The Corporate Brand: An Intangible Resource as a Basis for Sustainable Competitive Advantage

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Abstract

Studies of the sources of sustainable competitive advantage basically focus on one of the following alternatives: isolating the opportunities and threats and describing the strengths and weaknesses of the companies or analyzing how the first and second alternative to be integrated in order to choose the appropriate strategy. This is the main subject analyzed in this paper. Thinking that the competitive advantage, rather than the external environment, is the primary source of profitability for the company, the attention of companies is drawn towards the sources of sustainable competitive advantage. The resource position of the company is an equally important issue in strategic management just as the choice between differentiation and cost leadership in either wider or narrower market segment. For example, the selection of a strategy of cost leadership implies the existence of: economy of scale, superior process technology, ownership or access to cheap inputs as well as cheap labor. Analogous to this, the advantage of differentiation involves: strong brand, reputation, protected technology, specific channels of distribution and specialization in sales and aftersales services.

The purpose of this paper is to show that the company's strategy should defocus from the claims for monopoly profits (returns from market power) and look for the *Ricardo's earnings* (return on the resources that provide a competitive advantage over the actual cost of such resources). The corporate brand as the most specific resource of companies plays well such a role. The process of selection and implementation of the strategy should result in a choice that most effectively utilizes this key resource.

Thus, the research involved analysis of a sample of companies, using a semi-structured questionnaire and the results were acquired through proper statistical analysis.

The research results lead to a clear understanding of the dominance of the corporate brand in terms of the features that a source of sustainable competitive advantage should meet.

Key words

Competitive Advantage, Corporate Brand, External Environment, Intangible Resources, Profitability

1. Introduction

The company's resources include all assets, capabilities, organizational processes, attributes, information and knowledge that the company owns and controls that enable it to define and implement strategies which improve its efficiency and effectiveness. With the language of the traditional strategic analysis, the company's resources are the advantages that the company can use in the process of strategy selection and implementation.
Certainly, all aspects of physical, human and organizational capital of the company are not strategically relevant resources. Some may restrict the company while selecting and implementing an appropriate strategy. Others may lead the company to suboptimal choice of strategy that reduces the efficiency and effectiveness of the company. However, the purpose of this study (and the companies in the realm) is to recognize that mix of resources that can be a source of sustainable competitive advantage. The latter raises the crucial issue which is the basic motive of this paper: What is the role and importance of the corporate brand within this discussion? The corporate brand as a common denominator summarizes the company's resources. Is is a synergistic cause and effect of the company's resources (people, objects, activities and relationships). The corporate brand is the result of all relevant activities and connections in the value chain of a company. As a synthetic resource, the corporate brand is the most distinctive source of competitive advantage for companies.
It is said that the company has a competitive advantage when it implements a strategy that creates value and is not simultaneously implemented by any other current or potential competitor. The company has a *sustainable competitive advantage* when it can implement a strategy that is not simultaneously used by another current or potential competitor and when other companies are not able to replicate the benefits of such a strategy. [1]

2. Internal sources of competitive advantage versus adapting the competitive environment

The analysis of the sources of sustainable competitive advantage of companies was the main area of research in the field of strategic management in the past 20 years. Most studies resulted in a joint statement - turned into an axiom in this area: Companies gain a sustainable competitive advantage through the implementation of strategies that exploit their internal strengths and match opportunities in the environment, while neutralizing external threats and avoiding internal weaknesses, Figure 1:

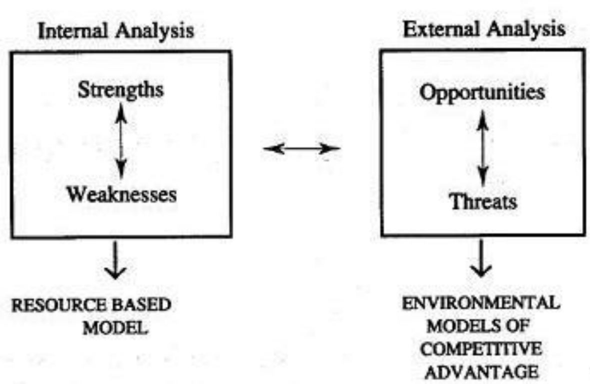

Figure 1 The relationship between SWOT analysis, the model based on resources and the models for industry attractiveness

