

# Utilization of Internal Analysis with the VRIO Framework and Development of Scale for Resource and Capabilities of Fashion and Design Organization

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## ABSTRACT

In this ever-changing world where things are not easily stable for a long time finding the source of competitive advantage has become an essential area in the research of strategic management especially in fashion and design organization. The VRIO framework is one of the methods frequently used in conducting internal analysis to find out the competitive advantage. However, this framework comes with its weaknesses such as its inability to be used to determine how strong the competitive advantage of the company can be managed by them. VRIO framework means that the resources have the following characteristics: value, rarity, inimitability, and organization. If the resources are valuable they may provide competitive equality. If they are also rare, they may provide current competitive advantage. If they are hard to imitate, they may provide sustainable competitive advantage, but only within the context that supports their effective and efficient usage. For that reason, the objectives of this paper are to create assessment scales to determine how well the resources or capabilities has been managed by the company in a VRIO framework. To elaborate on the utilization of VRIO scale, a case study in a Fashion and Design University was used.

**Keywords** – Internal analysis, Resource based view, Utilizing the VRIO scale, Value chain Analysis

## INTRODUCTION

The VRIO framework became popular thanks to Jay B. Barney in 1991. The VRIO framework focuses solely on evaluating internal resources and is intended to help identify the specific resources that make a firm more competitive.

The relationship between the resources managers control and the performance of the firm is one of the critical strategic analysis tasks for managers (Knott, 2015). In recent years, arguably the dominant theoretical framework underpinning this relationship has been the resource-based view (RBV) of the firm (Wernerfelt, 1984; Barney, 1991). Recognition of resource heterogeneity and immobility between firms distinguishes this view from the simple notion that firms have strengths and weaknesses. From the resource-based literature, the value-rarity-imitability- organization (VRIO) technique (Barney, 2002) has become widely advocated for assessing the extent to which a firm's resources meet the criteria for sustained competitive advantage, even though the strategy field has debated whether the RBV is a useful perspective for strategic management research (Barney, 2001; Lockett et al., 2009; Kraaijenbrink et al., 2010).

The advantages of the VRIO framework include;

1. Allowing an organization to take advantage of previously unrecognized competitive
2. Helping set the course for future plans and better allocation of business
3. Producing insights that may help identify and evaluate possible opportunities and threats to determine which ones are more important.

Despite its widespread adoption as a cornerstone of strategic management, emphasizing internal resources for competitive advantage, the RBV has attracted criticism for its limitations (Barney, 1991). These critiques highlight the RBV's lack of specificity, leaving managers unsure of which resources to develop, its static perspective neglecting the dynamic nature of competition and its inward focus overlooking the external environment (Priem & Butler, 2001; Lockett et al., 2009; Kraaijenbrink et al., 2010; Hamel & Prahalad, 1994; Teece, Pisano & Shuen, 1997).

While the VRIO framework is useful for understanding competitive position and providing strategic insights, it also has some drawbacks which include the following;

1. **Dynamic Business Environment:** The business environment is constantly changing, making it difficult (but not impossible) to have a sustainable competitive advantage for the long term; three to five years is more realistic. Resource-based theory acknowledges as a basic principle that a firm may lose a "sustained" advantage over time if supply or demand conditions change (Barney, 1991; Porter, 1985). For example, Blockbuster once held a seemingly unassailable advantage in video rentals with its vast network of stores. However, the rise of online streaming services like Netflix rendered their physical stores obsolete (Schmitt, 2014). VRIO may have identifies Blockbuster's extensive network as a valuable resource, but it failed to account for the dynamic nature of the industry and the potential of disruptive technologies (Christensen, 1997). On this basis, managers evaluating resources of a firm ought to take account of how these conditions are evolving (Knott, 2015).

2. **Challenges for New and Growing Businesses:** Up-coming, growing and small businesses may find it more difficult to apply the VRIO framework simply because they have not yet fully developed their resources or capabilities to establish a sustained competitive advantage. For instance, a new craft brewery might struggle to identify resources that are valuable, rare and inimitable compared to established giants. While their unique recipe might be valuable, replicating it may not be difficult for larger competitors with more resources. VRIO can be a useful tool for these businesses to identify areas for development, but it may not readily reveal existing sustainable advantages (Collis & Montgomery, 1995).

3. **Internal Focus – Need for External Analysis:** VRIO is solely an internal analysis, focusing on a company's resources and capabilities. However, to gain a complete picture, external factors like competitor actions, industry trends, and customer preferences need to be considered (Wright, 1997). SWOT analysis, for example, incorporates both internal and external factors, providing a more holistic view of a company's strategic position (Fredrickson, 2017). Relying solely on VRIO might lead a company to overlook external threats or miss opportunities to leverage external trends to their advantage (Fahey & Randall, 2008).

Its application includes the following;

The VRIO Analysis is often used to refine and define an organization's vision statement.

VRIO is an acronym for a four-question framework focusing on value, rarity, imitability, and organization, the criteria used to evaluate an organization's resources and capabilities. In essence, it involves assessing attributes of the firm for strategic value, rarity, difficulty of imitation, or substitution, and degree of exploitation by the firm (Knott, 2015). One has to define these four things, write the vision statement, and then create the strategic plan to reach it.

