

VRIO ANALYSIS

COMPETITIVE IMPLICATION	ECONOMIC IMPLICATION	1. VALUABLE?	2. RARE?	3. INIMITABLE?	4. ORGANISED?
Disadvantage	Below normal returns	No	n.a.	n.a.	n.a.
Parity	Normal returns	Yes	No	n.a.	Yes
Temporary advantage	Above normal returns (temporary)	Yes	Yes	No	Yes
Sustained advantage	Above normal returns	Yes	Yes	Yes	Yes

'Example of VRIO Analysis results'

In 1996, then-World Chess Champion Garry Kasparov sat down to the sixth game in his match against Deep Blue, IBM's supercomputer. Kasparov emerged the victor, winning three games, drawing in two, and losing one. When Deep Blue and Kasparov sat down to a rematch a year later, the computer eked out a victory. Photo: Kasparov makes his first move.



When can the method be used?

VRIO Analysis is a part of internal analysis and should be done during the planning stage of product innovation. It pinpoints the internal strengths that can be used to exploit opportunities and neutralise threats. Knowing which resources/capabilities the organisation excels in is important. If the project demands a resource/capability that the organisation does not have, managers need to take the necessary actions to nurture it, when possible, or obtain it via other means, for example by outsourcing. If these activities are out of the question, the resource needs of the project may need rethinking.

How to use the method?

A VRIO Analysis is fairly structured, so it does not allow much flexibility. It is also linear, meaning that it does not require iteration unless there have been errors.

Possible procedure

STEP 1

Identifying the organisation's resources and capabilities.

STEP 2

Assessing each resource with respect to the following criteria, in the following order: Value, Rarity, Imitability and Organisation.

- Value: Does this resource/capability add value? This can take the form of increased efficiency, better quality, improved customer responsiveness and greater innovation capacity.
- Rarity: Do many other organisations also possess this resource/capability?

VRIO Analysis is a useful method for determining the competitive potential of an organisation's resources and capabilities, that is, WHAT IT HAS and WHAT IT CAN DO. It helps you to identify which of these resources and capabilities the organisation excels at, thereby setting it apart from competitors.

- Imitability: Is it easy for other organisations that currently do not possess this resource/capability to acquire or develop it?
- Organisation: Do the current organisational structure and practices allow this resource/capability to be used to its full potential?

STEP 3

Determining the competitive and economic implications of each resource based on this evaluation. Resources that are valuable, rare, inimitable and organised are sources of sustainable competitive advantage for the organisation.

Limitations of the method

- VRIO Analysis requires individual judgement and, to a certain extent, expertise on part of the user. For example, assessing how imitable a resource is demands a thorough understanding of how this resource is cultivated and this can take many different forms. VRIO Analysis merely facilitates the identification of the current sources of competitive advantage for the organisation. It does not say anything about how new sources of competitive advantage can be fostered.

Tips & Concerns

- It is crucial to come up with an exhaustive list of resources before embarking on the analysis.
- All resources of the company – tangible, intangible and organisational capabilities – should be considered.
- VRIO Analysis should be done individually for each resource/capability. It should not be done on the organisation as a whole.
- A VRIO Analysis should be updated regularly. For instance, the value of a resource can change over time. Or new technological developments may make it easier for competitors to imitate it. Consequently, what was once a source of competitive advantage may now yield only normal returns.
- A resource/capability that is not valuable for the organisation can be a core rigidity if it prevents other resources/capabilities from developing. Since VRIO Analysis originates from the resource-based view of the firm, having a good understanding of the resource-based view will be very helpful for implementing the analysis effectively and efficiently.

REFERENCES & FURTHER READING: Barney, J.B., 1991. *Firm resources and sustained competitive advantage*. Journal of Management, March, 17(1), pp. 99-120. / Johnson, G. and Scholes, K., 2002. *Exploring Corporate Strategy: Text and Cases*. 6th ed. London: Prentice Hall. / Mullins, J.W. and Walker, O.C., 2013. *Marketing Management, A Strategic Decision-Making Approach*. 8th ed. Singapore: McGraw-Hill/Irwin. / Wernerfelt, B., 1984. *A resource-based view of the firm*. Strategic Management Journal, April-June, 5(2), pp. 171-180.