VRIO

Idea In Short

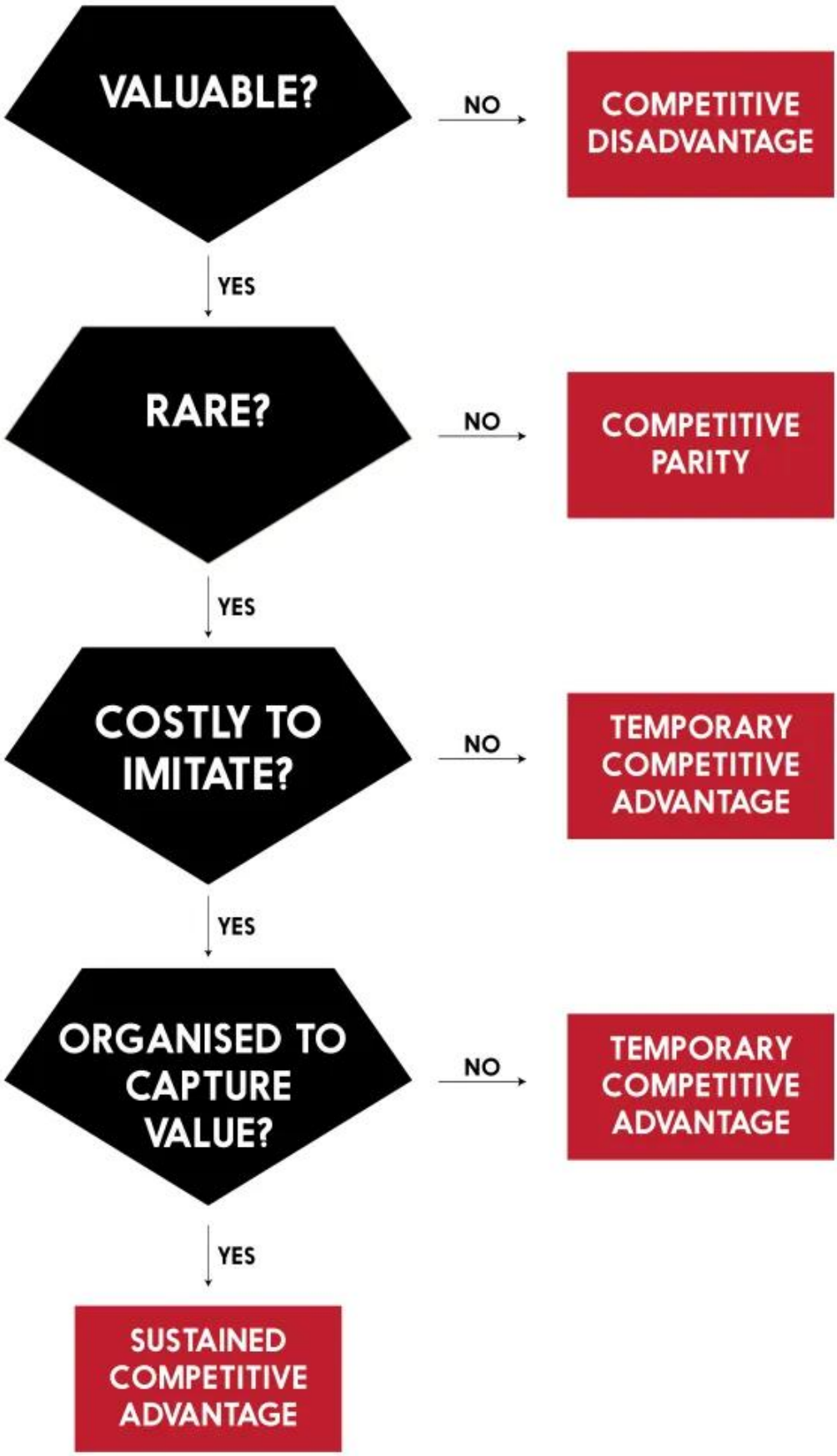
At the start of this century, American management professor Jay B. Barney developed the so-called VRIO Framework or VRIO Analysis. The VRIO Analysis is perfectly suited for the evaluation of the use of company resources.

The VRIO framework is a strategy tool that helps organisations identify the resources and capabilities that give them a sustained Competitive Advantage. Usually, companies possess various kinds of resources and capabilities. For example, such resources could be financial, human, organisational, physical, or technological in nature. The VRIO analysis is an internal analysis that helps determine the quality and usefulness of a firm's resources and capabilities. VRIO is an acronym for:

1. Valuable
2. Rare
3. Inimitable
4. Organization

Origins

This framework was developed in 1991 by Jay Barney 1. The author identified four attributes that firm's resources must possess for sustained competitive advantage. According to him, the resources must be valuable, rare, imperfectly imitable and non-substitutable. Jay called his original framework, VRIN. In 1995, in his later work 2, he introduced VRIO framework as an improvement of VRIN model.


VALUABLE?
NO
COMPETITIVE DISADVANTAGE
YES
RARE?
NO
COMPETITIVE PARITY
YES
COSTLY TO IMITATE?
NO
TEMPORARY COMPETITIVE ADVANTAGE
YES
ORGANISED TO CAPTURE VALUE?
NO
TEMPORARY COMPETITIVE ADVANTAGE
YES
SUSTAINED COMPETITIVE ADVANTAGE

VRIO

Visualization

The VRIO analysis, supplemented by other analytical techniques, help evaluate resources in great detail. For financial resources, there are many detailed financial indicators that reflect the financial performance of a business. Likewise, other detailed indicators reflect performance, efficiency or quality of other departments or functions. The advantage of a VRIO analysis is its simplicity and clarity.

