

# The Convergence of Financing Decision, Business Strategy Through Organisational Competitiveness to Sustainable Competitive Advantage: A Conceptual Analysis

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## Abstract

The wrong financial decisions can cripple a sound business strategy; thus, an organisation's business strategy and financial decisions must work in tandem and effectively to achieve value and competitive advantage to exploit the inconsistencies in the market it operates. Hence, financial decisions and business strategy are crucial to attaining organisational competitiveness leading to sustainable competitive advantage. Therefore, using the literature review method, this conceptual paper examined the roles of financial decisions and business strategy in achieving organisational competitiveness and impacting on sustainable competitive advantage. Further, the article recommends research propositions based on empirical examination of the relationship and impact of financial decisions and strategy on organisational competitiveness and sustainable competitive advantage.

**Keywords:** financial decision, business strategy, organisational competitiveness, sustainable competitive advantage

## 1. Introduction

In recent years, organisations have been increasingly mindful of the growing importance of competition. Globalization and international competition are progressively altering the way businesses used to function decades ago. Organisations are now adjusting their strategy to keep up with the new business trend. Due to the relevance of creating this construct for survival in a changing environment with intense competition, scholars and practitioners have focused on it. Competitiveness at the organisational level is critical for practitioners to generate and develop talents, ensure optimal resource performance, and control elements that influence market results (Mwanzi, Wamitu, & Kiama, 2017). Competitiveness refers to an organisation's business or a government's ability to run, sustain, advance, and function under the assumption of efficiency and effectiveness to outperform the competition (Khamis & Wan, 2021).

Thus, superiority over rivals and other market competitors refers to competitiveness (Liu & Atuahene-Gima, 2018). However, today's organizations must compete with global strategy following competition worldwide (Peng, 2021). According to Appelbaum et al. (2017), globalisation, faster environmental change, increased competitiveness, and complex customer requirements are all factors that organisations must contend with today. Constant change, rivalry, and an open market enhance competitive pressure around all industry participants, introducing notions such as innovation, adaptability, and differentiation from competitors. Competition, however, occurs when numerous organisations compete to meet the same need for profit (Afuah, 2020).

Another aspect of competitiveness is an organization's ability to act and respond in a competitive environment, which necessitates financial strength to make necessary technological expenditures (Watermeyer & Olssen, 2016). As a result, organisations will have to undergo a continual change process to strengthen their market positioning and maximize their profit potential. According to Románova and Kudinska (2016), competitive organisations deal with variables that enable the creation of goods or services, better or cheaper than their competitors. Burtonshaw-Gunn (2017) contends that gaining a competitive advantage is a prerequisite for considerable achievement. Many elements that contribute to failure can be controlled appropriately with strategies and financial decisions that drive growth and organizational objectives (Hillson & Murray-Webster, 2017), demonstrating the relevance of financial decisions in organizational competitiveness.

Furthermore, Investment, financing, and dividend decisions together form the financial decisions that improve an organization's competitiveness (Svatošová, 2017). Similarly, strategy is also critical to an organization's competitiveness since it helps define the direction the organisation wishes to move and how it will get there (Chang, 2016). As a result, an organization's competitiveness is determined by its strategy and implementation. (Baumgartner & Rauter, 2017). Few papers have discussed financial decisions and business strategy together.

This article attempts to conceptually explore and demonstrate how financial decisions and business strategy relate to one another and their role in achieving sustainable competitive advantage through a proposed conceptual model. We, therefore, argue that by embarking on the right financial decisions for the organization coupled with the appropriate growth-oriented strategy, an organisation will be able to compete to achieve a sustained competitive advantage in the long run. This paper, therefore, highlights the review of literature on the concept of financial decisions, strategy, and organisational competitiveness and presents a conceptual framework along with propositions.

