IN COMPETITION WITH GODLESS HORDES: ARE SOME STRATEGIC APPROACHES MORE APPROPRIATE FOR A FAITHFUL BUSINESS?

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ABSTRACT

This article explores the intersection of the business as mission movement and the business principles of competitive advantage and competitive strategy. The academic discipline of strategic management has identified several different types of generic, business-level competitive advantages and corresponding strategies that are available to a firm, such as cost leadership, differentiation, or transactional. For a firm that is operating its business as a mission by holistically integrating Christian theological and social principles, using differentiation or transactional advantages rather than a cost advantage will generally allow the firm to effectively compete without undermining its core Christian mission.

INTRODUCTION

The academic discipline of strategic management focuses on competition and competitors. The phrases used in the discipline to explain basic concepts include competitive advantage, competitive strategy, and competitive dynamics. By examining why some firms outperform others, the discipline seeks to develop principles that will allow a firm to create greater value and capture more of that value than its competitors.

Christians involved in businesses in capitalistic, free market economies will face the demands of competition. One of the competitive themes raised by Johnson and G. Smith (2002) is whether competition is viewed as "an impersonal process or a personal pursuit" (p. 8).

> *A simple way to express this tension is to ask whether we see competition as a condition (or circumstance) or a choice (Id.)*

While the question posed provides a good starting point for exploring this dichotomy, the practical answer for the Christian businessperson is that competition is both a condition and a choice. In all the standard market structures, ranging from a perfectly competitive market on one end of the spectrum to one dominated by a single monopolist at the other end of the spectrum, competition, or at least the potential for competition exists as a market mechanism. In a perfectly competitive market, competition is the condition that defines the market and the effects of competition are so great that firms are simply price takers. Even the monopolist has to be concerned about potential competition from substitutes, perhaps arising from technological innovation, which might undermine or destroy the monopoly. In the market structures between these two extremes, such as in niche markets, dominant firm markets, and oligopolies, the nature of competition increases the importance of choice.

> *Behavior [defined as 'choices incumbent firms make that affect how competitive the industry will be given its structure'] is so important in oligopoly structures that this market structure is the 'wild card'*

in the spectrum of competition (Saloner, Shepard & Podolny, 2001, p. 153, 154).

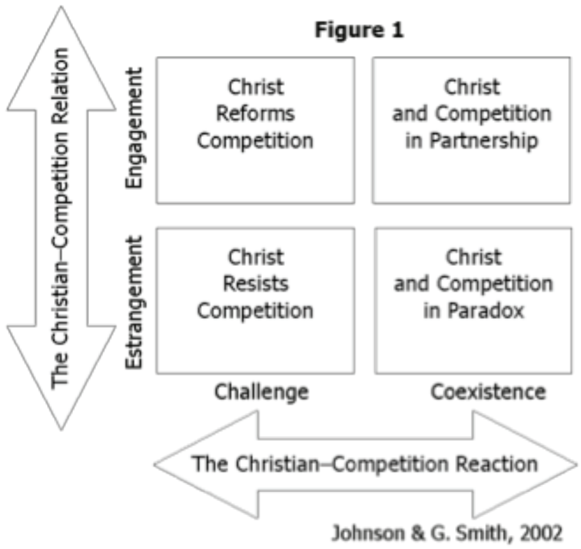
Thus, in the middle categories on the spectrum of competition, the "how" of competition depends on factors such as competitive advantage and competitive strategy, which drive choices and individual firm behavior.

The importance of choice in competition under most circumstances raises the question of whether there is a strategy that the managers of a faithful business should deliberately choose when competing against "godless hordes."[1] The academic discipline of strategic management has identified several generic, business-level competitive advantages, such as cost advantage, differentiation advantage, or transactional advantage, that drive competitive strategies for a standalone business or the business unit of a large firm. A faithful business - a firm holistically integrating Christian theological and social principles with its business operations[2] – should pursue competitive strategies based on differentiation or transactional advantage rather than those based on cost advantage, primarily due to its multiple bottom lines. Since a faithful business is doing business, it must make a profit to continue its existence. However, since a faithful business is doing Kingdom business, it has other goals as well. These multiple goals or multiple bottom lines mean that a faithful business will tend to have higher costs than a comparable secular business and risks both becoming strategically stuck in the middle and undermining its core Christian mission by pursuing a cost leadership strategy based on a cost advantage.

In exploring this thesis, the article will first review a model for understanding the intersection between Christianity and competition based on Niebuhr's (2001) Christ and culture model. Then, the article will focus on one of those model's intersections – "Christ reforms competition" – in the context of the faithful business and the business as mission movement. After reviewing basic strategic management concepts of competitive advantage, the article will demonstrate why a faithful business can more effectively compete against godless hordes by employing competitive strategies based on a differentiation or transactional advantage rather than ones based on a cost advantage.[3]

CHRISTIANITY AND COMPETITION

Recent scholarship has explored the relationship between Christianity and competition. As illustrated in Figure 1, Johnson and G. Smith (2002) used a Niebuhresque approach based on the relational dichotomies of engagement and estrangement and the reactional dichotomies of challenge and coexistence to develop a model encompassing four different Christian views of competition - "Christ resists competition," "Christ and competition in partnership," "Christ reforms competition," and "Christ and competition in paradox" (p. 12). While this four-fold model reveals tensions between Christianity and competition, it can also be used as a tool to show the differences of opinion within recent Christian scholarship on competition.



Beed (2005) best fits into the "Christ resists competition" category. In analyzing competition through the lens of Jesus' teaching, especially the principle of non-retaliation from the Sermon on the Mount (Matthew 5:38-42), the Golden Rule (Matthew 7:12), and the Great Commandment (Matthew 22:34-40), Beed (2005) concludes that Jesus did not tolerate or encourage competition, especially

> *when competitive practices in the business world would involve Christians in conscious retaliation, reprisal, tit-for-tat, blow-for-blow, measure-for-measure, payback, giving as good as they get, seeking to become even and quits with, counterstroke, retribution and quid pro quo-type behavior (p. 50).*

Based on this view of competition, if a competitor sought to take market share from a Christian business by price cutting, the Christian business should not retaliate with more severe price cuts or take other reprisal measures (Beed, 2005, p. 45). Since classic competitive strategy in a capitalistic, free market economy is anticipatory and considers the reaction of competitors to the company's actions and anticipates counterstrokes, Beed (2005) recognizes that his guidelines appear to be "a recipe for business insolvency, bankruptcy and ruination" from a secular perspective (p. 48). However, Beed (2005) believes that

> *Jesus is still calling His followers to enormous risks by the standards usually followed in business*

but, based on Jesus' instruction in Luke 12:31 to

> *…seek his kingdom, and these things will be given to you as well,*

God will look after the firm's basic material needs (p. 48). Given this view of competition, it is not surprising that Beed (2005) emphasizes the need for Christian business models based on cooperation and reconciliation rather than competition and conflict (p. 50, 55). Beed (2005) specifically praises producer cooperatives that allow Christians to create networks of firms as a means of avoiding competition and the downside risk of not responding in kind to destructive competitive behaviors (p. 52-53).