Resource / Capability (Starbucks Inc.)	V	R	I	O
WiFi / Internet access	●	◕	◔	○
R&D Skills	●	◕	◔	○
Coffee brewing equipment	●	◕	◔	○
HR Management	●	◕	◔	○
Coffee house setup	●	◕	◔	○
Employee engagement	●	◕	◔	○
Ability to raise capital	●	◕	◔	○
Employee benefits	●	●	◔	○
Corporate Social Responsibility	●	●	◔	○
Buying power	●	●	●	●
Cost economies	●	●	●	●
Scale economies	●	●	●	●
Innovation potential	●	●	●	●
Supplier relationships (e.g. coffee producers)	●	●	●	●
Customer Experience	●	●	●	●
Leadership & Vision	●	●	●	●
Brand equity	●	●	●	●

VRIO Analysis Of Starbucks

Resource-based view

The VRIO framework is part of the Resource-Based View [RBV] managerial framework - a perspective that examines the link between a company's internal characteristics and its performance. Therefore, RBV is complementary to the Industrial Organization [IO] perspectives. Industrial Organization considers such external factors as competitiveness to

determine performance and profit potential. According to RBV, organizations should within their company to find the sources of competitive advantage rather than the competitive environment. Therefore, the key determinants in this framework are:

- Firm Resources, and
- Sustainable Competitive Advantage

Firm Resources

A firm's resources are defined as:

> all assets, capabilities, organizational processes, firm attributes, information and knowledge controlled by a firm that enables it to improve its efficiency and effectiveness

Resources are often classified into categories such as **tangible** (e.g. equipment, machinery, land, buildings and cash) and **intangible** (e.g. trademarks, brand reputation, patents and licenses) or physical, human and organizational resources.

Sustainable Competitive Advantage

For companies to transform resources to sustainable competitive advantage, resources must have four attributes, namely:

1. Valuable
2. Rare
3. Inimitable, and
4. Organization-wide supported

Valuable

First and foremost, resources must be valuable. Resources are valuable only when they enable a firm to achieve sustainable competitive advantage. Resources should help enable strategies, exploit opportunities or mitigate threats. Furthermore, they should improve efficiency and effectiveness. Net Present Value [NPV] appraisals help ascertain the quantitative value of resources. A company is at a competitive disadvantage, if none of its

resources are considered valuable.

Rare

Secondly, resources must be rare. If only a few companies can acquire some resources, then those resources are considered rare. If many players in an industry have access to a certain valuable resource, then each of the players can exploit that resource in the same way. Then none of the players gain a competitive advantage through that resource. This situation is called competitive parity or competitive equality. If a company has access to a large amount of valuable and rare resources, it is likely to have, at least, a temporary competitive advantage.

Inimitable

Valuable and rare resources help companies to engage in strategies that other firms cannot pursue. However, this is no guarantee for long-term competitive advantage. Such resources may give a company a first-mover advantage, but competitors will probably try to imitate these resources. Resources that are hard and costly to imitate or substitute are more valuable. However, resources can be imperfectly imitable due to:

1. **Unique historical conditions:** past choices influence a company's present and future strategic options
2. **Causal ambiguity:** This is a phenomenon where competitors do not fully understand the attributions between a company's resources and the sustainable competitive advantages they offer. Competitors won't be able to mirror the company's strategies because they simply don't know which resources to imitate
3. **Social complexity:** In this scenario, a company's resources rely on the strength of its social network, relationship, culture and supplier / customer networks. Hence, competitors cannot easily replicate a company's strategies because is very hard for them to build an identical social network. Diverse factors, inter-linked in a complex web of social structure and relationships define such scenarios. Competitors can simply not imitate such complex, relationships-based social structures

Organization-wide supported

The resources themself do not create any advantage for a company. To exploit the

advantages and derive value, a company should appropriately organized itself. Therefore, the company should effectively assemble and co-ordinate its resources. Some examples of these organizational components include the company's formal reporting structure, strategic planning and budgeting systems, management control systems, logistics network, etc. Without proper organization, the company cannot appropriately acquire, use and monitor its resources. This applies even to companies with valuable, rare and imperfectly imitable resources. Without organization, a company cannot create a sustainable competitive advantage through its resources. When all four resource attributes are present, a company has a distinctive competence that it can used to build sustainable competitive advantage.

Application of VRIO framework

The VRIO approach facilitates a systematic analysis of tangible and intangible resources and capabilities along the organisations' value chain. It helps to identify existing competencies to formulate strategies. Likewise, this framework reveals the competencies the organisation should be keep, protect, or enhance. Competences and resources evolve within an organization. Correspondingly, managers should periodically revisit this framework to adapt to the changes in the competitive environment.

- If the resource is not valuable, then the firm should outsource it as it is of no use to the firm
- If the resource is valuable but not rare, then the firm is in competitive conformity. It means that even though the firm is performing badly, it is still better than its competition
- If the resource is valuable and rare and not expensive to imitate it, then the firm has a temporary competitive advantage. But, if in the future, other firms try to imitate, then the competitive advantage is lost
- If the resource is valuable, rare and is expensive to imitate it but the firm is not able to organize them, the resource becomes expensive for the firm.

Summary

A VRIO analysis can be applied company-wide or to individual departments for a well-

rounded view of how each aspect of your business should position itself in the marketplace. The best time to review your VRIO is at the onset of your strategic planning process. Commiting to the VRIO process and evolving your analysis over time will protect your sustained competitive advantages.