## **2. The Concept of Financial Decision**

Financial decisions determine an organisation's financial fortunes and optimise shareholders' wealth (Zietlow et al., 2018). They are the decisions managers make on an organisation's finances and represent critical decisions for its financial well-being. According to Graham et al. (2020), financial decisions are the backbone of every organization's success, and the primary purpose of financial decisions is to maximize shareholder value. Wheelen et al. (2017) emphasised that financial decisions are methods for achieving and maintaining business competitiveness and positioning an organisation as a world-class organization. They indicate the objectives, patterns, or options for improving and optimizing financial management to fulfill business objectives (Nagle & Müller, 2017).

The theory of financial decisions defines how an organization's management should make financial decisions to maximize its owners' worth. Financial decisions are typically divided into investment decisions, financing decisions, and dividend decisions. Two significant schools of thought have evolved on the interaction between these three sorts of decisions and their impact on a firm's value, according to Massa, Tucci, and Afuah (2017).

One school of thought, known as the perfect market school, contends that in the absence of corporate income taxes, investment decisions are made independently of financing decisions, and dividends are irrelevant (Tahir & Mushtaq, 2016). On the other hand, according to Kostyuk et al. (2018), the traditional school contends that investment, finance, and dividend decisions are all intertwined and that all three impact the firm's value. Seru and Sufi (2021) similarly hold that an organisation's financial decisions are classified as investment, financing, and dividend.

### **2.1 Investment Decision**

Investment decisions are financial commitments that usually last for several years with long-term consequences such as returns, risk, uncertainty, and the time value of money (Brigham & Houston, 2021). According to Bapna (2019), investment decisions are the decisions made by the investor concerning the proportion of funds that will be deployed into investment opportunities. It is, however, concerned with whether adding to capital assets today will increase tomorrow's revenues to cover the cost. (Shapiro & Hanouna, 2019). He and Kyaw (2018) argue that they are decisions to commit the organisation's funds to long-term assets. An organisation's investment decisions are reflected in the type of assets the organisation invests in, as seen in the asset section of the financial statement (Palepu et al., 2020).

Investment, according to Bodie and Kane (2020), is classified as real or financial investments. Real investment generally involves a particular type of tangible assets such as land and machinery, whereas financial investments include paper and electronic contracts such as stocks, bonds, and debts (Tripathy, 2021). Investment decisions are essential to the organisation since they determine its value by influencing profitability and risk (Menicucci & Paolucci, 2016).

According to Bodie and Kana (2020), these decisions are defined as capital budgeting. Burtonshaw-Gunn (2017) on the other hand, argues that an organisation's investment decisions would generally include expansion, acquisition, modernization, and replacement of the long-term assets. Lee et al. (2018) similarly stressed that notable corporate investment decisions include a replacement, expansion, product improvement, cost reduction, and new ventures. However, investment decisions have a significant direct impact on corporate value (Sajid, Mahmood, & Sabir, 2016). By implication, the right investment decision will improve the corporate value of an organization (Seru & Sufi, 2021).

## 2.2 Financing Decision

Financing decisions are concerned with determining funding sources needed to finance investment (Eka, 2018). It is the process of obtaining funds to meet a firm's long-term investment requirement (Smith et al., 2020). According to Eka et al. (2018), financing decisions relate to the financing –mix of an organization. As such, it is concerned with borrowing and the allocation of funds required for investment decisions. On the other hand, it is the process of deciding the source, use, and measures to control the funds in any business to gain maximum advantage for the organisation (Frazer, 2016). In line with sources of capital, Faff (2016) argues that Organisations require different forms of capital at different stages of their life cycle. As such, financial resources can be classified into internal sources and external sources. Zuhroh (2019) emphasised that while the internal sources of funding come from the organisational operational results, external sources are generated from outside the organisation, such as debts and the issuance of new shares.

Pilbeam (2018), on the other hand, argues that internal sources of funding are cheap and can range from retained profit and sale of existing assets. Conversely, regarding corporate organisations, Baker (2020) emphasised that external sources can range from shares, long-term bank loans, trade credit, and factoring. Moreover, choosing the method of financing is not an easy decision, even though there is no general standard. Robinson (2020) argues that every company has to analyse the suitable method for creating a proper mix between self-financing and external financing. Hence, the analysis requires a very sophisticated financial method that allows the creation of some financial projections under different scenarios (Hassani & Hassani, 2016).