At the other end of the spectrum is Grudem (2003) who advocates an approach closely resembling "Christ and competition in partnership." Although Grudem (2003) notes that competition contains the seeds of temptation to sin through pride and idolatry, he states that "[c]ompetition is fundamentally good and provides many opportunities for glorifying God" by creating jobs that allow people to use their gifts and talents, by raising the standard of living, and by spurring people to excellence through rewards (p. 61-65). As Biblical support for his position, Grudem (2003) cites the Pauline sports metaphors (1 Corinthians 9:25-26; 2 Timothy 2:5) and the competition implied in the testing of candidates for deacons (1 Timothy 3:10) (p. 61, 65).

Y. Smith, Johnson and Hiller (2004) appear to adopt a "Christ and competition in paradox" approach based on their "three major conclusions about what Scripture says in reference to competition:

1) Competition is neither moral nor immoral but a neutral force that can be turned to good or evil;
2) Human beings need to be careful about the goals of competition; and
3) Human beings need to be careful about attitudes or motivations when competing" (p. 7-8).

These conclusions parallel the description of "Christ and competition in paradox" outlined by Johnson and G. Smith (2002 and highlight the tensions inherent in this model of relational estrangement but reactional coexistence between Christianity and competition. The Biblical support for this position is based on a search of a database containing multiple Biblical translations, commentaries, and dictionaries for references to a variety of words describing competition (Y. Smith et. al., 2004, p. 7).

The business as mission movement and Rundle and Steffen's (2003) Great Commission companies both promote a business model in which "Christ reforms competition." According to Johnson and G. Smith (2002), "[i]n this perspective Christ comes to competition as a transformer, seeking to rediscover God's design for competition" (p. 13). Using similar language, the business as mission movement envisions for-profit businesses operating "ad maiorem Dei glorium" (Tunehag, McGee & Plummer, 2005, p. 7) while the definition of a Great Commission company states that it is "created for the specific purpose of glorifying God" (Rundle & Steffen, 2003, p. 41). This language mirrors Johnson and G. Smith's (2002) description of Christians involved in competition under the Christ reforms competition model as experiencing a "covenanting of their loyalties to God as they seek to bring God's power and purposes into competitive arenas, and as they target competition as a process to be exploited for God's glory" (p. 13).

In a parallel effort, other Christian scholars have explored issues in pedagogically integrating Christianity with the academic discipline of strategic management (Martinez, 2003; VanderVeen; 2004; Martinez, 2004). The tensions inherent in Christianity and strategic management arise, in part, because of Christianity's call to "holiness, justice, and love" (Hill, 1997, p. 19 as cited VanderVeen, 2004, p. 12) versus strategic management's evaluation of different goals and competitive strategies based on maximizing the total value of the firm as measured by long-term profits (Spulber, 2004, p. 26). In an effort to "spark discussion in the pursuit of developing a framework for analyzing business principles," Martinez (2003) explores issues that professors can raise as Christian counterpoints to the topics covered in a typical undergraduate strategic management course to move both professors and students out of their comfort zone (p. 69). Martinez (2004) wants to explore how holiness, justice, and love can be pursued and God glorified through more traditional free market environments (p. 15). VanderVeen (2004), responding from a radical, Reformed Christian perspective, combines the proposition "that we are created 'to emulate God' and that God exhibits characteristics of holiness, justice, and love" (p. 7, citing Hill, 1997, p. 13) with Hardy's (1990) ideas of a vocation and a personal calling to transform and refocus strategic management principles on love of neighbor, meeting the physical needs of the poor, and meeting the spiritual needs of both the rich and the poor (p. 10-11). Martinez appears to fit into the perspective of "Christ reforming competition" while VanderVeen appears to fit into the perspective of holding "Christ and competition in paradox."

Despite these groundbreaking and foundational efforts, the question of how a Christian firm can compete using basic principles of strategic management remains open to further exploration. The how question is relevant under all four models. If competition is evil as posited by the "Christ resisting competition" model, how can it be avoided? If competition is good as asserted in the "Christ and competition in partnership" model, how can it be used to experience God's delight while avoiding associated temptations? If competition is amoral per the "Christ and competition in paradox" model, how can a Christian be in, but not of competition? Finally, if competition can be reformed by Christ, how can Christians reclaim competition to advance God's Kingdom? This article adopts the "Christ reforms competition" model as it explores the competitive strategy aspects of this last question in the context of the business as mission movement.

BUSINESS AS MISSION AND THE FAITHFUL BUSINESS

At the core of the business as mission movement is glorifying God and doing Kingdom work through business. The means is a faithful business – a firm holistically integrating Christian theological and social principles with its business operations. Thus, a faithful business becomes another way of describing what others call a business as mission (Tunehag et.al. 2005) or a Great Commission company (Rundle & Steffen, 2003).7

The idea of a faithful business can be found in the writings of the Protestant Reformers, such as Luther, Calvin, and the Puritans. By rejecting the medieval division of work into the sacred and the secular and focusing on the creation mandates (Gen. 1:26; 2:15) and the doctrine of vocation or calling, the Protestant Reformers dignified ordinary work as a means of glorifying God and fully enjoying him forever (Ryken, 1995, p. 76; Westminster Shorter Catechism). For example, "Richard Steele considered it a 'sin and folly' when people aim 'only at their wealth, ease, and honour; and not at the glory of God and the public good, as well as their own subsistence'" (Ryken, 1995, p. 97, citing Steele in Tradesman's Calling, 1633, p. 10).

