political decisions can open up or restrict opportunities, legal frameworks can affect operational flexibility, socio-cultural shifts can influence consumer behavior, and competitive dynamics can dictate market positioning. The corporate strategy must be adaptable to external environmental changes, capitalizing on emerging opportunities while mitigating risks. The agility of a firm in responding to the external environment is often a key determinant of its ability to sustain a competitive advantage.

### **2.2.3. Internal Factors**

Internal factors relate to the resources and capabilities within an organization that can be harnessed to create value and achieve strategic objectives. These include tangible assets such as capital, equipment, and technology, as well as intangible assets such as brand equity, intellectual property, and corporate reputation. Human resources, with their skills, experiences, and motivation, are particularly vital to strategic success. Organizational structure and internal processes also play significant roles in strategy formulation and execution. Internal factors are evaluated through a SWOT analysis, which provides insights into the firm's competitive positioning and potential areas for growth and improvement. The corporate strategy must leverage the firm's inherent strengths while addressing its weaknesses. It should also align the organization's internal capabilities with external opportunities, creating a coherent approach to achieving a competitive edge.

## **2.3. Enterprise strategy level**

### **2.3.1. Corporate-Level Strategy**

Corporate-level strategy is the pinnacle of strategic decision-making and serves as the central framework for guiding an enterprise's overall direction. It is at this level that top executives determine the scope and allocation of resources across various lines of business to optimize the firm's market

position and financial performance. Key decisions regarding diversification, mergers and acquisitions, partnerships, and new market entries are made with the objective of enhancing shareholder value and securing long-term profitability. A well-formulated corporate-level strategy articulates the synergy between different business units, ensuring that the sum of these units is greater than its individual parts. It addresses questions such as "What business should we be in?" and "How can we capitalize on our corporate strengths to enter new markets or sectors?" Furthermore, corporate-level strategy must remain dynamic, allowing the organization to pivot in response to significant changes in the external environment, thereby safeguarding the enterprise's relevance and competitiveness.

### 2.3.2. Business Unit Strategy

Business unit strategy focuses on how a specific unit within the corporation can compete most effectively in its chosen market or industry. It is a middle ground between the overarching corporate strategy and the more granular functional strategies. Managers at this level must align their strategic initiatives with the broader corporate objectives while tailoring their approach to the unique dynamics of their specific market segment. This involves a deep understanding of the competitive landscape, customer needs, and the unit's unique value proposition. Strategic choices at this level might include targeting particular customer segments, differentiating products or services, cost leadership, or focusing on niche markets. Business unit strategy is about making trade-offs, deciding what not to do as much as deciding what to do. Success at this level is measured by the business unit's ability to deliver value to customers in a way that is distinct from competitors and contributes to the corporation's overall goals.

### 2.3.3. Functional Department Strategy

Functional department strategy is the most detailed level of strategic planning, involving the development of tactical plans for specific departments within a business unit, such as marketing, finance, human resources, or research and development. This level of strategy is concerned with how the different parts of the business can support the overall corporate and business unit strategies through effective operational execution. Functional strategies involve the utilization of resources and processes to improve efficiency, productivity, and departmental performance. They must be closely aligned with higher-level strategies to ensure a cohesive and coordinated effort towards the enterprise's strategic objectives. For example, the marketing department's strategy might focus on branding and market penetration tactics, while the finance department's strategy might prioritize capital structure optimization and cost control. By excelling in their specific roles, each functional department contributes to the competitive strength and efficiency of the business as a whole.

## 3. BASIC THEORY OF COMPETITIVE ADVANTAGE

### 3.1. Basic concepts of competitive advantage

The concept of competitive advantage first appeared in Eo Chamberlin's "The Theory of Monopolistic Competition," and was later introduced into the field of strategic management by Hofer & Schendel, among others, gradually becoming a hot topic of research in strategic management. Although there is no unified understanding of the concept of competitive advantage in academia, the basic connotation of competitive advantage is certain: a firm's competitive advantage is the capability or attribute that it possesses, which enables the firm to surpass its competitors in competition, thereby creating super-normal profits or obtaining a high level of profitability over a certain period.