Although in the literature both, the analysis of internal organizational strengths and weaknesses and the analysis of the external opportunities and threats, have received proper attention, most recent studies, influenced by Porter and his colleagues, focus on the analysis of the opportunities and threats of the companies in the competitive environment. These papers describe the conditions in the environment that favor high performance companies. For example, the Porter's model of five forces of competition explains the characteristics of an attractive industry, suggesting that opportunities are greater and threats smaller in such an industry. [2]
The models for competitive advantage based on the environment assume that companies within an industry are identical in terms of strategically relevant resources that they control and the strategies they choose. Second, these models assume that if there is a heterogeneity of resources within an industry or a strategic group (for example, the entry of new competitors), it would for shortly be exceeded because the resources used by companies in their strategy implementation are highly mobile.
The strategic analysis of resources substitutes these with two other hypotheses for proper analysis of the sources of competitive advantage. First, it is assumed that companies within an industry or a strategic group can be heterogeneous in terms of the resources they own and control. Second, it is assumed that the resources are not perfectly mobile between companies, so heterogeneity can be long-lasting. The models based on resources examine the implications of these assumptions over the analysis of the sources of sustainable competitive advantage. [3]
These studies paved the way for the recognition of the importance of the corporate brand as the most specific resource a company can possess, which offers a selection and implementation of a strategy that is difficult to be replicated from competitors. This means that the brand is nothing but a source of sustainable competitive advantage.
The increased focus on the company's resources as a source of competitive advantage is due to the dissatisfaction with the static, balanced framework of industrial economics and organization. This renewed the interest in the old theories on profit and competition associated with the works of David Ricardo [4], Joseph Schumpeter [5] and Edith Penrose. [6] The promotion of such thoughts happened several times: at the level of corporate strategy, the interest of the economies of scale and transaction costs was reiterated which arouse the issue of the role of the resources in the establishment of industrial and geographical activities of companies [7], at the level of business strategy, analysis focused on the relationship between resources, competition and profitability, including competitive imitation [8], the adequacy of the return on innovation [9], the role of asymmetric information in generating differences in profitability between competing companies [10], and the ways in which the accumulation of resources leads to competitive advantage. [11] These observations led to the establishment of an integrated model based on the resources which later proved to be quite good in terms of the inclusion of the practical implications of the theory of competitive advantage based on resources. Therefore, this model, Figure 2, can be used to verify the importance of the corporate brand as a source of competitive advantage.
The model is a five-step process of strategic analysis which includes: analysis of the resource base of the company, identifying the capabilities of the company, evaluating the profit potential of the resources and capabilities of the company's, the selected strategy and the expansion and improvement of the company's resources and capabilities.
This analysis reinforces the argument that the resources and capabilities of the company could be the basis for its strategy. The approach of applying resources and capabilities as the base of a long-term company's strategy is based on the following two premises: first, resources and capabilities provide a guideline for the company's strategy and secondly, resources and capabilities are the primary source of profit for the company. [12]
1. The resources and capabilities as a guideline for the company's strategy. The definition of the strategy often starts with the establishment of the identity and the intent of the company's existence, usually in the form of a mission statement. But, in a world where consumer preferences and identities are extremely volatile, and technologies that serve consumer demands are

continuously being improved, externally focused orientation is not a reliable basis for a long-term strategy. When the external environment is constantly changing, resources and capabilities of the company can be a much more stable basis for the definition of its identity. Thus, the definition of the business in terms of what it is able to make is a more durable basis for the strategy, rather than the definition based on the needs the business is willing to meet.