## 2.3 Dividend Decision

Dividend decisions are concerned with the level of profits to be distributed among shareholders. It is the decision-making mechanism of the management to declare dividends. According to Ahmad and Muqaddas (2016), a dividend is one of the crucial decisions made by the finance manager relating to payouts to the shareholders. Similarly, dividend decisions are the distributions of a portion of a company's earnings decided by the board of directors (Yusof & Ismail, 2016).

According to Yusof and Ismail (2016), dividend decisions can be characterised primarily as forecasting problems. The objective is to select the highest sustainable level of dividends consistent with an optimal investment programme and avoid external equity or excessive debt financing. Secondly, as part of the decisions by the board of directors, Marks (2017) argues that a more appropriate dividend policy will be to save funds in surplus years in anticipation of future deficits. Ultimately, an optimal dividend decision is when shareholders' wealth increases with the increase in the value of shares of the company (Yusof & Ismail, 2016). The payment of dividends by an organisation creates a signaling effect in the market.

## 3. Underlying Theories of Financial Decisions

The pecking order theory, first proposed by Donaldson (1961) and later modified by Myers and Majluf (1984), is concerned with a corporation's financing decisions. When it comes to funding sources, managers, according to the theory, follow a hierarchy. The pecking order hypothesis is motivated by the concept of asymmetric information, which results in an imbalance of transaction power. Creditors (debt holders) and investors are external users who typically have more information about a company's performance, prospects, risk, and future outlook than company managers. Therefore, external information users demand a higher return to compensate for their risk and information asymmetry. As opposed to external financing, internal financing is the cheapest and convenient source of financing.

The next underlying theory is the Miller and Modigliani theory. Modigliani and Miller (1958) relate to the organization's dividend decisions. According to the theory, dividend policy does not affect the price of the firm's shares under conditions of the perfect capital market. It believes that it is the investment policy that increases the firm's share value.

The third underlying theory is developed by Harry Markowitz (1952) and relates to investment decisions. The theory states that, given a desired level of risk, an investor can optimize the expected return of a portfolio through diversification. This is done by investing in less correlated assets and grouping correlated assets with those that move and have an inverse relationship with each other to reduce the risk for a given return.

## 4. The Role of Business Strategy on Organisational Competitiveness

Strategy is essential for organisational competitiveness because it helps identify its direction and the means to get there. As a result, its competitiveness is also determined by its business growth strategies and how well they are implemented (Cusumano, Gawer, & Yoffie 2019). A business growth strategy is a medium that sets the organization's long-term direction and purpose and how the organisation will obtain the resources required to

meet market and stakeholder needs (Hitt, Ireland, & Hoskisson, 2016).

The most effective strategy must be incorporated in an organisation's business plan, which attempts to thrive in specific markets and is tied to corporate strategic goals. There are several growth strategies, according to Kono (2016). These strategies are categorized by Kohler (2016) as intensive, integrative, and diversification strategies.

According to Romnova and Kudinska (2016), an intensive approach strives to achieve further growth for existing products in existing markets. It occurs when a company expands its product offering. According to Rajapathirana and Hui (2018), market penetration, market development, and product development are the three most crucial intensive growth tactics.

According to Zollo et al. (2018), the integrative strategy is one of the most overall growth strategies. It is concerned with how an organization grows its sales and profits by integrating either vertically or horizontally. Fan et al. (2017) postulate this type of strategy can be horizontal or vertical. Furthermore, Libert, Beck, and Wind (2016) argue that diversification business strategy has become a popular survival strategy among organisations to outpace competitors. Diversification is a strategic option used by an increasing number of managers to achieve organisational competitiveness. Nonetheless, Gormley and Matsa (2016) have stated that diversity can be value-destroying and frequently results in discounting due to agency issues between managers and shareholders, as well as those who are unwilling to take on managerial risk.