The business as mission movement is the latest heir to the Reformation's views on how to faithfully conduct business. The phrase "business as mission" was developed in 1999 at the Oxford Centre for Mission Studies to identify "a relatively new approach to missions, one that taps the power and redemptive potential of large, often global, businesses" (Johnson & Rundle, 2006, p. 24). The idea and terminology of business as mission was adopted by the Christian mission community and became more widespread spread through The Lausanne Committee on World Evangelism and its motto of "The Whole Church taking the Whole Gospel to the Whole World." The Forum of the Lausanne Committee for World Evangelism held in Pattaya, Thailand in September and October 2004 included a Business as Mission Issue Group as one of thirty-one issue groups, and this group of over seventy participants from all inhabited continents issued The Business as Mission Manifesto and Lausanne Occasional Paper No. 59 on Business as Mission (Tunehag et al., 2005, p. 2, 55).

Although the idea of a faithful business can be found in the sixteenth and seventeenth century writings of the Protestant Reformers and the catch-phrase "business as mission" is of even more recent vintage, the faithful business and the business as mission movement have ancient roots. Since business is the child of work, a protological understanding of work arising from Genesis 1 and 2 reveals why the faithful business has a multiple bottom line beyond just a financial bottom line. Understanding the rationale for the multiple bottom line is important since it drives the choices the managers of the faithful business have among the several generic competitive strategies developed by the academic discipline of strategic management.

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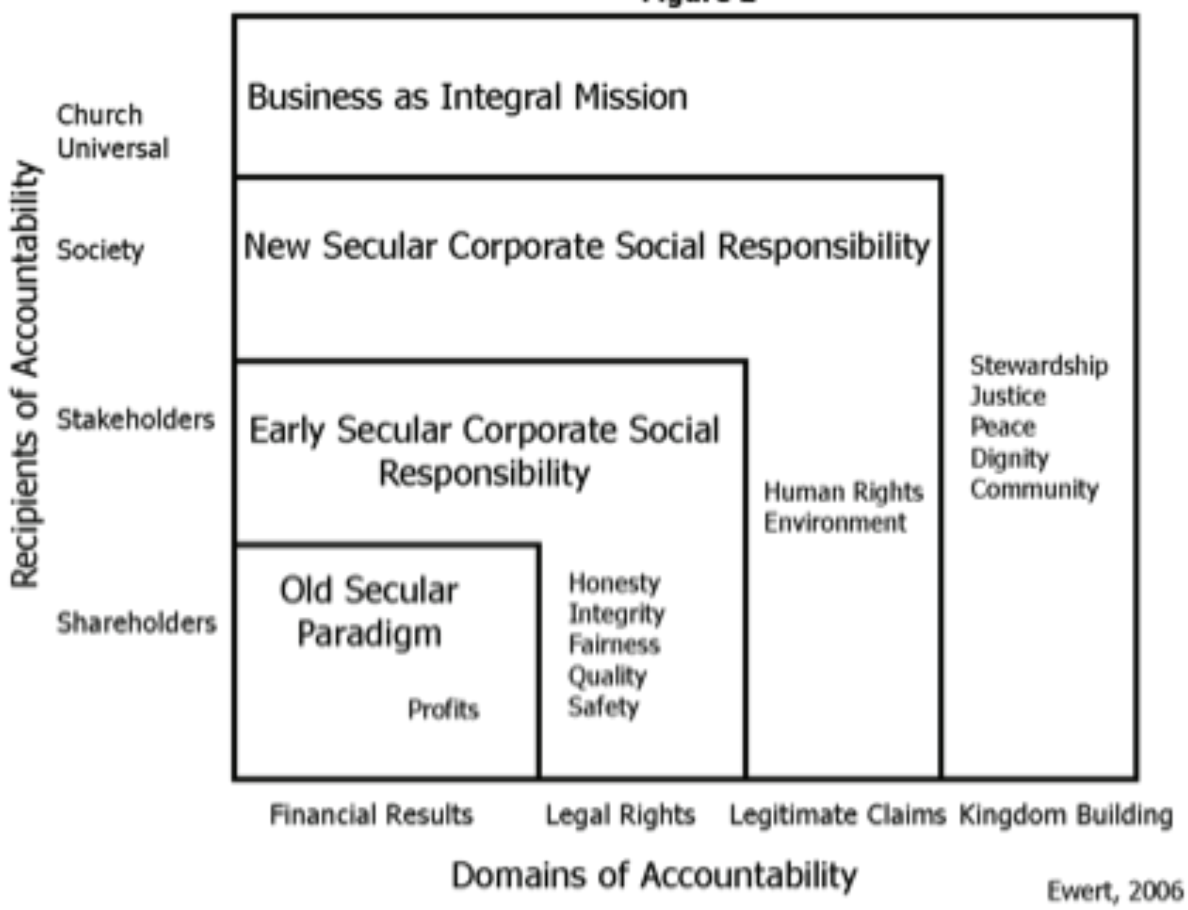
The creation narrative of Genesis 1 and 2 provides several insights into the sanctified nature of work. First, God is a worker. When Genesis 2:2-3 describes God resting on the seventh day from his work, the word "work" that is used three times to describe the creation activities of God is the Hebrew word for ordinary work as used in Gen. 39:11 to describe Joseph's household work as the attendant for Potiphar (Westermann, 1984, p. 170). Second, as revealed in the creation mandate, God made human beings for work and to work (Gen. 1:26-28; Gen. 2:5; Gen. 2:15). Paul's exhortation that in all tasks Christians are to "work heartily, as serving the Lord and not men, knowing that from the Lord you will receive the inheritance as your reward; you are serving the Lord Christ" (Col. 3:23-24) serves as a New Testament affirmation of the creation mandate and the importance of work in serving and glorifying God. Third, since humanity is created in the image of God (Gen 1:26a) and God worked to make all of creation (and then rested), one of the ways in which people express the imago Dei is by working (and resting) (John Paul II, 1981, § 114; Ryken, 1995, p. 162; Sayers, 1949, p. 46, 53). Although the Fall corrupts work by making it toilsome and burdensome (Genesis 2:17-19), "God's fundamental and original intention with regard to man, whom he created in his own image and after his own likeness was not withdrawn or canceled out even when man, having broken the original covenant with God, heard the words: 'In the sweat of your face you shall eat bread'" (John Paul II, 1981, § 39). Work itself continues to be good because "through work man not only transforms nature, adapting it to his own needs, but he also achieves fulfillment as a human being and indeed in a sense becomes 'more a human being'" by both reflecting the image of God and by fulfilling the ongoing creation mandate (John Paul II, 1981, § 40).