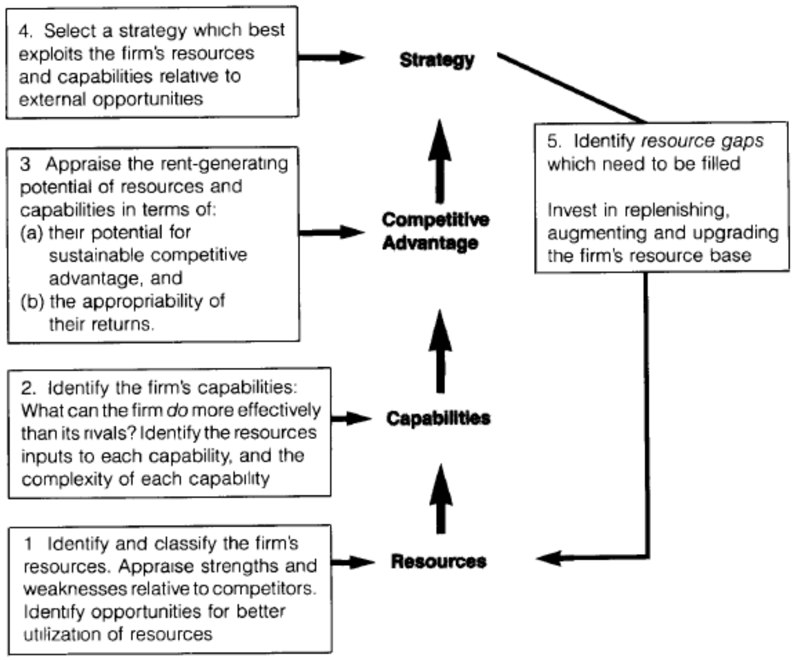

Figure 2 A model for strategic analysis based on resources: practical framework

Source: Grant, R., 1991, "The Resource – Based Theory of Competitive Advantage: Implications for Strategy Implementation", *California Management Review,* Vol.33, No.3, p.115

2. The resources and capabilities as the basis for the company's profitability. The company's ability to earn a certain rate of profit above the cost of capital depends on two factors: the attractiveness of the industry and the company's ability to gain a competitive advantage over its competitors. [13] The industrial economics and organization underlines the attractiveness of the industry as the primary cause of superior profitability and so, the implications would lead the strategic management in the search for a favorable business environment, locating attractive segments and strategic groups within a particular industry and relieve competitive pressure through impacts at the industry structure of the activity and behavior of competitors. However, empirical findings still fail to firmly support the link between the structure of the industry and the profitability of the company. Studies show that differences in profitability between companies in an industry are more important than differences in profitability in certain industries. [14] It is not difficult to determine the reasons: international competition, technological change and diversification of companies crossed over the bounders of the industry, causing the former "paradise for profitability" to turn into vigorous competition.

Furthermore, the detailed view of the market power and the monopoly profits it offers suggests that its roots are in the company's resources. The main requirement for market power is the presence of the entry barriers which are based on: economies of scale, patents, know-how, the company's brand and similar resources or a combination which existing companies possess and potential competitors acquire very slowly and/or too expensively. Other structural sources of market power are also based on company's resources: the monopoly price depends on the market share, which is a consequence of the consumption efficiency, financial strength and similar resources.

3. The intangible resources of companies and their im(mobility)

The analysis of the impact of the heterogeneity of resources and their immobility on the sustainable competitive advantage of companies is inevitable. It can begin with the examination of the nature of competition when resources are perfectly homogeneous and mobile. This does not mean that there are industries in which this assumption is true. While this is a purely theoretical assumption, however, it is reasonable to expect that in most industries there is a certain degree of homogeneity or heterogeneity of resources and they are more or less mobile.

If resources are evenly distributed among competing companies and are highly mobile, then could sustainable competitive advantage be gained? If an industry is "inhabited" by the same companies, it means they implement the same strategies and improve effectiveness and efficiency to par. In this type of industry it is impossible to gain a competitive advantage (even less sustainable). This initiates the analysis of homogeneity and mobility of resources in terms of: first movers within the industry, the impact of homogeneity and mobility of resources on the entry barriers in certain industries, and appropriate recognition and development of the company's resources and capabilities.