## 5. Financial Decision and Strategy Convergence

Business growth strategy and financial decisions are two sides of the same coin. Both are established and used by organizations to achieve competitiveness. Hence, achieving organisational competitiveness largely depends on financial decisions and the growth strategy employed to gain a competitive advantage in the market (Kamukama, 2017). Strategy is conceptualized as operating at both the organization and competitive level of the organization together.

According to Globocnik et al. (2020), strategy is defined as the actions and plans which influence the portfolio of different activities in the organization. Operationally, this business strategy can be seen as the level of diversity achieved; the model used to achieve the level of diversity and the management of the diversified set of assets and business (Li & Huang, 2019). The organizational strategy may affect financial decisions in several different ways. According to Dyreng and Markle (2016), financing decisions result from managerial choice constrained by the financial choice in which the organization operates. Managerial preferences influence the organisation's relative holdings of debt and equity. Hence strategy influences the financing decision of the organization (Fracassi, 2017).

In addition, by determining the organization's scope, the business strategy limits the set of investment projects available to managers. By identifying the organization's competitive advantage, the strategy helps assess the sources of projects worth considering (Meredith et al., 2017). Moreover, According to Elmassri et al. (2016), interrelation occurs between strategy and investment decisions; thus, many empirical studies focus on the interactions between business strategy and organizational investment in academic finance.

However, understanding strategy is essential not only for selecting projects worth being considered in investment decisions but also for the difficult task of estimating cash flows in discounted cash flow analysis (Lozhkina, 2020). Furthermore, In line with dividend decisions, Belousova et al. (2016) argue that dividends are often part of organizational strategy. However, organisations following an innovation-oriented business strategy tend to pay fewer dividends than organisations following a cost-effective business strategy.

Organisations employing growth-oriented strategies and prudent financial decisions can unearth innovative ideas that set them apart from their competitors. They can improve on their performance which eventually becomes a means to achieving a competitive advantage. Therefore, we posit the following propositions:

**P1:** Is there a significant relationship between Financial decision and organisational competitiveness?

**P2:** Is there a significant relationship between Business strategy and organisational competitiveness?

## 6. Organisational Competitiveness and Sustainable Competitive advantage

Organisational competitiveness refers to its ability to create more economic value than other competing firms (D áz-Chao et al., 2016). It is the way by which employees develop a close networking relationship while performing daily operations. Organisational competitiveness relates to the continuous presence in markets, profit-making, and adapting production to demand. Permanent changes are an integral part of success and competitiveness because those who do not apply innovation become less competitive and usually disappear from the market (Kareska & Marjanova, 2016).

Similarly, Michael Porter identified five forces that drive organizational competitiveness. These include the relative bargaining power of buyers and sellers, the threat of new entrants and substitute products, and the degree of rivalry among existing firms. Conversely, the concept of sustained competitive advantage hinges on recent economic and strategic management literature, which exposes three different schools of thought concerning the sustained competitive advantage paradigm: the neoclassical, the structural, and the dynamic school of thought.

The neoclassical school of thought holds that sustainable competitive advantage is impossible (Porter & Kramer, 2019). Under ideal market conditions, the competitive dynamics of supply and demand gradually yet steadily eliminate any possible competitive advantage and hence, above-normal profits (Schumpeter, 2017). The structural school of thought acknowledges the existence of competitive advantage and accepts the attitude that sustainable competitive advantage is not only feasible but acceptable as well (Dogan, 2017).

Furthermore, the 'market-led view' to business-level strategy suggests that organisations retain competitive advantage by identifying and exploring existing and emerging market opportunities. Mweru and Maina (2016) argue that a firm's limited and valuable resources should be valuable, rare, imperfectly imitable, and non-substitutable in sustaining competitive advantage. The dynamic school of thought stressed that all competitive advantages that may effectively exploit market imperfections would be transient in a way that enables organisations to maintain their superior performance by concentrating only on temporary competitive advantages (Mintzberg et al., 2020). Hence, highly competitive market conditions and enduring competitive advantages stem from a well-formulated single strategy but strategy agility.

