establish already existing distinctive competences rather than to create new ones, which requires a longer time span. Constantly highlighting that business strategy is successful if more than one thing is done properly in a company, Michael Porter (1996) suggests a series of actions for achieving certain competitive advantages: (a) First, the company needs to create a unique competitive position; (b) second, all activities should be adapted to business strategy; (c) third, clear balance and choice compared with competition; (d) fourth, competitive advantages are rooted in the coordination of activities; (e) fifth, sustainability of competitive advantage is the result of having a set of activities; (f) sixth, operational effectiveness is a default category. That is the reason why Michael Porter (2006) argues that strategic positioning is not narrowing everything down to the question of *what shall be done, but rather a selection of things that will not be done*. A designed sustainable competitive advantage which is the heart, basis, base and driving force of business strategy is a company tool for ensuring above the average profitability – profitability above industry average.

Economic and social benefits

Michael Porter and Mark Kramer (1999) argue that a company needs to be socially responsible when generating above the average profitability by ensuring that it is possible to find convergence (approximation) between purely economic and purely social benefits. That hypothesis[3] is presented in Figure 3.3. Porter and Kramer believe that convergence is meaningful if it can meet the following two conditions: (1) It is a part of common good; and (2) it is a part of the competitive context. They highlight that social responsibility should not be discussed generally, but rather in a way suitable for the business strategy of a company.

A closer connection between social issues and company[4] operations means a higher possibility for the organisation to use its resources for useful social purposes. A transformation of activities in the value chain is suggested to make it useful for society and simultaneously reinforce the business strategy of the company. The believe that philanthropy which reinforces the ability of a company to enhance competitive conditions in the environment is useful. Integrating economic and social benefit require more than just good intentions (Milisavljević, 2014).

Creating a certain level of convergence has a double effect on the corporation: (1) It creates added social value; and (2) it reinforces the acquired competitive advantage. The authors believe that a meticulous analysis can locate areas which are embedded with pure economic and pure social benefits. Namely, without competitive advantage, a company will fall into below the average profitability which usually leads to the exhaustion of the company and its liquidation. Stronger competitive advantage leads to above the average profitability.

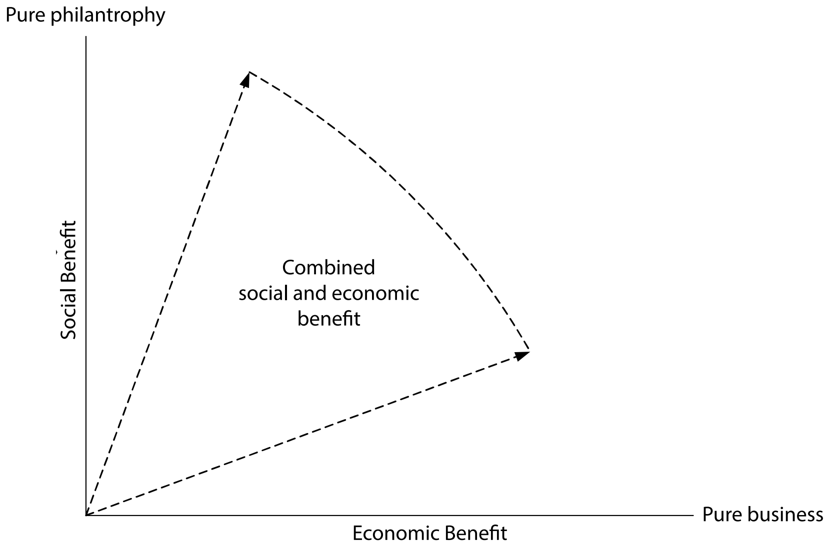

Figure 3.3 The relationship between economic and social benefit.

Source: Porter and Kramer (2002:5).

Profitability is an indicator measuring variables which can be classified into the following three categories:

1 Market conditions, such as *market growth rate, customer behaviour, distribution channels used and similar.*
2 Competitive position, such as *the scale of market share, the level of vertical integration, certain expenses of quality and similar.*
3 Business strategy such as *the price formation method, the costs of creating innovations, the way of determining competitors and similar.*

Hence, profitability depends on three variables: Market conditions, competitive position and business strategy. Many theoretical and practical ways of measuring the level of achieved profitability have been devised up to this day.[5]

However, it seems that the concept of economic value added (EVA) is most frequently used for such purpose. According to Charles Hill and Gareth Jones (Hill and Jones, 1998), the EVA concept consists of the following elements: (1) The estimated product value by the buyer (V); (2) product sale price by the company (P); and (3) production cost (C). The difference between V and P is called customer surplus, whereas the difference between P and C represents company profitability. The corporation is profitable as long as P is higher than C, although when working in an environment with stronger competition, the pressure on the sale price of the product by the company is higher in terms of reducing the price resulting in an increase of customer surplus (Figure 3.4).