1. The homogeneity and mobility of resources and the advantage of the first movers. Under certain circumstances, the first company in the industry that will implement a strategy could gain a competitive advantage. It could come to an access to new, different channels of distribution, improved relations with customers or develop a positive reputation before other competitors who would later implement their strategies. So the first mover can acquire a competitive advantage. This original resource (information about the possibility) allows the better informed company to implement a strategy before the others. But if there is no information asymmetry, then if a company is able to exploit a resource to implement the chosen strategy, then it can parallel be done from all the other competitors, because companies at all times are aware of all the possibilities that could be exploited and could do that it the same way. Through this discussion is not to suggest that there is no advantage for the first movers within an industry, but for it to exists, companies in an industry need to be heterogeneous in terms of the resources they own. This is the basic premise on which the essence of branding and value of corporate brands is based.

2. The homogeneity and mobility of resources and the entry barriers. The second objection to the conclusion that sustainable competitive advantage cannot exist if the resources in one industry are perfectly homogeneous and mobile refers to the existence of entry barriers or, generally speaking, barriers to mobility. This argument says that even if the companies in an industry or strategic group are perfectly homogeneous, if there are strong entry barriers or barriers to mobility, these companies are able to gain a competitive advantage over companies that are not in the industry (group). Thus, this competitive advantage will be reflected in above-average economic performance of companies that are protected from the entry of new competitors with an entry barrier, or mobility.

A major handicap in the identification and exploitation of the resources of the company is the fragmented and incomplete picture of the company's resources. Financial reports are inadequate because they disregard the intangible resources that are actually the most important assets of the company. Table 1 shows that the highest rates of companies' value are found in companies that have famous brands and those who have owned a patent or technology.

3. Recognition and development of the resources and capabilities of the company. The capabilities of the company are a result of the combination and joint functioning of the company's resources. There are numerous attempts to define them. For example, according to Snow and Hrebiniak [15], capabilities are directly related to ten functional areas in the company, including:

product development, marketing research, human resources management, financial control and management operations.

Table 1 List of companies with the highest ratio
market capitalization / book value of the company

Company	Industry	Ratio
Coca – Cola	Beverages	8,77
Microsoft	Software	8,67
Merck	Pharmacy	8,39
American Home Products	Pharmacy	8,00
Wall Mart	Retail	7,51
Limited	Retail	6,65
Warner Lambert	Pharmacy	6,34
Waste Management	Utilities	6,18
Marrion Merrell Dow	Pharmacy	6,10
McCawCellular Communication	Telecommunications	5,90
Bristol Myers Squibb	Pharmacy	5,48
Toys R US	Retail	5,27
Abbot Laboratories	Pharmacy	5,26
Walt Disney	Entertainment	4,90
Johnson&Johnson	Health Care	4,85
MCI Communications	Telecommunications	4,80
Eli Lilly	Pharmacy	4,70
Kellogg	Food	4,58
Heinz	Food	4,38
Pepsi Co.	Beverages	4,33

Source: *Business Week Top 100*, 2010, (http://www.businessweek.com/)

3.1 Evaluating the potential for long-term profitability: the sustainability of competitive advantage

The utilization of the company's resources and capabilities in the form of higher yields depends on two factors [16]: 1) the sustainability of the competitive advantage and 2) the company's ability to keep these sources and the effects from them in its property. Models of competitive advantage based on resources suggest four key characteristics of the resources and capabilities that determine the sustainability of competitive advantage: durability, transparency, transferability and replicability. [17]

Durability. The durability of the competitive advantage of the company depends on the rate at which resources and capabilities depreciate or lapse and become insignificant. The durability of resources varies significantly depending on the level of technological changes. On the other hand, the capabilities and intangible resources of the company have greater durability potential. For example, the company's reputation and corporate brand have a greater relative durability in terms of investments in fixed assets. Today, the most brands that enjoy the highest level of customer loyalty are market leaders in their business for almost a century (*Coca-Cola, Unilever, GE, Kellogg's* etc.). The increased turbulence in the environment reduces the lifespan of most resources, but in the case of the brand, quite contrary, it causes the effect of reinforcing the value.