### 3.2. Basic sources of competitive advantage

The explanations for the sources of competitive advantage for enterprises are mainly of two types: one focuses on the analysis of the external environment of the enterprise, known as the Exogenous Growth Theory of Competitive Advantage, and the other is based on the analysis of internal resources

and capabilities of the enterprise, known as the Endogenous Growth Theory of Competitive Advantage [1].

The Exogenous Growth Theory of Competitive Advantage posits that the modes of expansion, behavior, and boundaries of an enterprise are influenced by external environmental factors (such as legal environment, social culture, economic policies, etc.), and that the correct analysis of the external environment is the source of an enterprise's competitive advantage. On the other hand, the Endogenous Growth Theory of Competitive Advantage argues that the source of competitive advantage lies within an enterprise's internal resources and capabilities. The foundation and starting point of strategic choices are resources and capabilities, which affect the enterprise's scope of operations and competitive strategies.

### **3.3. Driving force of sustainable competitive advantage**

A company is a system or collection of capabilities, where capabilities determine a company's competitive advantage or performance. As the strategic resources, key competencies, and intellectual capital of a company, these capabilities influence business decision-making and innovation. It is generally believed that the ability to integrate resources, core competencies, innovation capabilities, and learning abilities are the driving forces behind a company's sustained competitive advantage.

## **4. THE RELATIONSHIP BETWEEN ENTERPRISE STRATEGY AND COMPETITIVE ADVANTAGE**

### **4.1. Categorization of Corporate Strategy Schools of Thought by Competitive Advantage Perspective**

Corporate strategy schools of thought can be categorized based on how they conceptualize competitive advantage. One school is the design school, which views strategy primarily as a process of conceptual design. This approach posits that competitive advantage arises from the deliberate positioning of the firm within its industry, based on a clear assessment of external opportunities and threats, coupled with internal strengths and weaknesses. Another perspective is offered by the positioning school, which follows Michael Porter's ideas on competitive strategy. According to this school, competitive advantage is achieved by positioning the firm within the five forces of industry structure so that it can defend against competitive forces better than its rivals. The focus is on cost leadership, differentiation, or focus strategies as the keys to competitive advantage. The resource-based school offers a contrast by focusing on the firm's internal capabilities. It argues that competitive advantage stems from unique resources and capabilities that are valuable, rare, inimitable, and non-substitutable. This view emphasizes the role of resource acquisition, development, and deployment in strategy formulation. The dynamic capabilities school extends the resource-based view by emphasizing the ability to modify and upgrade the firm's resource base to respond to changing environments. This school suggests that the competitive advantage lies in the firm's ability to adapt, integrate, and reconfigure internal and external competences to address rapidly changing environments. Finally, the institutional school considers the influence of culture, politics, and social networks on competitive advantage. This school believes that the firm's ability to align with institutional frameworks and norms can be a source of competitive advantage, particularly in environments where institutional forces are strong.

### **4.2. Corporate Strategy Theory as the Study of Competitive Advantage**

The core subject of corporate strategy theory is the attainment and maintenance of competitive advantage. This entails understanding the sources of competitive advantage and the mechanisms by which it can be sustained over time. Strategy theory examines how firms can create value that is not

easily replicated by competitors, thereby earning above-average returns. One aspect of this study involves analyzing the firm's external competitive environment to identify opportunities for differentiation or cost leadership. This includes investigating industry structure, market dynamics, and competitive behavior. Another aspect looks inward at the firm's unique combination of resources and capabilities to determine how they can be configured to create a sustainable competitive edge. The role of innovation in strategy theory cannot be overstated. Firms must innovate not only in products and services but also in processes and business models to stay ahead of competitors. Additionally, the theory considers the importance of strategic fit, ensuring that various strategies at different levels of the firm are coherent and reinforce each other. Lastly, competitive advantage is dynamic; what provides an edge today may not tomorrow. Corporate strategy theory thus involves the study of how firms can evolve and adapt their strategies over time in response to internal and external changes. This includes the role of learning and knowledge management within the firm, as well as how firms can reconfigure their resource base to maintain their competitive position.