The model of work given by God is not one of solitary labor but of work in the context of relationships. Through the mystery of the Trinity, God is not just one, but three in one: Father, Son, and Holy Spirit. God's creative activity in the beginning unfolded through this Trinitarian relationship (Genesis 1:1-2 and 26; John 1:1-4). Since God is a relational being, human beings, made in the image of God, are made to be relational beings, as illustrated by Genesis 1 and 2. The creation narrative in Genesis 1 repeats God's view of each element of creation as good and the totality of creation as very good. However, the creation narrative in Genesis 2 identifies one element of creation – man – that is not good in and of itself. After God put the man in the Garden of Eden, God decided that "[i]t is not good for man to be alone" and created a woman as a helper, implying, in part, a relationship of mutual support based on work between men and women (Gen. 2: 18-22). Business allows work to be performed within the context of relationships. "It is characteristic of work that it first and foremost unites people. In this consists its social power: the power to build a community" (John Paul II, 1981, § 96).

Unlike a secular business, the faithful business is consciously striving to fulfill God's protological purposes for business by creating a praiseworthy community of work in the context of the Lordship of Jesus Christ over all of creation as both the Alpha and the Omega (Matt. 28: 18; Rev. 22:13). The Christian managers of a faithful business seek to ultimately glorify God holistically through business and to use business as a vehicle for fulfilling not only the creation mandate but also the Great Commandment (Matt. 22:36-40) and the Great Commission (Matt.

Figure 2



28:18-20). Although a faithful business will exhibit its faith through its works, such as creating jobs that provide dignity and self-reliance to the poor, "[t]he goal is not simply about making people materially better off. Business as mission is actively praying and incarnating the [Lord's Prayer]: "Your kingdom come, your will be done" even in the marketplace" (James 2:14-26; Matthew 6:10; Tunehag et. al., 2005, p. 7). The ultimate bottom line for a faithful business of a*d maiorem Dei glorium*, for the greater glory of God, is realized through multiple bottom lines (Tunehag et. al., 2005, p. 7).

As a real business, a faithful business meets customers' needs and earns a profit to sustain its operations. Thus, a faithful business must have a financial bottom line. However, profitability for a faithful business is a means rather than an end. In their model of a business organization using Christian social principles to promote the common good through the integral development of the person, Alford and Naughton (2001) describe profitability and efficiency as worthy goals "because their realization is foundational to the development of the business as a whole (p. 45). However, as foundational goods, profits are secondary to greater goods. Collins and Porras (2002) note that visionary companies, that is "premier institutions – the crown jewels – in their industries, widely admired by their peers and having a long track record of making a significant impact on the world around them," have a core ideology that does not include profit maximization as its primary objective (p. 1, 56). Instead, visionary companies pursue both profits and "broader, more meaningful ideals" (Collins & Porras, 2002, p. 55).

In a similar manner, the greater good of a faithful business is glorifying God by exhibiting Kingdom values, whether Hill's (1997) holiness, justice, and love or Ewert's (2006) stewardship, justice, *shalom*, dignity, and community. As described in Figure 2, a faithful business has multiple bottom lines that measure spiritual and social results as well as financial results (Ewert, 2006, p. 3; Tunehag et. al., 2005, p. 19; for a secular version of the multiple bottom line based on financial performance, customer knowledge, internal business processes, and learning and growth see Kaplan & Norton, 1996). A faithful business should have multiple bottom lines because these additional bottom lines reflect an active understanding that the people touched by the faithful business, whether employees, customers, or other stakeholders, are made in the image of God, and that the Trinity's relationship of love becomes a relationship of love from God to humankind and a relationship among humankind to love one another through servant work (John 13: 1-17; John 15:12; 1 John 3:23). A faithful business can implement multiple bottom lines that meet spiritual and social needs through how it competes, through a Christian corporate culture of salt and light, and through policies that show a love of neighbor and define those neighbors broadly (Luke 10:25-37). Just as in the academic discipline of strategic management profits are not a goal but a means of evaluating different goals and competitive strategies, so for a faithful business performance against the financial, spiritual, and social bottom lines are a means of evaluating the success of the business in promoting God's Kingdom. The existence of these multiple bottom lines begins to delineate the competitive strategies that are available to a faithful business.

COMPETITIVE ADVANTAGES AND COMPETITIVE STRATEGIES

One of the core concepts in the academic discipline of strategic management is the concept of competitive advantage. A competitive advantage allows a firm to distinguish itself from its competitors and to create greater value than its competitors (Spulber, 2004, p. 10-11). A competitive strategy implements the firm's competitive advantage to capture as much of the value created as possible given the constraints of the firm's overall industry structure. In secular strategic management, value is ultimately measured by profits and preferably by the present value of the firm's long-term profits (Spulber, 2004, p. 28).

Value is created by "offering lower prices than competitors for equivalent benefits or providing unique benefits that more than offset a higher price" (Porter, 1985, p. 3). Thus, a competitive advantage is a process of driving a wedge between the firm's costs and a customer's willingness to pay to create as large a gap as possible between the two (Ghemawat, 2006, p. 44). The larger the wedge between a firm's costs and its customers' willingness to pay relative to its competitors, the greater its competitive advantage. To accomplish this goal, Porter (1985) identifies two basic types of competitive advantage: low costs or differentiation. In addition, Spulber (2004) has identified a third source of competitive advantage through transactional advantages in which firms lower transaction costs "by intermediating between buyers and sellers, establishing and operating markets, and creating new combinations of buyers and sellers" (p. 243). These basic types of competitive advantage lead to generic strategies for capturing that value: cost leadership, differentiation, transactional innovation, or a focus strategy that applies one of the other strategies in a niche market or particular industry segment (Porter, 1985, p. 11; Spulber, 2004, p. 171). The internal logic of each type of competitive advantage and strategy combined with the characteristics of the faithful business, especially its multiple bottom line, shape the competitive strategies that a faithful business can successfully pursue.

The focus of cost leadership is on having lower costs than competitors through cost reductions and cost efficiencies. These cost advantages are rooted in a firm's internal value chain activities and competencies and how the firm structures those activities and competencies. Cost efficiencies typically arise from learning economies from experience, economies of scale from size, economies of scope from diversification, and economies of span from vertical integration. Although cost reductions and efficiencies are beneficial to a firm, pursuing a cost advantage presents a firm with a unique set of risks. As Porter (1985) notes, "[t]he strategic logic of cost leadership usually requires that a firm be the cost leader, not one of several firms vying for this position…Unless one firm can gain a cost lead and 'persuade' others to abandon their strategies, the consequences for profitability (and long-run industry structure) can be disastrous…" (p. 13).