Transparency. The company's ability to maintain its competitive advantage through time depends on the speed with which other companies can mimic its strategy. To imitate the strategy, the competitor has to overcome two problems. Getting information is a problem: Which competitive advantage has the successful rival achieved? The second problem concerns the possibility of its

imitation: How can a future direct competitor acquire the resources and skills necessary to imitate the successful strategy of a company? [18] The information problem is a consequence of imperfect information for two sets of relationships: if a company wished to imitate the strategy of its rival, it must provide capabilities that are the basis of the competitive advantage of the rival, and then determine the resources needed to replicate such capabilities. This aspect reveals the transparency of the competitive advantage. In that sense, it is easier to identify and imitate competitive advantage based on one superior resource or capability, which itself stems from one variable, compared to competitive advantage that comes from several interdependent resources or capabilities derived from multiple variables, such as the corporate brand.
Transferability. Once the sources of superior performance are determined, their imitation requires a certain volume of resources and capabilities to cause competitive challenge. The primary source of resources and capabilities are the markets for these inputs. If companies can provide the resources and capabilities necessary to imitate the competitive advantage of the successful rival, then the competitive advantage will be short-term. However, most of the resources and capabilities are not easily transferable between companies, which means that future direct competitors are not able, at least not on an equal scale, to gain the resources needed to imitate the competitive advantage of existing companies.
Replicability. The inability to transfer the resources and capabilities is a major constraint for companies that want to imitate somebody's success. The second way to acquire the necessary resources and capabilities is through private investment in them. Some resources are easy to be imitated through replication. For example, in retail, the competitive advantage that comes from an electronic system that records the goods, a club card with discounts or extended working hours can easily be copied by competitors. In financial services, new product innovation (such as: swaps, stripped bonds, options, futures, etc.) are easily recognized and imitated by competitors. But resources and capabilities that are based on complex organizational routines are very difficult to be replicated.

3.2 Evaluating the potential for long-term profitability: the ownership of competitive advantage

The return on the resources and capabilities of a company depends not only on the sustainability of the competitive advantage in the long run, but also on the ability of the company to keep in its possession such assets and yields. [19] This question of ownership refers to the allocation of profits when property rights are incompletely defined. If we go a step further from the financial and physical assets in the balance sheet of the company, ownership becomes blurred. The company can own intangible assets, but the extent of property rights lacks precise definition. For example, the case of the skills of the employees can call two main problems: the lack of a clear distinction between the company's technology and human capital and the limitations of the employment contracts in respect of services provided by employees [20]. The mobility of human capital shows that it is a risky strategy of the company to depend on the specific skills and knowledge of several key employees.
The transferability and replicability of resources are a key issue in strategic management. For example, numerous studies show that the advantages of Western companies in the distribution and sales services were quickly adopted by Japanese companies, while Japan's commitment to quality and the development of new products have proven to be especially difficult for adoption by companies from the West. [21]
Having in mind the competition and the growing consumer demands, the sustainability of the competitive advantage requires from companies to constantly develop the resource base. Such "upgrading" of the competitive advantage is the central issue in Porter’s analysis of the competitive advantage of nations. [22] According to his analysis, the capability of companies and nations to establish and maintain an international competitive advantage critically depends on the

ability to continuously innovate and switch the sources of competitive advantage from "basic" to "advanced" factors of production. An important feature of these advanced factors of production is that they offer a sustainable competitive advantage, because they are more specialized, meaning less mobile and more difficult to be imitated. The corporate brand is just such a resource that requires constant improvement.