## **5. PROBLEMS ARISING IN THE STRATEGIC MANAGEMENT OF ENTERPRISES**

### **5.1. Lack of Strategic Formulation and Execution Skills**

A common issue in corporate strategic management is the lack of necessary skills for both the formulation and execution of strategy. Many organizations struggle with developing clear, actionable strategies because they lack the expertise to analyze their internal and external environments effectively. This shortfall can lead to strategies that are either too vague or too complex to be implemented practically. Furthermore, even with a well-formulated strategy, execution can falter without the right skills. Execution requires a combination of leadership, project management, and change management abilities that are often underdeveloped. Leaders may be unable to rally their teams around the strategic vision, manage the allocation of resources efficiently, or adapt to unforeseen challenges during the implementation phase. This skills gap can result in strategic plans that never come to fruition, wasting time, resources, and opportunities for growth.

### **5.2. Strategizing Without Regard to Realities**

One significant challenge in corporate strategic management is the formulation of strategies without a realistic appraisal of the firm's capabilities and the market conditions. Managers sometimes fall prey to over-optimism or base their strategies on assumptions that do not hold true in the real world. This disconnect can lead to strategic objectives that are unattainable or misaligned with the company's operational realities and core competencies. Moreover, there is often a lack of consideration for the rapid pace of change in the external environment, including technological advancements, regulatory updates, and shifting consumer preferences. A strategy that does not account for these elements may become obsolete shortly after its implementation. Furthermore, companies may fail to recognize internal constraints such as budget limitations, talent shortages, or cultural barriers that can impede strategic initiatives. Another aspect of this problem is engaging in strategic planning with a narrow focus, ignoring the broader ecosystem in which the firm operates. This can result in a failure to anticipate competitive moves or to recognize potential disruptions from outside the industry. Companies may also misjudge their competitive position, either underestimating or overestimating their market power and influence, which can lead to inadequate or overly aggressive strategies. Strategizing without regard to realities can lead to misallocation of resources, disappointment among stakeholders, and can compromise the firm's long-term viability.

### **5.3. Overcomplication Hindering Innovation in Strategy Formulation**

In the realm of corporate strategic management, there is a tendency to overcomplicate the strategy formulation process. This overcomplication can take various forms, such as excessively detailed plans, overly complex frameworks, or the pursuit of too many initiatives simultaneously. While a comprehensive approach is beneficial, an overly intricate strategy can become unmanageable and difficult to communicate within the organization. This complexity can stifle innovation by creating paralysis through analysis, where the decision-making process is bogged down by the need to consider an overwhelming number of variables and scenarios. It can also lead to a lack of agility, as the company becomes too entrenched in executing a convoluted strategy to respond quickly to new opportunities or threats. Another issue is that complex strategies can be difficult for employees to understand and embrace. When the workforce is not fully engaged or does not comprehend the strategic direction, implementation can suffer, and the strategy's effectiveness is compromised. Furthermore, complex strategies can obscure accountability, making it challenging to pinpoint responsibility when things go awry. Additionally, the overemphasis on sophistication can cause firms to lose sight of the core principles of strategic management, such as clarity, focus, and alignment. When strategies become over-engineered, they can overshadow the fundamental drivers of competitive advantage and hinder a firm's ability to innovate effectively. The problem of overcomplication in strategy formulation can result in wasted resources, delays in execution, and missed opportunities for innovation [2].

## **6. CONSTRUCTION OF CORPORATE CULTURE BASED ON CORPORATE STRATEGY AND COMPETITIVE ADVANTAGE**

### **6.1. Establishing a Corporate Culture Aligned with Corporate Strategy**

The alignment of corporate culture with corporate strategy is essential for the seamless execution of strategic initiatives. A corporate culture that resonates with the strategic aspirations of an organization acts as a catalyst for change and a driver of strategic implementation. For a culture to be strategically aligned, it must encapsulate the organization's core values, attitudes, and behaviors that support and advance the strategic goals. To establish such a culture, leaders must first clearly communicate the enterprise's vision, mission, and strategic objectives to all members of the organization. This communication should delineate how every individual's role contributes to the larger strategic framework. Cultivating a shared understanding of the strategy fosters a sense of purpose and direction among employees. Strategic alignment also involves embedding strategic priorities into the cultural aspects of the organization, such as reward systems, recruitment practices, and professional development programs. For instance, if a company's strategy emphasizes innovation, its culture should encourage creativity, tolerate risk-taking, and celebrate novel ideas. Similarly, a strategy focused on customer service excellence should be reflected in a culture that values customer feedback and empowers employees to create positive customer experiences. Leaders play a pivotal role in modeling the behaviors and attitudes that reflect the strategic direction of the company. By living the values that support the strategy, leaders can inspire and influence their teams to adopt similar behaviors. Moreover, regular assessments of cultural alignment with strategy can help identify areas of disconnect that may require adjustments in either the strategic approach or cultural attributes [3].

