

Viability Advantage

Institutional Rooting of Competitive Advantage

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Mikko Kosonen

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Abstract

Hypercompetitive VUCA environment drives short-term actions in firms' quest for temporary competitive advantages. The Sustainability movement has become a welcome counterforce to VUCA initiatives forcing strategists to take social and ecological responsibility of the society in their strategic agenda while ensuring viability of their own organizations. The need for strategists is to balance competitive advantage issues with long-term viability issues. Using longitudinal data from many organizations, our study seeks to obtain an insight in the make-up of viability advantage which goes beyond sustained competitive advantage, both in durability and depth because of its institutional rooting. We also detail how public-private ecosystems can co-create robust springboards that facilitate breakthrough innovations, viable business models, and even new businesses facilitating viability even as they address sustainability challenges.

1. Introduction: The Evolving Competitive Landscape

In the early 1990s, Nokia's management was foresightful and saw opportunities arising from simultaneous deregulation and digitalization of telecom markets. They believed that Finnish telecom companies had qualities to grasp this opportunity; Nokia, together with the Finnish Innovation Agency Tekes, was able to convince political decision makers, civil servants and universities that investing proactively in mobile communication made sense. A shared vision of making Finland a leader in this emerging industry triggered synchronized action.

Growth and prosperity for Nokia – and Finland – followed almost until 2010. Against all odds, an unknown company from a small country was able to conquer the world by providing products and service to hundreds of millions. By 2007 Nokia Phone's global market share had reached an all-time high of 40.4%. Its smartphone share was 51%.

Nokia's impact extended beyond business. Nokia's vision of "Connecting People" provided a meaningful purpose not only for Nokia's personnel and partners but for hundreds of millions of people, especially in developing countries, who were able to jump quickly from a "no phone"-era to a highly advanced mobile communication one. It is not an exaggeration to say that mobile communications, facilitated considerably by Nokia, radically transformed the world.

Nokia's success would not have been possible without the "Triple-Helix" model (Etzkowitz & Leydesdorff, 2000) in which companies, universities and governments collaborate to achieve some superordinate objective. For Nokia it was to become a world leader in mobile telecommunications. Tekes played a crucial role, both in funding and facilitating collaboration between Nokia and leading technical universities. Nokia also collaborated with its main competitor, Sweden's Ericsson and governments of Finland and Sweden to develop the global system for mobile communication (GSM) which was instrumental in the rapid growth of mobile communication.

Following years of rapid growth, Nokia Phones became a victim of its own success opening up a fault line between a stringent focus on operational excellence, short-term performance, while limiting investments in smartphone operating systems and open application interfaces, elements essential for creating platform-based business models. This led to a rapid decline in Nokia Phone's dominant position. By 2010s Nokia Phones was no longer a relevant player in the fast-growing smart phone business (Doz & Wilson, 2018). Its sister organization Nokia Networks, which provided the necessary infrastructure for mobile communications continued to do well.

Despite Nokia Phone's decline, Finland's strengths as a lead market for digital mobile communications did not disappear. The advanced mobile communications technology, talent pool and high competency levels that Nokia and its partners had created continued to sustain Finland's position. Several successful start-ups arose from the telecommunication's "springboard" that Nokia and its partners had created.

The Nokia case raises interesting questions: How could an unknown company from a country of five million people become a world leader in the hypercompetitive mobile

communications industry? How could Nokia's leading position last for almost two decades despite facing intense global competition from American, European and Asian competitors? What derailed Nokia's competitive advantage? Was this due to its laser-sharp focus on operations coupled with a short-term orientation? Despite Nokia Phone's fall, what resources and competences that Nokia and its cohorts had developed sustained? *We seek to provide some lessons haunting behind these questions.*

Nokia's years of prosperity coincided with the growing impact of the sustainability movement. (Wunder, 2019). Widespread global concerns with sustainability changed the business landscape acting as a counterforce to emerging VUCA (Hicks & Townsend, 2002; Johansen, 2007). While VUCA environments drive short-termism as managers seek to obtain temporary competitive advantages, sustainability forces them to address longer term concerns. In tandem with the growing impact of sustainability movement firms started to find ways to improve their own competitiveness and financial performance by *doing good for the society*. By now, we have entered an era where social and ecological responsibility of the environment have become *major concerns for both societies and individual organizations* (Wunder, 2019).