Differentiation involves providing a product or a service that gives customers greater benefits, or at least the perception of greater benefits, than the competitors' corresponding product or service. The focus of a differentiation strategy is on increasing customers' willingness to pay above the extra costs associated with creating the differentiation by lowering customers' price sensitivity. "A firm must truly be unique at something or perceived as unique if it is to expect a premium price" (Porter, 1985, p. 14). Dimensions that can create differentiation include a brand name, quality, unique technology or features, and customer service.

> *In contrast to cost leadership…there can be more than one successful differentiation strategy in an industry if there are a number of different attributes that are widely valued by buyers (Id).*

Through a transaction advantage, a firm seeks to overcome transaction costs for customers. Transaction costs are the indirect costs of business transactions, and the indirect costs addressed by a firm's transaction advantage usually relate to customer convenience, such as reducing search costs, communication costs, information costs, and monitoring costs (Spulber, 2004, p. 243, 252; Williamson, 1975). A firm can develop a transaction advantage by becoming an intermediary between buyers and sellers and facilitating transactions at a lower cost than could be achieved by direct dealings between the buyer and seller (Spulber, 2004, p. 249). As an intermediary, a firm can lower search, communication, information, and monitoring costs by operating a centralized exchange or establishing a network, often with transaction technology, that substitutes variable labor costs with one time capital costs that can be amortized over numerous transactions (Spulber, 2004, p. 245, 254, 256). An example of an intermediary is Ebay's role in facilitating and automating online transactions between individual buyers and sellers. On an even more ambitious scale, a firm can lower transaction costs by becoming a market maker through coordinating the supply and demand of multiple suppliers and customers, "computing and adjusting prices," and "clearing the market by balancing supply and demand" (Spulber, 2004, p. 260-64). DeBeers' role in the diamond market is a classic example of a market maker. With a cost advantage and a cost leadership strategy, the focus is on the firm and its costs, while the focus of a transaction advantage is on the reducing the customer's indirect costs.

A firm without a competitive advantage risks getting stuck in the middle (Porter, 1985, p. 16). One characteristic of a firm that is "stuck in the middle" is the small gap between the firm's costs and its customers' willingness to pay. The firm is unable to compete with the cost leader either directly or by reducing customers' transaction costs, but the firm does not have the unique product, service, or transactional innovation that would allow it to compete with differentiators or transactional intermediaries. "Becoming stuck in the middle is often a manifestation of a firm's unwillingness to make choices about how to compete" especially a choice among the competitive advantages and strategies (Porter, 1985, p. 17).

THE COMPETITIVE STRATEGY OF A FAITHFUL BUSINESS

The business as mission movement and the idea of a faithful business affirm that Christ can reform competition and that Christians can reclaim competition to advance God's Kingdom. Given the basic parameters of competitive advantage and competitive strategy, the question becomes how a faithful business can meet its financial bottom line as well as its spiritual and social bottom lines without becoming stuck in the middle.

In his exploration of the issues faced by Christian businesspersons in a perfectly competitive market, Hoover (1998) foreshadowed this question through an example of environmental stewardship. He noted that if a Christian businessperson unilaterally raised its costs in a perfectly competitive market to purchase pollution control devices, his or her firm "would not be able to retrieve such costs through price increases. This would put the conscientious individual Christian businessperson in a difficult situation...[since] a cost advantage would go to the business that is willing to externalize cost by polluting the environment" (Hoover, 1998, p. 56). In trying to resolve this dilemma, the Christian businessperson is left with three unattractive choices. First, the firm could unilaterally purchase the pollution control equipment and reduce its profitability at the risk of undermining its long-term viability (Id.) Second, the firm could lobby the industry, perhaps through an industry association, to voluntarily accept pollution control devices, although the likelihood of success would be small (Id). Third, the firm could lobby the government for a law that would either require the pollution control devices or incentivize firms to adopt them (Hoover, 1998, p. 56-57).

However, there is a fourth solution. Rather than compete solely on cost with an undifferentiated product in a perfectly competitive market, the firm could seek a differentiation or transactional advantage that would allow it to exit from the perfectly competitive market, charge a higher price, and implement the first solution without risking its long-term viability. This solution ultimately requires a firm to deemphasize cost advantage as a source of competitive advantage and focus on differentiation or transactional strategies.

COST LEADERSHIP

One of the competitive strategies available to a firm seeking to maximize its value is cost leadership. A faithful business seeking to glorify God risks becoming stuck in the middle if it pursues a cost leadership strategy since a faithful business will tend to have higher costs than its competitors because of its multiple bottom lines. Having spiritual and social bottom lines places a faithful business at a cost disadvantage over a secular firm that just has a financial bottom line both because of how Kingdom values impact costs common to all businesses and because of how Kingdom values can create unique costs.

One of the most important choices made by a firm is which customers to serve. Paine (2003) provides a secular example of the costs associated with customer choice that illustrates the potentially higher costs faced by a faithful business:

> *Between 1996 and 1998, two of [South Africa's] leading banks followed quite different strategies. One bank, as part of a plan to reduce costs and increase efficiencies, closed 800,000 accounts*

> *held by low-income South Africans. Instead of servicing these low-value accounts, the bank decided to focus its energies on higher-margin accounts opened by middle- and upper-income South Africans. During the same period, the second bank opened some 2.5 million low-value accounts…The bank that had closed the low-value accounts reported a 23 percent return on equity, while the bank that opened them reported a return of only 18 percent. Though the difference in financial performance reflected a variety of factors, the higher proportion of low-value accounts held by the second bank did not help (p. 65).*

In exhibiting Kingdom values such as love, dignity, and community and heeding the Biblical mandate to exhibit justice and righteousness to widows and orphans (Isaiah 1:17; Zechariah 7:10), a faithful business should make similar decisions, even though those decisions result in higher costs and place the firm at a competitive disadvantage relative to its secular competitors. Failing to do so and following a similar cost leadership strategy would transform a business as mission into a business that conformed to the standards of the world (Romans 12:2).

