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Intangible resources of competitive advantage: Analysis of 49 Asian airlines across three business models

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ABSTRACT

Without sustainable competitive advantage firms have limited economic reasons to exist and will decline. Competitive advantage concerns the factors which provide competitive strength. This paper is based upon the resource-based view which considers firm resources to be heterogeneous and which believes that firms only have a small bundle of core resources irrespective of their overall performance. This research establishes the role of 36 intangible resources for 49 Asian airlines across three business models: network airlines; low-cost subsidiaries from network airlines; and low-cost carriers. It uses the VRIN framework which examines whether resources are valuable, rare, inimitable, and non-substitutable. Research participants distribute points between their chosen seven resources according to their perceived role in firm performance. Resources which meet all four requirements of VRIN are considered core competences and sources of sustained advantage. Across all 49 Asian airlines, the top-three most important resources of advantage are slots, brand, and product/service reputation. While these core resources are predictable, they have not previously been proven within the context of airlines, let alone geographically and by airline model. Results show that the core bundle of resources vary for each model, which helps to explain the difference in performance across models, and that some resources which were expected to be high-ranking, such as organisational culture and customer focus, were not.

1. Introduction

In its 20-year forecast to 2034, IATA expects that worldwide passenger numbers will reach 7.3 billion, up from 3.3 billion in 2014 (IATA, 2014). IATA forecasts that by 2034 routes to, from, and within Asia–Pacific will carry 42% of all world traffic, with a mean annual growth rate of 4.9%, the joint-highest worldwide. Asia is increasingly at the forefront of world aviation, with Airbus (2011) suggesting that while Asia's proportion of world revenue passenger kilometres (RPKs) will grow to 34% by 2031, North America's will reduce from 27% to 24% and Europe's from 27% to 20%.

The dramatic growth in air travel to, from, and within Asia is the consequence of the central role played by air transport in tourism, mobility, and hypermobility, but, fundamentally, by the by-products of economic growth, especially price, price elasticity, and income elasticity. Given the considerable number of less economically developed countries within South and Southeast Asia, and that air traffic growth is significant when large segments of population reach middle income (Pilarski, 2007), it is not surprising that Asia is growing so dramatically.

Traffic growth within Asia over the past decade has partially been because of the rise of low-cost carriers (LCCs), which in 2014 represented 25.7% of seats within Asia – virtually identical to the 25.9% worldwide (CAPA, 2015). This rises to 57% for Southeast Asia and 56% for South Asia (CAPA, 2015). The increased competitiveness within Asia, which will increase further following ASEAN open skies scheduled for 2015, has resulted in often significant challenges for the continent's many network airlines – and these threats are growing (Tan, 2014; Fu and Oum, 2014). Asia's network airlines have responded to LCCs in multiple ways, including – more than any other continent – in the growing use of low-cost subsidiaries, or airlines-within-airlines (see, for example, Pearson and Merkert, 2014).

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It is fundamental for network airlines, their low-cost subsidiaries, and LCCs to compete effectively as this will determine their likely success or failure. Indeed, firms should have a competitive strategy that is founded upon and that leverages competitive advantage (Holloway, 2008). This is particularly vital within competitive markets, and firms – irrespective of size, location, and industry – often face an overwhelming competitive situation. Yet firms may be less likely to explicitly seek competitive advantage as competition increases from a preoccupation with more pressing matters, particularly survival.

The need for competitive advantage is heightened because it does not persist ceaselessly and so it must be renewed. Barney (1991) suggested that in the future competitive advantage will become an even stronger source of a firm's strength, hence the growing need for managers, especially from firms within highly volatile markets, exemplified by the airline industry, to develop tools to effectively analyse the internal and external environments to identify the sources that create competitive advantage. This is because sustainable competitive advantage may depend upon the equilibrium between a firm's internal resources and capabilities and the changing circumstances of its external environment (Hofer and Schendel, 1978). Thus, and given Low and Lee (2014) showed that intangible resources are the most important of all resources partly from being less replicable, this paper seeks to identify which intangible resources are more and less important for the competitive advantage of Asia's airlines, while examining how resources vary in importance for Asia's network airlines, low-cost subsidiaries, and LCCs.

2. Existing literature

Two schools of thought try to explain the source of competitive advantage for firms: the market-based view of the firm (MBV) and the resource-based view of the firm (RBV).