Questions that needs to be asked include;

1. What makes your organization special?
2. How close are your competitors to overtaking you?

The VRIO framework is a strategic planning tool designed to help organizations uncover and protect the resources and capabilities that give them a long-term competitive advantage.

Here, it is not simply talking about a list of strengths, which are things a company does well but are not necessarily unique to the organization nor is it about advantages that are fleeting.

Sustainable competitive advantages are those that competitors can't easily duplicate in the foreseeable future; they are also a crucial element of business success.

Whether an organization has one or many sustainable competitive advantages, a VRIO analysis will help to identify and leverage them as part of your strategic plan. Before one gets started, a list of resources and capabilities is made.

Uses of VRIO results include the following;

It's important to conduct a VRIO analysis in the early stages of strategy planning, before making your strategic plan. In particular, this exercise will inform your vision statement, which is a forward-thinking proclamation of where your company wants to be in the future. The differentiators and advantages you identify through VRIO will help determine how to approach the marketplace and inform strategic decisions that shape the fate of the company.

The VRIO framework can also inform the SWOT analysis. Whatever competitive advantages you uncover should be included in the "Strengths" section of the SWOT analysis. Even some resources that do not pass the full VRIO test may still be considered strengths (for instance, if something is VRO—valuable and rare, and your organization can capitalize on it); however, a resource or capability cannot be identified as a sustainable competitive advantage unless it meets all the criteria and that's where the uniqueness lies. On the flip side, if an existing resource is not yet a sustainable competitive advantage and the organization would like to change that, it could identify it as a "weakness" or an area that needs improvement.

### **A. Identification of competitive advantage using the VRIO framework**

By utilizing the value chain model, an identification technique for competitive advantage based on the valuation using VRIO framework is developed. The VRIO framework is structured with a number of questions about resources and capabilities, using four indicators of valuability, rarity, imitability and organization (Ariyani et. al., 2018). The four questions used in the analysis of the VRIO framework, are as follows:

a. Valuable: whether these resources/capabilities can encourage companies to make the operation process more efficient and effective, or can be used to exploit external opportunities or counteract threats (Ariyani et. al., 2018).

b. Rare: whether the resources/capabilities are controlled only by a small number of companies or rarely owned by other companies (Ariyani et. al., 2018).

c. Imitability: whether the resources/capabilities are hard to imitate or replicate by other companies (Ariyani et. al., 2018).

d. Organization: whether the resources/capabilities are supported and managed by the company appropriately (Ariyani et. al., 2018).

Therefore, in order to obtain sustainable competitive advantage, a resource or capability should be:

1. Rarely owned by another
2. Difficult to obtain / hard to imitate by other companies, and
3. Will be well managed by the

Based on the explanation above, the use of VRIO framework is very appropriate to be used in searching for sustainable competitive advantage. However, the VRIO framework is unable to provide assessment for the third sustainable competitiveness criteria which could be well- managed by the company. Therefore, for the fourth question point of “organization”, it can be combined with the Likert scale (1-4) to demonstrate the assessment score of a company’s ability to manage the said resources/capabilities (Ariyani et. al., 2018).

Making good use of Fashion and design organization’s resources and capabilities is very crucial in determining the competitive advantage an organization has over others. However, much has not been done pertaining to analysis with the VRIO framework and also the development of scale for resource and capabilities of Fashion and design schools. In the light of the preceding analysis, the purpose of the study is to operationalize the internal analysis using the VRIO framework and develop a scale for resource and capabilities of Fashion and design organization.

## METHODOLOGY

A very significant decision in research design process is the choice to be made regarding research approach since it determines how relevant information for a study will be obtained; however, the research design process involves many interrelated decisions (Sileyew, 2019).

According to Sileyew (2019), research methodology generally provides researchers with the blueprint for research. A Case study was used and it was backed by the quantitative research approach in order to get the intended outcome of the study. The quantitative component allows the researchers to examine more variables about the real world phenomenon that is typically not possible with other approaches (Memon, Syed & Qureshi, 2017).

The quantitative data was collected through structured surveys administered to the study participants to ensure a thorough exploration of the issue under study. A survey strategy was used to explore the utilization of internal analysis with the VRIO framework and development of scale for resource and capabilities of the fashion and design organization. According to McCombes (2023), a survey is a flexible method of data collection that allows the collection of standardized data from a sizeable population in a highly economical way which allows for easy comparison.

In this study the target population comprised of all lecturers in the selected University. However, all adjunct faculties were excluded in the study and a total of seven full-time lecturers were purposively selected to participate in answering the questionnaire in the selected fashion and design University.

The instrument that was used for the collection of data was the questionnaire. A questionnaire is a structured set of questions designed to collect data on specific variables of interest (Babbie & Mouton, 2018). The questionnaire consisted of closed-ended questions which allowed for clear and concise responses from respondents.

Each respondent was asked to respond to the same set of questions and this provided an effective way of

collecting responses from a sample prior to quantitative analysis.