We argue, today, that if an organization increases its focus on gaining and sustaining competitive advantage at the expense of addressing sustainability concerns its long-term viability could be threatened. The need of the hour, clearly, is to *balance competitive advantage issues with viability issues*.

2. Expanding Dimensions of Advantages

An advantage is defined as a) superiority of position or condition, or b) a factor or circumstance of benefit to its possessor (Meriam-Webster.com, 2024). In competitive environments firms, and increasingly other organizations, search for *competitive advantages* (CA), i.e. the ability to create and capture more value than their competitors. Two approaches for gaining competitive advantage prevail: a Porterian "outside-in" view with (quality) differentiation, focus or cost leadership as CA drivers (Porter, 1985), or an "inside-out" Resource-Based-View wherein competitive advantage is built on resources that are valuable, rare, inimitable (in the specific context) and the firm is organized to exploit these effectively and efficiently (Barney, 1991).

While competitive advantage is a necessary condition for long-term viability, it is insufficient particularly when firms confront business environments characterized by VUCA and increased competitive intensity. The challenge for managers in such environments is to regenerate competitive advantage. As if this were not arduous enough, managers must also deal with geopolitical changes, global pandemics and myriad other issues that create "grand challenges" with complex, deep-seated societal and economic implications (Klag & Langley, 2023; Hughes & Dundon, 2023) that threaten their viability. The ability to deal with such challenges better than their competitors creates viability advantage. *We define viability advantage (VA) as ensuring the long-term survival of the focal organization relative to other players operating contemporaneously.*

We are of the opinion that viability advantage is rooted in *institutional advantage (IA)*, viz. the ability of an organization to exploit its distinctive resources and capabilities in interactions with its institutional environment to generate value greater than

contemporaneous players (Martin, 2014). Organizations that are capable of developing and maintaining synergistic interactions between CA and IA are best suited in creating viability advantage. This interaction is necessary but not sufficient precondition to VA.

Our study seeks to obtain a better understanding and insight in the make-up of viability advantage.

3. The Study

Our study seeking to understand the relationship between competitive advantage and longer term viability was motivated by Nokia Phone's rise and fall. The success of Nokia made us wonder whether close collaboration with public stakeholders, ie. institutional rooting of competitive advantage, could produce longer term, sustained advantages. Lessons learned from public-private partnerships pinpointed our preliminary thrust that the role of institutional actors is essential as active contributors in creating and sustaining VA (Kosonen & Santalainen, 2022; Baliga & Santalainen, 2016).

The approach of our study resembles grounded theory research (Yancey-Martin & Turner, 1986; Strauss & Corbin, 1994) and an action research process involving action, evaluation, sparring and reflection (Coghlan, 2019; Birks & Mills, 2015). We created a conceptual frame from data collected through our experiences as strategy researchers, senior practitioners and strategy consultants over a period more than 25 years, from mid-1990's until today.

Two of the authors acting as practitioners collected qualitative data on organizational strategies and performance from organizations in telecommunication, innovation entities, retailing and financial services. Over the years, we recorded our observations in idea memos. We then analyzed the data, reviewed and tested our provisional ideas with other strategy and organization development practitioners and detailed our thinking and findings in working papers, presentations, book chapters and two books. This process turned out to be an insightful "ABC learning journey" (Ralph et al., 2015; Charmaz, 2014).

The questions that consistently arose were:

- 1) What underlies the creation and erosion of competitive advantages?
- 2) How do companies create sustainable growth?
- 3) How do firms ensure their viability over extended period of time even as their business environment becomes ever more challenging?

We observed that deregulation of industries generally led to hypercompetition as firms sought to position themselves for competitive advantage. Often, consistent with the position articulated by D'Aveni et al. (2010), this led to managerial behavior with a short-term focus as firms sought to build up a series of temporary advantages. If they were able to achieve competitive advantage, they were confronted with the challenge of ensuring their long-term viability.

Mutual sparring between the authors was invaluable in clarifying critical themes and categorizing ideas on why and how competitive advantages unfolded toward viability advantage (Giudici et al., 2018). During the period from 2015 to 2024 we also created sub-concepts that succinctly summarized ideas behind viability advantage. *This process brought us to where we are today: ready to elaborate the refined concept of viability advantage.*

4. The Make-Up of Viability Advantage

Evaluation of our data suggested that Viability Advantage (VA) extends beyond sustained competitive advantage, because it is rooted in the institutional context whereas CA is embedded in the hectic competitive environment. CA provides the necessary resources for VA, and VA, in turn, ensures that organizations live to compete in the future. Given this, the relative emphasis on CA or VA must vary over time though either one can be ignored only at great peril. Managers need to be sensitive to and capable of switching focus between the two appropriately.