Similar issues arise in relationships with suppliers. For example, a secular firm in pursuit of lower labor costs faces a greater temptation to contract with a supplier in a developing country, negotiate a price for the product, and, by default, allow the supplier to pay wages that are below the minimum legal labor rate and maintain a working environment that is unsafe and environmentally ruinous (Spencer & Ye, 2008). However, the principles of *shalom* may not allow a faithful business to conduct business in this manner. The foundation for *shalom* is justice in which each person "enjoys his or her rights. If persons do not enjoy and possess what is due them, if their rightful claims on others are not acknowledged by those others, then *shalom* is absent" (Wolterstorff, 2004, p. 23). However, *shalom* is more than justice and encompasses delighting in right relationships. "*Shalom* incorporates right relationships in general, whether or not those are required by justice: right relationships to God, to one's fellow human beings, to nature, and to oneself. The *shalom* community is not merely the just community but is the responsible community in which God's laws for our multifaceted existence are obeyed" (Id.) The right relationships of *shalom* combined with the multiple bottom line motivate the faithful business to seek right relationships with a broad group of stakeholders that includes the faithful business' suppliers.

Another important choice made by a firm involves employee compensation. In most businesses, direct and indirect labor costs created by salaries, wages, and other human resource benefits are a key cost driver. Alford and Naughton (2001) assert that compensation cannot only be viewed economically as a means of achieving the firm's strategic goals since pay is part of a work relationship between employer and employee that has moral and spiritual dimensions (p. 126-128). While Alford and Naughton (2001) believe that pay has legitimate objective dimensions based on how pay affects profits, productivity, and quality, they also believe that pay has subjective dimensions since people "leave an unrepeatable imprint on the world, through their product and services, and through virtue of who they become – that is, a unique, unrepeatable image of the creative activity of God in them" (p. 128). When Christian social principles are applied to employee compensation, wages, salaries, and benefits become a matter of *shalom* and profit rather than just profit alone to avoid placing Mammon before God (Matthew 6:24; James 5:4). The approach to pay advocated by Alford and Naughton (2001) is a just wage based on a combination of a living wage that meets the employee's needs, an equitable wage that reflects the employee's contribution, and a sustainable wage that takes into account an employer's ability to continue its business operations (p. 131-132). In contrast, a secular competitor pursuing a cost leadership strategy would likely have a view of wages focused more narrowly on how they affect profitability and the attainment of strategic goals. This focus would likely result in a lower cost structure over a faithful business paying a just wage. Whether one agrees or disagrees with Alford and Naughton's just wage analysis and its applicability to a faithful business, it illustrates the additional dimensions, complexities, and costs placed on a faithful business in an important area like employee compensation.

Finally, the example of AM International illustrates the costs that could be incurred by a faithful business that would not be incurred by a similar secular firm:

> *AM International, a consulting and manufacturing firm specializing in the technology sector…manages new factories in the Asia/Pacific region on behalf of publicly traded American companies, and has smaller manufacturing and representation offices in the Middle East and North Africa. The capitalization for these manufacturing ventures is generally between $1,000,000 and $10,000,000 with AM International holding [an equity interest] between 15% and 100%... Each of AM International's operations has a Great Commission strategy coordinator, a spiritual entrepreneur and consultant who networks with local church leaders and creates strategies related to evangelism, discipleship, and church planting (Tunehag et. al., 2005, p. 33).*

The extra costs associated with a multiple bottom line heighten for a faithful business one of the risks faced by any firm pursing a cost leadership strategy - the risk of not being the cost leader.

Despite this risk, a cost leadership strategy is not absolutely foreclosed to a faithful business. According to Porter (1985), "a firm's cost position results from the cost behavior of its value activities," which in turn depend on identifying, analyzing, and balancing cost drivers, such as patterns of capacity utilization, learning, linkages both vertically with customers and suppliers and within the firm's value chain, and the cost advantages and disadvantages of being the first mover (p. 70-83). All of these cost drivers are, in theory, available to the faithful business and

Figure 3

Domains of Commitment

can be minimized. Thus, if a faithful business can assemble a value chain with cost drivers that allow it to achieve greater efficiencies than its competitors in a way that is sustainable and not imitable, the faithful business can be a cost leader.

In addition, since competitive advantage is based on creating the largest gap possible between a firm's costs and customers' willingness to pay, the focus of a firm's competitive advantage and strategy should be on both variables. Typically, a differentiation advantage relies on increasing customers' willingness to pay. However, a firm can pursue "low cost sources of uniqueness as well as high cost ones that have high buyer value" (Porter, 1985, p. 153). Thus, the rules for turning the cost of differentiation into a competitive advantage include "exploit[ing] all sources of differentiation that are not costly," "emphasiz[ing] forms of differentiation where the firm has a sustainable cost advantage in differentiating," and "reduc[ing] cost in activities that do not affect buyer value" (Porter, 1985, p. 155-56). The ability to achieve differentiation in a cost effective manner moves a firm closer to competitive strategy's Holy Grail of becoming a low cost differentiator. As Porter (1985) notes,

> *[i]n the extreme, a firm may have such a large cost advantage in differentiating a particular value activity that its cost in that activity is actually lower than a firm not attempting to be unique in the activity (p. 129, emphasis added).*

However, the extreme case is also the rare one and becoming a low cost differentiator is difficult for a secular firm focused solely on maximizing economic value.

A low cost differentiation strategy or a pure cost leadership strategy is even more difficult for a faithful business because of the policy choices imposed on it by the demands of God's Kingdom, even when Kingdom values may result in gains that could offset any increased costs. Paine (2003) notes that "ethics pays" since a firm that is ethical and socially responsible can have lower costs than a firm that is not, especially in the area of transaction costs (Williamson, 1975). Examples of these lower costs include the following: (i) lowering monitoring costs since employees who are truthful and conscientious can lead to larger spans of control and fewer layers of supervisory management; (ii) lower coordination costs and higher efficiencies that can arise from working with truthful information from employees who are not just concerned with their own narrow self interests or the fear of punishment that might come from bringing bad news; (iii) lower contracting costs that can be created by greater degrees of trust with suppliers, customers, and other third parties; (iv) lower regulatory costs; and (v) lower employee turnover costs that can be created by engendering greater loyalty (Paine, 2003, p. 36-51). Figure 3 illustrates the different domains of commitment in Paine's (2003) case for the linkage between ethics and social responsibility and competitive advantage (p. 68). As Paine (2003) notes, the financial case for "ethics pays" is strongest in the lower left quadrant of Figure 3 for values such as fairness and honesty where the financial case is based on compliance and avoiding legal penalties (p. 67, 70). Paine (2003) also notes that the financial case is strong in the upper left and lower right quadrants of Figure 3 since it is based on a combination of avoiding non-legal penalties and gaining rewards related to reputation, such as brand loyalty, trust, and goodwill (p. 70). However, the financial case for values is weakest in the upper right quadrant of Figure 3 since the values are open-ended and nonspecific in nature and their observance may be diffused and go unrecognized or be undervalued by customers, suppliers, employees, regulators, and other third parties (Paine, 2003, p. 71-72). As Margolis and Elfenbein (2008) note, "it pays to be good, but not too good."