### **6.2. Building a Corporate Culture that Drives Capabilities and Sustains Competitive Advantage**

A corporate culture that drives capabilities and sustains competitive advantage is one that is dynamic, embraces continuous learning, and fosters innovation. Such a culture not only supports a firm's current strategic position but also enables it to adapt to future challenges and opportunities. To

construct this type of culture, a company must focus on developing and nurturing the core competencies that differentiate it from competitors. This involves investing in employee development, facilitating knowledge sharing, and encouraging the pursuit of excellence. A learning-oriented culture that values the acquisition and dissemination of knowledge equips employees with the skills and insights needed to enhance capabilities and competitive positioning. Moreover, a culture that promotes innovation as a key value will encourage employees to challenge the status quo, experiment with new ideas, and explore new ways of doing business. This innovative mindset is crucial for maintaining a sustainable competitive advantage in markets characterized by rapid technological change and evolving consumer preferences. Collaboration and teamwork should also be emphasized in the cultural narrative of the organization. By fostering a collaborative environment, companies can harness the collective intelligence and diverse skills of their workforce, leading to more effective problem-solving and improved operational performance. In addition, a resilient culture is characterized by its ability to withstand and recover from setbacks. Cultivating resilience involves creating a supportive atmosphere where failure is viewed as a learning opportunity rather than a cause for punishment. This resilience is instrumental in sustaining a competitive advantage, as it enables the company to maintain progress and momentum even in the face of challenges [4].

### **6.3. Cultivating a Culture of Agility and Adaptability to Maintain Competitive Edge**

To maintain a competitive edge in an ever-changing market, companies must cultivate a culture of agility and adaptability. This cultural foundation enables a firm to pivot quickly in response to market shifts, technological advancements, and evolving customer needs. An agile culture is characterized by flexibility, responsiveness, and a willingness to embrace change. Fostering a culture that prizes agility involves encouraging a mindset of continuous improvement among employees. Staff should feel empowered to suggest and implement changes that can improve efficiency, productivity, or customer satisfaction. This requires flattening organizational structures to some extent, allowing for quicker decision-making and reducing the barriers to innovation. Leadership must also prioritize adaptability, demonstrating a readiness to question existing business models and strategies when external conditions change. This might mean realigning resources, altering processes, or even fundamentally changing products or services to meet new market demands. Leaders should set an example by adapting their own approaches and strategies and by recognizing and rewarding those who successfully navigate change. Investing in the right tools and technologies also plays a crucial role in supporting a culture of agility. Digital platforms that facilitate communication and collaboration can help teams adapt to new ways of working, especially in environments that demand rapid iteration and deployment. Moreover, embracing diversity and inclusivity within the workplace is essential. A diverse workforce brings a range of perspectives and ideas, which can be a powerful catalyst for innovation and adaptability. By valuing different viewpoints, companies can more effectively anticipate and respond to a variety of challenges and opportunities. Finally, a culture that thrives on agility and adaptability must be underpinned by trust. Employees need to trust that taking calculated risks won't be met with undue criticism, and managers must trust their teams to make decisions that align with strategic goals. This mutual trust creates a supportive environment where agility and adaptability can flourish, thereby maintaining the company's competitive edge in a dynamic business landscape.

## **7. CONCLUSION**

In conclusion, this paper has systematically dissected the symbiotic relationship between corporate strategy and competitive advantage. It has highlighted the imperative for businesses to craft strategies that are not only visionary but also responsive to both internal capabilities and external market conditions. The theoretical underpinnings of corporate strategy and competitive advantage have been explored to demonstrate how their fusion is critical to achieving long-term organizational success.

The discussion illuminated the common pitfalls in strategic planning and execution, emphasizing the necessity for skills development and realistic goal-setting. Moreover, the paper advocated for a corporate culture that is intertwined with strategic objectives, arguing that such a culture is instrumental in driving the firm's capabilities and sustaining its competitive advantage.

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