The items on the questionnaire were organized into four parts (A to D). Part A consisted of items that collected data on respondents' background information. Parts B to D were organized under the following: Capacity and expertise, respondent's view of the organization as well as motivation and loyalty.

### A. Case Study of a Fashion and Design University

This study made use of the model by Ariyani et. al. (2018) and modified it to suit the recent study; here table of internal environment analysis using resource based view were used where as to identify the resources and capabilities as competitive advantage, the VRIO framework was used.

### B. VRIO Test

Using the resources and capabilities in the selected fashion and design University, the next step is to conduct an analysis using the layered analysis of VRI Test (Value Rarity, and imitability) they are presented in Table 1

Table 1: VRI Analysis

Resource /Capacity	V	R	I	Strengths/Weaknesses	Performance
Educational level of lecturers	✓	✓	—	Temporary Competitive Advantage	Above Normal
Qualified and well experienced lecturers	✓	✓	✓	Proceed to organization	Above Normal
Clear mission and objective of the University	✓	✓	✓	Proceed to organization	Above Normal
Advanced technology and facility as compared to other Universities	✓	✓	✓	Proceed to organization	Above Normal
Strategic location of the school	✓	✓	✓	Proceed to organization	Above Normal
Good administration of the University	✓	✓	✓	Proceed to organization	Above Normal
Fees pricing is high in its class	—	—	—	Proceed to organization	Below Normal
Position as best fashion and design University	✓	✓	✓	Proceed to organization	Above Normal
Improvement of quality of employee	—	—	—	Competitive Disadvantage	Below Normal
Employees motivation	—	—	—	Competitive Disadvantage	Below Normal
Loyalty of the employees	—	—	—	Competitive Disadvantage	Below Normal

Source: Researcher's approach, 2024

One can categorize the strengths or weaknesses of a company's resources or capabilities based on its competitive and economic performance (Ariyani et. al., 2018). Table 1 revealed that the fashion and design University has some weaknesses, among others: (1).Fees pricing is high in its class, (2) Improvement of quality of employee, (3). Employees' motivation and (4). Loyalty of the organization employees.

The strategic strengths were: (1). Qualified and well experienced lecturers, (2). Clear mission and objective of the University, (3). Advanced technology and facility as compared to other fashion schools, (4). Strategic

location of the school, (5). Good administration of the University, (6). Position as best fashion school. This list of strengths can be used by University to achieve its competitive advantage.

The study used a likert scale to find out the level of influence of the resources and capabilities on the organization. The likert scale for decision making is shown in table 2.

Table 2: Likert scale for decision making

Scale	Description
0	No influence
1	Low influence
2	Medium influence
3	High influence
4	Very high influence

Source: Fashion and design University 0-4 Influence Scale

In order to determine the level of the University’s ability in managing of their resources or the potential source of competitive advantage, an assessment of the “Organization” in the VRIO framework based on the Likert scale are presented in Table 3.

Table 3: Assessment of Organization Scale

Resource/Capabilities	Organizational scale				Organization level of capability	Competitive Implication
	1	2	3	4		
Qualified and well experienced lecturers				7	100%	Proceed to organization analysis
Clear mission and objective			1	6	96%	Proceed to organization analysis
Advanced technology and facility as compared to other fashion Universities			1	6	96%	Proceed to organization analysis
Strategic location of the school			1	6	96%	Proceed to organization analysis
Good administration			1	6	96%	Proceed to organization analysis
Position as best fashion			1	6	96%	Proceed to organization analysis

Source: Researcher’s approach, 2022

Based on the results of organizational level analysis, the competitiveness used for the University to create a sustainable competitive advantage were: (1). Qualified and well experienced lecturers, (2). Clear mission and objective, (3). Advanced technology and facility as compared to other fashion Universities, (4). Strategic location of the University, (5). Good administration and (6). Position as best fashion University.

## FINDINGS

The key finding is that lack of motivation and improvement of quality of employees were the cause of lack of loyalty of employees which is a competitive disadvantage to the fashion and design University.

Findings revealed that, the location of the school, qualified and well experienced employees as well as its advanced technology and facility were the reasons that has placed the University in the position of being the best fashion University which can be used to create a sustainable competitive advantage.

## CONCLUSIONS

To conclude, VRIO focuses attention on pre-existing operations, it therefore would not be a good starting point for firms seeking to move beyond an existing business model or strategy paradigm (Knott, 2015). However, despite these limitations, using VRIO ought to help managers perform better analysis than otherwise (Knott, 2015). Resource Based View approach is a managerial framework which is used to determine the competitive advantage of a firm or organization with the main aim of achieving a sustainable competitive advantage to a firm.

## RECOMMENDATIONS

It is recommended that the VRIO framework and Likert measurement scale is combined in order to measure the level of proficiency of a company in managing resources/capabilities as a source of its competitive advantage. As result, if an organization is able to conduct an effective and efficient performance improvement of its potential resources or capabilities it would be able to build sustained competitive advantage in the business over its competitors. It is suggested that, further research should be done on the use a combination of VRIO framework with Likert scale for other fashion and design Universities.

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