Unfortunately, when Figure 3 is compared to Figure 2, the upper right quadrant of this secular model of ethical and social responsibility is also the realm of the faithful business with its shared values of helping others, improving the community, and promoting human dignity. For the faithful business, compliance to avoid legal penalties and doing justice for worldly rewards is insufficient since the faithful business is seeking to glorify God through the higher standard of *shalom* with its emphasis on right relationships. This orientation, exemplified through the multiple bottom line, will lead the faithful business to concern itself not just with shareholders but also with a broader group of stakeholders. In serving these stakeholders the faithful business will not necessarily seek publicity in obedience to Jesus' admonition in the Sermon on the Mount to avoid doing acts of righteousness solely for their reputational value (Matthew 6:1-4). Thus, while ethics can provide a payout in the form of lower costs and higher goodwill, the impact lessens the more a faithful business succeeds in expanding its social and spiritual bottom lines to encompass Kingdom values.

The likelihood that a faithful business cannot be a cost leader does not mean that it should not pursue cost efficiencies and cost reductions. Doing so is evidence of good stewardship, and Christians are called to be good stewards of the resources given to them by God (Matthew 25; Luke 12:42-46). However, the inability of a faithful business to be a cost leader highlights the importance of counting the cost of being a disciple of Christ before launching a business as mission and one of the crosses that a faithful business must carry. Jesus illustrated this point with this parable:

> *Suppose one of you wants to build a tower. Will he not first sit down and estimate the cost to see if he has enough money to complete it? For if he lays the foundation and is not able to finish it, everyone who sees it will ridicule him, saying,'This fellow began to build and was not able to finish'(Luke 14:28-30).*

A faithful business glorifies God by being salt and light in the world (Matthew 5:13-16), and the worst outcome for a faithful business is to be the cost leader at the expense of being salt and light. A faithful business in those circumstances can actually undermine its witness and make Christianity suspect to nonbelievers since its principles, policies, and actions become indistinguishable from a similar secular firm and do not honor God. As Jesus noted, if "it loses its saltiness…It is fit neither for the soil nor for the manure pile; it is thrown out" (Luke 34-35).

DIFFERENTIATION AND TRANSACTIONAL STRATEGIES

Differentiation and transactional strategies represent more suitable competitive strategies for a faithful business to pursue. By using these strategies, a faithful business faces a lower risk of both losing the Christian firm's "saltiness" and strategically getting stuck in the middle.

The biggest risk of pursuing a cost leadership strategy for any firm, whether a faithful business or a secular one, is failing to win the cost leadership race and not becoming the cost leader. However, differentiation and transactional strategies, unlike cost leadership, are not necessarily the ultimate domain of just one firm (Porter, 1985, p. 14). With differentiation, unique attributes or niches can either soften the effects of competition for a faithful business or allow a faithful business to be both one of several competitors and effectively compete against its secular counterparts. In a similar manner, reducing customer costs or acting as an intermediary between suppliers and customers under a transactional strategy would allow a faithful business to avoid losing a race for the lowest cost value chain since the focus is not on the firm and its costs, but on customers and their indirect costs.

The higher customer willingness to pay associated with differentiation and transactional strategies provide the faithful business with a source of funding for its multiple bottom lines. As long as the cost of differentiation does not exceed the value perceived by the customer or the firm's ability to capture that value, a differentiation strategy should allow a faithful business to charge a premium price that will both produce a profit and satisfy the financial bottom line while producing the cash flow needed to fund the social and spiritual bottom lines. Costs are part of the equation, since uniqueness has a cost and that cost tends to be high. Uniqueness can range from operating a limousine company that only uses hybrids or other environmentally friendly vehicles and pays salaries and benefits to drivers rather than treating them as independent contractors to a consumer products company that pays a higher price to its suppliers for organic ingredients and prefers to hire people at risk, despite potentially higher training and turnover costs (Field, 2007,

p. 2). As a result, a faithful business pursing a differentiation or transactional strategy must be cognizant of costs and pursue cost efficiencies and reductions where possible. However, costs are only half of the equation due to the increased customer willingness to pay and the price premium associated with a differentiation strategy. This second half of the equation gives a faithful business the breathing room it needs to integrate the counter-cultural demands of Christianity with its operations.

Another source for a differentiation or transaction advantage is innovation. Martinez (2003) notes in connection with innovation that

> *[f]rom the standpoint of the Christian who believes that man is made in the image of God, the creative aspect of business is important and exciting*

and

> *[t]he process of innovation in organizations is of great strategic importance, and Christians must be creative and innovative in their economic pursuits (p. 91-92 and 95).*

Although creativity and innovation are not unusual in the drive to developing a cost advantage, especially via process innovation, they are even more critical in differentiation and transactional advantages. As Spulber (2004) notes, "[a] differentiation strategy requires innovation" since "[t]he only way to achieve and maintain a differentiation advantage is to continue to improve the company's products or develop new ones" (p. 231). Creativity and innovation are key elements in inventing or spotting a unique solution that either lowers customers' costs or raises customers' performance. Both product innovation and creating innovative transactions through combining suppliers and customers in new ways or in creating new combinations of suppliers and customers requires a sensitivity to customer needs. Christianity, with its emphasis on freedom from self to be free to serve others, may even help a faithful business be more customer focused than a similar secular firm, and, thus, a more successful differentiator or transactional innovator.

At its core, with its mission to glorify God, a faithful business is a differentiator. By definition, it is eschewing worldly standards for higher standards and profit maximization for reasonable profits after absorbing the costs associated with its social and spiritual bottom lines. Thus, a differentiation strategy closely fits with the very nature of a faithful business, and a faithful business operating its business as a mission may itself provide a source of differentiation that can increase a customer's willingness to pay within certain markets. Potential customers who are Christian may be willing to accept the price premium associated with the products or service of a faithful business as part of their giving or tithing if they understand the Kingdom values that underlie its mission and operations and trust the company. Rundle & Steffen (2003) note that Pura Vida Coffee's philanthropic focus is a key source of competitive advantage for the company, presumably a differentiation advantage for its target market of faith-based and socially conscious consumers (p. 144). Thus, "in 2005, students at American University staged a protest, demanding that the college choose Pura Vida as its coffee supplier" (Field, 2007).