Nokia Phones provides an example of the failing oscillation between CA and VA. It succeeded, initially, in building viability advantage through deep collaboration with its ecosystem partners which in turn facilitated its competitive advantage in the global mobile telecommunications business. It lost its viability advantage when it shifted its focus primarily toward operational excellence in pursuit of short-term competitive advantages. Despite world-class logistics and operational processes, this shift led to gradual deterioration of VA as Nokia Phones, failing to see industry evolution, failed to create a position in the software driven applications markets that was now the center of gravity of the industry.

While the process of creating competitive advantage is relatively well established, creating viability advantage calls for a different approach as the organization has to establish legitimacy for its continued functioning. Our data analyses appeared to suggest that this is best created through mission-driven collaborative *development process* that we call “*spin-for-the-good*”. “Good” here refers to goals and objectives that go beyond conventional profit maximization and address broader societal concerns such as sustainability and quality of life. The United Nation’s ESG (environmental, social and governance)-framework provides an excellent reference for “good” (United Nations, 2024). These three factors are seen as best embodying the major challenges currently facing corporations and society-at-large, e.g., climate change, human rights and adherence to laws. Organization leaders who recognize and address these opportunities successfully with their ecosystem partners can gain viability advantage that positions their organizations for long-term viability.

Developing and maintaining viability advantage can be regarded as a staged innovation process. Creation of VA, ie. *spin-for-the-good*, necessitates thinking and acting at the meso-level while maintaining VA, *spin-of-the-good*, requires timely oscillation between VA and CA at the organizational level (Hoehn, 2021; Plakshappa et al., 2023).

Van Rijn defines *meso* as *the transactional level between micro(firm/organization)- and macro(contextual)-level* (van Rijn, 2021). Bridging the micro-level organizations with the macro-level institutional context happens through synergistic transactional processes between the players involved, generally between firms, public institutions, universities and development agencies (Durand, 2012). Institutional actors not only shape the playing field of enterprises through policies, regulations and norms (Dopher et al, 2004), but also affect the resources and capabilities that firms can acquire (Collewaert et al., 2021), i.e. they have the ability to affect both competitive and viability advantages. Institutional rooting of firms can also take place by “doing good” by addressing sustainability challenges.

The make-up of viability advantage can be configured as follows:

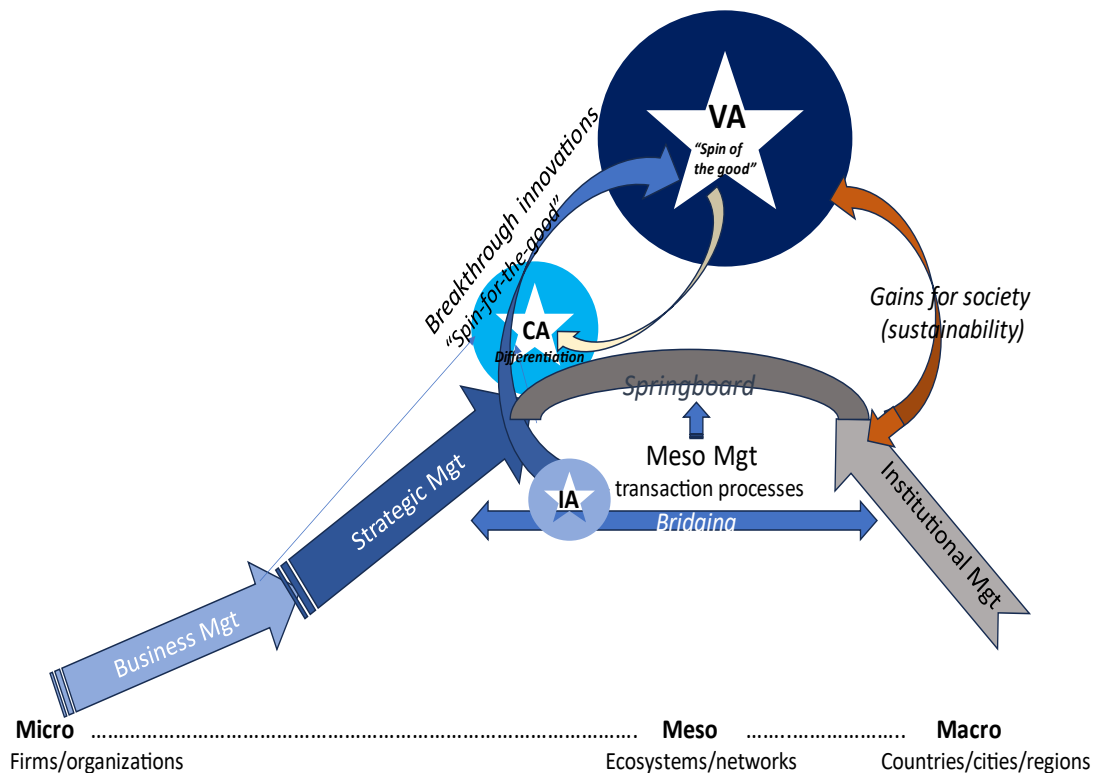


Figure 1: The make-up of viability advantage

Organizations/firms that aim at developing and maintaining viability advantage must possess a variety of essential managerial competencies (Teulings, 1985; Baliga & Santalainen, 2016). They need excellent strategic and business management skills for CA and exceptional institutional management skills for creating IA. CA and IA, again, are precursors to VA.

Unlike CA and IA, viability advantage cannot be developed by a single organization alone. The process of developing VA requires always a Triple Helix innovation (Etzkowitz, 2008) model bringing together key public and private sector stakeholders for creating a new market and respective solutions like Nokia and Finland in the early 1990's. Governments in this process provide necessary resources such as incentives, regulation, mission statements, funding and facilitation whereas cities can provide "living laboratories" for piloting new solutions in real life environment. Private sector companies not only deliver solutions in a profitable and sustainable manner but also contribute to improving the institutional environment.

At best, the new market co-created builds a robust *springboard* both for existing firms and newcomers, who can *launch breakthrough innovations from this springboard*. This was elaborated by the Finnish mobile communications springboard developed by Nokia together with its ecosystem partners. This springboard provided viability advantage for Nokia for almost two decades and enabled multiple other firms after Nokia's demise to launch new breakthrough innovations.

Participating companies in a public-private ecosystem who are able to cocreate a new market or industry ensure that their offerings are viable in two ways. First, they are

sustainable in terms of societal expectations because they are rooted in the institutional context. Second, their advantages are likely to be more durable because they are hard to imitate by firms that have not invested resources in creating institutional advantage. Hence, *firms participating in the ecosystem have the potential for developing both viability advantage and competitive advantage*. An additional benefit is that *sustainability of communities, cities, regions and nations also becomes stronger*.

The difference in our position relative to Porter's seminal work on "the national diamond" (Porter, 1998) is that Porter focuses on the setting but in our conceptualization, *through meso-management firms, public organizations and other ecosystem members involved not only provide a setting but also take an active role as contributors creating springboards and enabling creation of VA for the focal firms involved*.

An important role for governments in this regard is to *provide a compelling mission* which leverages the strengths of the country to build appropriate springboards (Mazzucato, 2021). In order to be successful, the ecosystem, in turn, needs to create a shared mission or vision aligning the interests of public and private sector participants. This requires tight, coordinated collaboration between key stakeholders (Mazzucato, 2018; DeMeyer & Williamsson, 2020).

Effective ecosystems need *orchestrators*. This role is typically taken by the company having the suitable resources and capabilities to play this role (Iansiti & Levien, 2004). Responsibility for this role can also change over time as the new solution matures. In order to grow and sustain the springboard, it is essential that orchestrators yield their role to other members who are more capable of driving value at that point in time.

5. In Search of Viability Advantage in Practice: An Elaboration

Fostering sustainability by creating a circular economy provides numerous opportunities for start-ups. This is particularly true for startups in Europe and the US where this push is probably the strongest. We tested the applicability of our viability advantage conceptualization to this arena.

The textile industry is facing huge sustainability challenges. The volume of global textile production has almost doubled in 15 years, and the consumption of clothing and footwear is expected to increase by 63% to 102 million tons by 2030. Sustainability requires deep changes to the current linear business model in which textile products are designed, produced, used and discarded.

