

Competitive Advantage

Having identified all the resources and capabilities in the organisation, you have to assess each one in terms of its contribution to the firm's competitive advantage (or lack of it). Jay Barney (1991) proposed four tests – valuable, rare, inimitable and non-substitutable – that a resource or capability must pass in order to support and sustain a competitive advantage. These tests are often referred to by the acronym VRIN.

A resource or capability which can support a competitive advantage should be:

Valuable – The resource or capability allows the organisation to exploit opportunities or mitigate threats and is relevant to its strategy. It should be able to enhance the organisation's business model through making either the customer value proposition or the operating model more effective or efficient.

Rare – Only a few organisations in the sector or market control the resource or have the capability. In the global hotel sector, brands such as Novotel, Holiday Inn and Crowne Plaza are valuable, but as all the major players, including Accor, Hilton and Marriott, have a portfolio of brands, this does not constitute a 'rare' resource.

In order to sustain competitive advantage over a longer period of time the resource or capability needs to pass two additional tests:

Inimitable – It's hard to copy. A number of factors can make a resource or capability inimitable, for example:

It may be socially complex or difficult to analyse ('causally ambiguous'). For example, animated film studio Pixar's creativity and innovation capabilities are difficult for other firms to copy because they are embedded in the organisation's culture. Disney bought the company because it saw it as a less expensive way of acquiring these capabilities than trying to develop them in-house.

It may have been built up over many years. For example, established food and drink brands such as Coca-Cola and Heinz have invested in brand building over many years, and the cost of achieving the same level of recognition and loyalty in a short time would be prohibitively expensive for most organisations. Similarly, organisations that have owned city centre property or prime retail sites for many years will have a significant advantage over newer rivals.

Non-substitutable – If there are no equivalent alternatives then the resource or capability would pass this final test. However, it can be difficult to know just what customers would perceive as an acceptable substitute.

More recent studies (Barney and Hesterly, 2011) have suggested one further test:

Does the organisation exploit the resource or capability? – Managers need to configure their organisation in order to make most effective use of the key resources and capabilities identified in their internal audit. This might be the way the organisation is structured, its policies and systems or its culture. This has been captured as the VRIO framework. The 'V'

and 'R' being the same as in VRIN, then the 'I' referred to as 'costly to imitate' and the 'O' being 'organised'.