Conversely, Foss and Saebi (2018) have also argued that competitive advantage is sustained if it exists after efforts to duplicate it have ended. Empirically, sustained competitive advantage, on average, may last a long period of calendar time (Liu & Mantecon, 2017). However, this calendar period does not define the existence of sustained competitive advantage. However, existing and potential competitors' inability to duplicate that strategy makes a competitive advantage sustained. Furthermore, it is not enough for an organization to achieve competitiveness. Instead, organisations must improve on the strategy that is believed to be successful and is derived from the analysis of external forces that will help protect and sustain the benefits that the organisation is enjoying in the market to achieve sustained competitive advantage. Thus as reflected in Figure 1, we propose our third proposition as follows:

**P3:** Is there a significant relationship between Organisational competitiveness and sustainable competitive advantage?

**P4:** Does Organizational Competitiveness mediate the relationships between

- a. Financial Decision and Sustainable Competitive Advantage.
- b. Business Strategy and Sustainable Competitive Advantage.

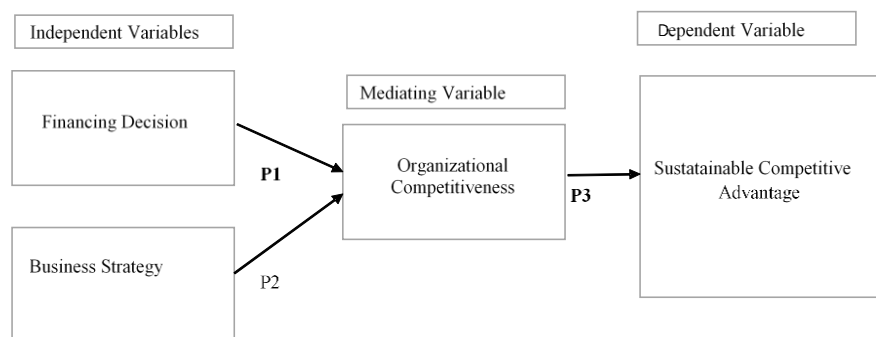


Figure 1. The convergence of financial decision, business strategy through Organisational competitiveness to sustainable competitive advantage

## 7. Conclusion and Recommendation

Organizations have become increasingly cognisant of the growing relevance of competition in recent years. Globalization and international competition are gradually transforming how firms operate in the way they did decades ago. An important financial decision an organization faces is the choice between debt and equity

especially within the launch and growth stage of the business. However, Picken (2017) opined that, the launch and the growth stage of the organisation are very critical stages because an organization is capable of achieving a competitive advantage with these stages. The financial structure of an organization is a specific mixture of debt and equity the organization uses. Metrick and Yasuda (2021) assert that financial decisions relate to how, when and where funds are to be acquired to meet investment needs.

Financial decisions are important because of the need to maximize returns to various organizational constituencies and also because of the impact such a decision has on an organizational ability to deal with its competitive environment. Organisations must make use of prudent financial decisions so as to achieve competitiveness. Similarly, regarding strategy, an organisation must understand how to make an interpretation of business strategy into a competitive advantage. The organisation must define how to implement the business strategy selected to achieve competitive advantage. Strategy is essential for organizational competitiveness because it helps identify an organization's direction and the means to get there. As a result, its competitiveness is also determined by its business growth strategies and how well they are implemented. It is therefore a goal for high performing organisations to sustain their competition in the market so as to achieve a superior advantage over the competing rivals in the market.

Similarly, it is not enough for an organisation to achieve competitiveness. Instead, organisations must improve on the strategy that is believed to be successful and is derived from the analysis of external forces that will help protect and sustain the benefits that the organisation is enjoying in the market to achieve sustained competitive advantage. Further, following that a corporate organisation operates in a trading and financial environment, there is the need for an effective convergence of both financial decision and business strategy so as to achieve value and competitiveness in the long run.

As based on the literature review, it has become evident that the association may be established for financial decision, business strategy, organizational competitiveness and sustainable competitive advantage. An empirical investigation is recommended in this respect. For future comparison of results, it is also recommended that the study may be done from the perspectives of industries, countries, and continents. These recommendations are made in the admittance that environmental, and situational factors may affect the expected outcome.

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