Pura Vida Coffee's mission is to "create good by using capitalism to empower producers, motivate consumers, inspire business leaders, and ultimately serve the poor" (Pura Vida Coffee website). The holistic nature of Pura Vida Coffee's business as mission is revealed in the following company statement:

> *By utilizing every facet of our company – capital structure, governance, employee recruitment, product sourcing, marketing and sales – to achieve social outcomes, we can demonstrate that the worlds of business and charity can not only coexist, but can thrive on one another (Id.)*

To meet its financial bottom line, Pura Vida Coffee sells upscale, fair trade, organic, shade-grown coffee at a premium price and focuses on marketing and selling its coffee, coffee equipment, and coffee service solutions to religious organizations and college campuses. Although Pura Vida Coffee pays twice the normal price for coffee beans, it also charges customers 70% to 100% more than conventional coffee (Field, 2007). Revenues have grown from $34,000 in 1999 to $3.6 million in 2006 (Id.; Rundle & Steffen, 2003, p. 153). The financial bottom line supports Pura Vida Coffee's social bottom lines by providing living wages to farmers in developing countries and by protecting the environment (Pura Vida Coffee website). In addition, Pura Vida Coffee differentiates itself through its corporate model. The company serves as a funding engine for charitable programs for coffee growers and their local communities and for the charitable organizations that hold its stock (Id.)

Although Rundle and Steffen (2003) don't explicitly endorse the feasibility of a differentiation strategy over a cost leadership strategy for a faithful business, they seem to implicitly adopt the idea for Great Commission companies. In examining the steps necessary to launch a Great Commission company, one of the three important questions that a Kingdom entrepreneur needs to ask in evaluating a business opportunity is "what makes the business unique" (Rundle & Steffen, 2003, p. 79). Uniqueness is a hallmark of differentiation. As Porter (1985) notes,

> *[a] firm differentiates itself from competitors if it can be unique at something that is valuable to buyers (p. 119).*

In evaluating whether the idea for a Great Commission company is viable,

> *the more serious entrepreneurs should have a clearly identifiable plan for growing the company and for producing a 25- to 50-percent annualized return for the investor (Rundle & Steffen, 2003, p. 82).*

Although aggressive rates of return are not the exclusive domain of differentiators and transactional innovators, achieving such high rates of return through a price premium coupled with cost efficiencies will be easier than relying on cost efficiencies alone. Finally, in addition to Pura Vida Coffee, many of the examples of Great Commission companies provided by Rundle & Steffen (2003) appear to be differentiators. The chapter about turning the vision of a Great Commission company into reality follows the hypothetical example of Cedric, a chemical engineer who has invented a new anti-counterfeiting ink for currencies, a differentiated product (Rundle & Steffen, 2003, p. 77-79). The Silk Road Handicraft Company's competitive advantage is based on the high quality home furnishings and artistic collectibles it produces (Rundle & Steffen, 2003, p. 114, 116). Quality and design are dimensions of differentiation. In fact, one of the problems the Silk Road Handicraft Company faced was low-cost competitors selling less expensive versions of its products, a typical problem for differentiators (Rundle & Steffen, 2003, p. 116). Gateway Telecommunication Services is described as a provider of "*customized* telecommunication services to the hospitality, tourism and telecommunications industries" and finding success in "defendable *niches*, particularly in the area of meeting the telecom needs of tourists" (Rundle & Steffen, 2003, p. 181. 188; emphasis added). Customization and a focus on niches are aspects of differentiation.

CONCLUSION

At the end of their paper entitled "Toward a Theology of Business," Daniels et al. (2003) ask the following questions:

> *Can a redemptive approach to business model [sic] be implemented in a marketplace where most competitors play by the traditional approach (i.e. profit maximization and property acquisition)? If so, what are Christian strategies for sustainability (p. 12)?*

A faithful business, that is a firm holistically integrating Christian theological and social principles with its business operations for the glory of God, can successfully compete with secular firms while living out the Great Commandment and the Great Commission. However, since a holistic business mission involving principles such as justice, love, and *shalom* require spiritual and social bottom lines as well as a financial bottom line, a faithful business will have difficulty using all of the competitive strategies available to a firm. One of the costs of discipleship may be pursing differentiation strategies and transaction innovation strategies rather than a cost leadership strategy.

What does this mean for Christian businesspersons? A Kingdom entrepreneur seeking to do business as a mission through a faithful business should focus on business opportunities where the competitive advantage is based on differentiation or is transactional. Typical business opportunities would be those based on product design or innovation, those offering a unique mix of products or services, those that create a community, or those that offer a unique experience (Kumar, 2006, p. 109). A critical factor in evaluating these business opportunities is determining their sustainability, especially the ability of the business to avoid imitation by competitors. In a similar manner, a Christian businessperson who wants to begin to transform an existing business into a faithful business should implement two initiatives to increase the gap between the firm's costs and its customers' willingness to pay. First, both direct and transaction costs should be reduced. Second, the level of differentiation for the firm's products or services should be deepened. For an existing business, the key to implementing a differentiation or transactional advantage is finding ways of reducing customer costs or raising customer performance and communicating those increases in value to customers (Porter, 1985, p. 131). A critical factor is ensuring that the value perceived by the customer from the differentiation does not exceed the cost of differentiation (Porter, 1985, p. 153). The specifics of how to implement these suggestions will vary from industry to industry and business to business. However, an overall framework based on differentiation or transactional advantage will provide the faithful business with the most favorable conditions for success, both in its Christian mission and in its underlying business.

ENDNOTES

[1]For the origin of the phrase "godless hordes," see Martinez, 2004, p. 15.

[2]The term "faithful business" is not meant to imply that a for-profit firm owned or operated by Christians that does not holistically integrate Christian theological and social principles with its business operations is unfaithful. However, the two firms are different. In a similar manner, Rundle and Steffen (2003) specifically distinguish a Great Commission company from a "mere" Christian company.

[3]The focus of this paper is on a Christian for-profit firm, especially the start-up company of a Kingdom entrepreneur. The dilemma faced by a Christian manager of a secular firm is a difficult one given the agency and fiduciary issues and the conflict between shareholder primacy, stakeholder primacy, and common good models of corporate governance. This dilemma is beyond the scope of this paper.

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