

Differentiation vs. Legitimacy

Prompt: Deephouse ('To be different, or the same? It's a question (and theory) of strategic balance', (1999) recommends that firms should be as different as legitimately possible. Explain what Deephouse means by this recommendation.

In his article on strategic balance, author David Deephouse offers a solution to the dilemma of whether firms striving to acquire a competitive advantage should aim to be similar or different from their competitors. His solution is that organizations should maintain a balance of organizational isomorphism and differentiation. He explains this balance when he states that "firms seeking competitive advantage should be as different as legitimately possible," (Deephouse, 148).

In order to understand what Deephouse means by this, I will first discuss how he addresses the importance of being different for a competitive advantage. One of Deephouse's primary arguments for differentiation among organizations is that there is less competition for resources, or "ceteris paribus" (150). Essentially, if a firm is in a market where they are differentiated, the firm enjoys higher performance and a less limited market. Furthermore, Deephouse makes note of Porter's notion that imitation cannot position a firm for sustained competitive advantage and will moreover lead to "mediocre performance" (151). Deephouse also addresses strategist Jay Barney's point that underlying successful firms are resources that are rare, valuable, nonsubstitutable, and inimitable (Deephouse, 151). To conclude his point on the importance of being different, Deephouse reiterates the importance of being a first mover such that other firms have difficulty imitating your strategic advantage. He draws from Lieberman and Montgomery when he notes the advantages of how being an initial differentiator allows firms to build barriers to imitation thereafter such as "brand loyalty, switching costs, causal ambiguity, scale economies, and preemption of strategic assets," (Deephouse, 151).

On the other hand, Deephouse acknowledges the importance of organizational similarities for the purpose of building legitimacy. During the process of differentiation firms may reject conventional practices that lead to "legitimacy challenges" that "diminish the ability of a firm to acquire resources

from potential exchange partners in the organizational field,” (Deephouse, 152). Legitimate firms, however, do not face these challenges for two reasons. First, a firm that is similar to others in its field maintains a strategy that is “cognitively legitimated” because it is aligned with the “cognitive consensus or industry recipe,” (Deephouse, 152). Second, a firm that tends toward isomorphism maintains a strategy that is “normatively, sociopolitically, or regulatively legitimated” wherein members of the organizational field endorse it (Deephouse, 152).

In sum, Deephouse reconciles the competing viewpoints of whether firms should be different or similar with the notion that they should differentiate to achieve a competitive advantage but only as legitimately as possible such that they maintain legitimacy of cognitive consensus and endorsement from the field.

Works Cited

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