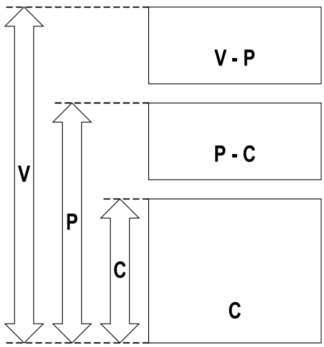

Figure 3.4 Creating economic added value.

Source: Adapted from Hill and Jones (1998:112).

The difference between V and C represents value created by the organisation, in the sense that a organisation uses its value chain, i.e. input logistics, operations and output logistics to convert inputs (input conversion leads to production cost – C) into outputs evaluated by customers at the V level. The company can create higher value either by lower production cost (C) or by distinctive features of products (V) with an expressed readiness of the buyers to pay a higher price for a product perceived in such a way. Following the aforementioned principle, the organisation, creates higher profitability by creating higher real value (V-C) compared to its competitors. Logically speaking, higher created values open up more space for a higher profit margin (P-C) as explicit profitability.

Considering the given context, Michael Porter (1985) states that it can be concluded that the concept of value creation truly lies at the heart of competitive advantage, in the sense that competitive advantage represents the basic tool for a company for generating created value (V-C). Michael Porter[6] believes that the best indicator of Return on Investment Capital (ROIC) is the one *measuring profit in relation to invested capital (operational expenses and total capital)*. It is the only indicator measuring the diversity in competition character: (a) Creating values for buyers; (b) the relationship with the competition; and (c) productive use of resources. ROIC integrates all of these three dimensions. It explains how a company utilises its resources. If it uses its resources in an appropriate way, it can cope with its competitors in a sustainable way. A company can permanently please its customers only if it realises the ROIC. Following such logic, i.e. the fact that created value (V-C) can be increased in two ways only by low production cost (C) or by differentiation of product features (V), Michael Porter differentiates two basic types of competitive advantage[7]:

1 Low production cost in tandem with acceptable quality create an advantage over competitors who cannot offer the same to their buyers

due to high cost of product production. Buyers will accept such an offer and buy more, increasing the producer's profitability in turn;
2 Differentiation of products based on creating product added values which often lead to higher price, but lead to higher quality too, which is often brand protected by the producer.

All the differences in companies in terms of cost or price originate from hundreds of activities needed to design, produce, sell and deliver their products or services such as customer service, final product installation or employee training. Conducting activities creates expenses, and cost advantage is created by conducting certain activities better than the competition. Hence, activities are the basic units of competitive advantage. The scale of competitive advantage is the difference between economic added value, possibly created by the ability of a company and economic added value created by the competitors' abilities. A successful company must be completely different from its competitors. Hence, company which excel at reducing expenses and differentiation create sustainable competitive advantage which is hard to reach by other competitors, especially in a short time span, as represented in Figure 3.5.

The concept of building competitive strategy is very subtle. Competitive advantage is created in a short period of time, but it also erodes quickly.

Competitive advantage is present when a company has a better position in terms of costs than its competitors, or it is embedded with an uniqueness sought after by the buyers (Tipurić, 2014).

Competitive advantage means producing an item at lower cost than your competitors or offering a product more valued by buyers than the product of the competitors. The sustainability of competitive advantage depends on several factors, some of the key ones include the following:

1 Property disposition – one of the fundamental factors determining sustainable competitive advantage. A company basing its competitive advantage on e.g. quality needs to have modern technology and educated employees at its disposal to achieve real competence for reaching high quality.
2 Information disposition – it is not enough just to have property at your disposal if the customers do not recognise the value of the product. Hence, a market research is needed to precisely determine the key preferences of customers, their expectations and needs which are not met appropriately.
3 Competition disposition – a company needs to analyse and determine the level of confrontation with competition in such a way that it brings forth benefits. The company can sometimes use the recognised weaknesses of its competitors to its advantage if it reacts quickly and seizes the opportunity by all means. The company undergoes several periods in the process of reaching sustainable competitive advantage.