The European Union Textile Strategy 2022 which focuses on the circular economy offers multiple opportunities. Finland sought to take advantage of the opportunities provided by leveraging its knowhow of circular economy derived from being a trailblazer in this area. Finland's vision was to be the Global Leader in the Textile Circular Economy. In pursuit of this, the Finnish Innovation Fund, Sitra, identified Kemi Industrial Park, with its heavy industry concentration, as an ideal springboard for piloting the textile circular economy. The city was also willing to support piloting via its development company Digipolis.

Subsequently, Sitra, Digipolis, the city and the Lapland University of Applied Sciences joined hands to create the springboard. Specifically, they encouraged companies in the area to join in creating a public-private ecosystem for piloting waste

reuse and increasing energy efficiency. Multiple companies made investments in resource re-use and waste management. Active collaboration between firms and various public organizations involved has resulted in major savings for the participating firms improving their global competitive advantage. An increase in collective circular economy capabilities provides them with a potential of creating viability advantage.

The attractiveness of the Kemi Industrial Park springboard was recently highlighted by Infinite Fiber's (IFB) decision to invest EUR 400 million in a new factory turning textile waste into premium textile fiber. This new plant is designed to produce 30.000 tons of textile fiber (equivalent to 100 million T-shirts) by 2026. Its competitive advantage is already demonstrated by the fact that its order book is already full even though the plant is yet to commence operations. Patagonia, H&M, Inditex and Bestseller are among key clients. Adidas and Zalando have also made notable financial investments in IFB. Clearly, IFB has demonstrated viability and is well on its way to creating viability advantage.

In our judgment, the key to success of this springboard was the meso-level collaboration which required foresight, courage to invest and synchronized collaboration between public and private sector actors. It also required regulatory changes, new technologies provided by companies, universities and innovation agencies, and an industrial symbiosis between buyers and sellers. Sitra acted as key orchestrator: it facilitated viability through coordinated meso level transaction processes that enabled the diverse set of businesses to be rooted in the institutional environment.

Another lesson learned was that active involvement of large companies is necessary for scaling the business globally. While a country or region can pass appropriate legislation and provide investments to create the necessary infrastructure, it cannot succeed if it fails to attract companies capable of leveraging a robust springboard.

6. Conclusions

Our conceptualization of viability advantage aims at stretching the concept of sustained competitive advantage. Competitive advantage is a necessary but not sufficient precursor for viability in practice, because developing the needed temporary competitive advantages necessitated by VUCA creates major challenges for organizational strategists (D'Aveni et al., 2010; Gunther McGrath, 2013). The "correctness" of the transient strategic thrusts they generate is difficult to ascertain (Snowden & Boone, 2007). If the selected solution proves inadequate, decision-makers must be willing to generate alternative solutions in an iterative manner (George, 2017). As a result, only short-term advantages can be created.

We assert that viability advantage goes beyond sustained competitive advantage both in durability and depth because of VA's dynamic institutional rooting (Kosonen & Santalainen, 2022; Santalainen, 2019). Institutional rooting via creation of IA, together with CA lead to viability advantage. Institutional members of VA-ecosystems not only offer "the playing field" – such as infrastructure, labor, domestic demand conditions, domestic rivalry, supporting industries – for businesses as suggested by Porter in his "Diamond of Model" (Porter, 1990), but they are also actively contributing members.

In sum, *viability and viability advantage is demonstrated at the firm/organization level. Sustainability is a broader macro-level benefit which stands for creating a sustainable future for society.*

Even though viability advantage actualizes at the organizational level it is best developed in ecosystems at the meso level. Adopting a meso management perspective reveals opportunities between micro and macro levels that help position the organization for long term viability. For business strategists this requires a change in orientation, sensitivity to societal concerns and a willingness to address these as part of their ongoing operations. Capable meso-management facilitates synergistic interactions between strategic and institutional management processes. Process nature of viability advantage produces dynamism needed for upkeeping long-term resilience and durability.

Senior leadership and other strategists cannot stand apart from society. Societal issues have to be addressed in order to ensure long term viability (Baliga & Santalainen, 2016; Kosonen & Santalainen, 2022). The primary recommendation for practitioners is to encourage them to scan for opportunities for creating spins-for-the-good and become active contributors in ecosystems that foster a healthy sustainable society.

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