In terms of the MBV, every firm operates within a multi-layered and far-reaching environment, with the external environment often changeable, complex, and uncertain (Wharton School, 1997). While such changes may not be within the control of the firm's managers, they may impact firm performance, growth, and decision-making ability, hence the imperativeness of thorough analysis of the external environment to formulate and reformulate strategy and to achieve the firm's objectives (Barney, 1997; Wit and Meyer, 1999; Grant, 2008; Henry, 2008). The MBV concerns the external environment within which firms exist, and it concerns factors which may influence competition and pricing, such as market structure and market power; the four competitive forces (threat of new entry, threat of substitutes, bargaining power of buyers, and bargaining power of suppliers) affecting competitive rivalry and market attractiveness; and political, economic, social, technological, environmental, and legal considerations. Under the MBV, all firms are considered effectively homogeneous in terms of possessed resources and capabilities (Gilbert, 2010), with firm heterogeneity unable to be sustained in the longer-term. This is because of the inherent mobility of resources, and firms within the same industry receive broadly similar information hence often virtually identical, or 'us-too', strategies (Porter, 1980). As such, competitive advantage cannot be attained.

Clearly, the changeable external environment within which firms exist will greatly influence a firm's strategy, competitive advantage, and likelihood of survival. Yet many now consider the MBV of the firm to be less significant for competitive advantage than the RBV, despite that this may mean a firm is too inward-looking and unaware of what is happening around it. Irrespective, the MBV and the RBV are both crucial; after all, a firm may not possess the required resources and capabilities to compete in its chosen position and the ever-changing external environment may determine what must be done, or changed, internally. Hence "the need to connect the competitive ends (a firm's position in the marketplace) and means (what elements allow it to attain that position) is not just crucial but essential" (Barney and Hesterly, 2008).

The RBV is premised upon the desired consequence of managerial effort being the attainment of sustainable competitive advantage and, therefore, the achievement of above-average returns vis-à-vis industry and key competitors. This is achieved by the "superior organisational resources and capabilities to modify the industry's structure or change the competitive game" (Barney, 1991; Prahalad and Hamel, 1990), thereby effectively utilising internal resources to outperform competition and to create sustainable competitive advantage. But resources and capabilities should also prevent losses.

Above-average firm performance does not materialise from the accumulation of potentially rent-generating resources (Hitt et al., 2014), and it does not simply concern unique bundles of resources. Instead, it necessitates more effectively using the available resources, and it requires management leadership that is creative, imaginative, entrepreneurial, and with a long-term investment in resources (Conner, 1991). Inherent in this is resource selection, with the selection and deployment of resources coexisting with strategic industry factors, particularly supplier power, competitive intensity, and industry and product market structure (Oliver, 1997), which together influence rent-generating potential. Amit and Shoemaker (1993) insist that "the challenge for managers is to identify, develop, protect, and deploy resources and capabilities in a way that provides a firm with a sustainable competitive advantage and thereby superior return on capital."

Greater profitability may be achieved either through maximising resource productivity or from deploying resources in a more profitable manner. Yet resources are not in themselves valuable or productive but rather enable a firm to perform particular activities within specific markets. Indeed, competitive advantage does not materialise from the final product or offered service but from the resources that produced them, although competitive advantage will not be sustainable unless the firm uses its resources "to enable it to produce efficiently and/or effectively a market offering that has value for some market segment or segments" (Hunt and Moran, 1995, p.6). Achieved through organisational capabilities, this indicates that firms must continually deliver customer value, hence the intrinsic role of resources in developing value-creating strategies (Porter, 1980; Barney, 1991). Woodruff (1997, p.139) showed that the achievement of customer value, where value is perceived by customers, is crucial for competitive advantage and materialises from an "outward orientation to customers." The significance of customer value was demonstrated within an airline context by Boetsch et al. (2011). The relationship between value and the RBV suggests that managers may obtain greater advantage by "combining, developing, and utilising resources to create more valuable results than competitors" (Conner, 1991). As such, resources are merely inputs to the production process and the intermediate link between activities and advantage (Grant, 1991).

Resources are commonly categorised into three sub-groups: tangible assets; intangible assets; and capabilities.

Tangible resources are physical assets, such as property, vehicles, and machinery, that have a fixed long-term capacity and are comparatively easy to measure. However, tangible assets are unlikely to be sources of sustainable competitive advantage because they are easy to duplicate and are therefore relatively imitable, substitutable, and mobile. In contrast, intangible resources are deemed the most important strategically (see, for example, Barney, 1991; Carmeli, 2001; Hall, 1992, 1993; Itami and Roehl, 1987;