4. The importance of the corporate brand for the competitive advantage of Macedonian companies

The testing of the hypothesis of the corporate brand as a source of sustainable competitive advantage for companies in the Republic of Macedonia was implemented through a research which involved 22 companies, that, according to more formal attributes (industry, assets, capital, turnover, revenue, market share, profitability, number of employees, consumer satisfaction) provide a diversified, representative sample that verifies the purposes of the research. The survey was conducted with a semi-structured questionnaire and interviews with representatives of companies who are part of the top management: CEO, CFO, CMO and/or COO.

The questionnaire included questions that provided the necessary inputs for the analysis of the importance of the corporate brand for the competitive advantage of Macedonian companies. The synthetic answers to the question: What combination of resources you consider to be a key source of competitive advantage for your company, are summarized in Table 2.

Table 2 Key source of competitive advantage

Alternative	Number of companies	%
Physical capital	1	4,6%
Human capital	0	0,0%
Organizational capital	4	18,2%
The corporate brand as a combination of the above	20	90,9%

The analysis of the issue of heterogeneity of company's resources against those of the competitors within the industry reveals that Macedonian companies generally have moderately heterogeneous mix of resources, which in fact somewhat limits the sustainability of competitive advantage in the long run, Table 3:

Table 3 Heterogeneity of resources within the industry

Alternative	Number of companies	%
Low	0	0,0%
Moderate	12	54,6%
High	10	45,5%

The same can be concluded when it comes to the mobility of resources. One third of the companies believe that their resources are mobile and hard to be gained by a current / potential competitor, Table 4:

Table 4 Mobility of resources within the industry

Alternative	Number of companies	%
Low	8	36,4%
Moderate	12	54,6%
High	2	9,1%

Despite the shortcomings related to the heterogeneity and mobility of the resources of Macedonian companies, they are well aware of their importance in obtaining a sustainable competitive advantage. Table 5 summarizes the responses to the question about the importance of heterogeneity and mobility of resources for the competitive advantage:

Table 5 The importance of heterogeneity and mobility for the competitive advantage

Alternative	Number of companies	%
Low	1	4,6%
Moderate	4	18,2%
High	17	77,3%

The companies' answers to the question which category of their resources is considered the most heterogeneous and least mobile are listed in Table 6. The results show that almost half of the companies consider the corporate brand is the best alternative.

Table 6 Heterogeneity and mobility of resources

Alternative	Number of companies	%
Physical capital	7	31,8%
Human capital	2	9,1%
Organizational capital	4	18,2%
The corporate brand as a combination of the above	10	45,5%

These responses hide a few specific hypotheses: in the labor market in the Republic of Macedonia the supply still exceeds the demand, and it is a supply that meets the qualitative requirements of the companies. This analysis should certainly take into account the specifics of the modern worker, especially in the field of services. On the one hand, companies relatively easy train and replace their employees and workers are in constant search for a better job, which affects fluctuation. Perhaps this is the reason why human capital is the least heterogeneous and a quite mobile resource.

The significance of competitive advantage based on resources is beyond doubt, ie the exploitation of the internal strengths of companies. Therefore, the research included an examination of the resource base of Macedonian companies, according to the four most important characteristics of resources and capabilities when gaining a sustainable competitive advantage.

When it comes to the durability of the resources, Macedonian companies recognize the value of the corporate brand and try to preserve its dominant position in relation to this feature, Figure 3:

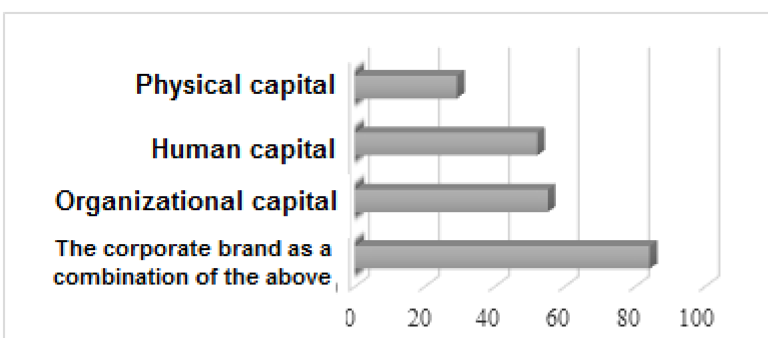

Figure 3 The durability of resources

When analyzing transparency, the corporate brand is in the lead as the least transparent resource, followed by the organizational capital, also a complex set of routines and capabilities, which makes it less visible and recognizable for competitors. Physical and human capital as resources are easier to be captured by competitors, Figure 4:

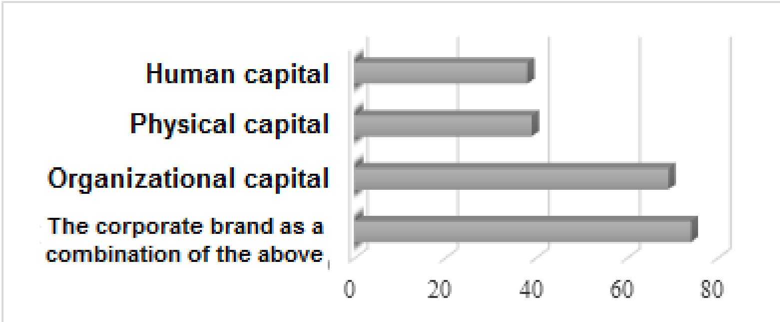

Figure 4 The transparency of resources (least transparent resource)

And the analysis of the transferability as a feature of the resources that determines the competitive advantage, shows that the corporate brand is perceived as the least transferable resource, Figure 5. These results are consistent with the analysis of the heterogeneity and mobility of resources.

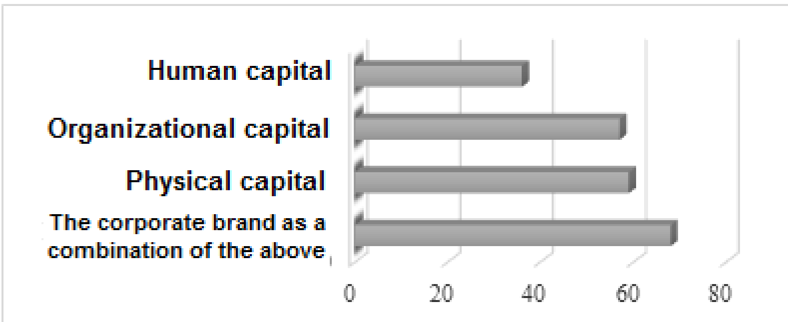

Figure 5 The transferability of resources (least transferable resource)

When analyzing the replicability, the corporate brand is the first-ranked resource of the Macedonian companies, Figure 6. According to the participants in the research, it is almost impossible to replicate a brand. This result is consistent with the previous discussions.

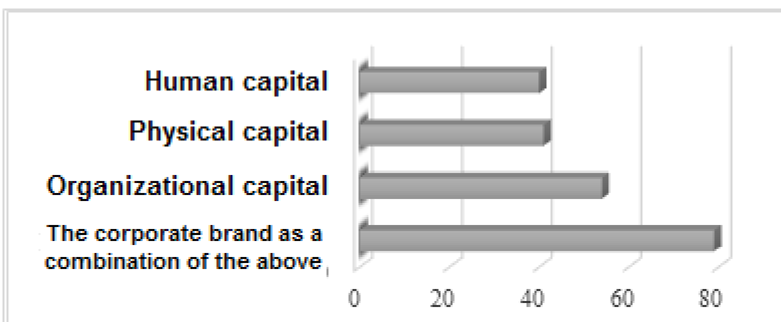

Figure 6 The replicability of resources (least replaceable resource)

When it comes to the ownership of a certain category of resources, a clear ownership exists only within the physical capital (Figure 7) and the protection of the corporate brand from abuse by dishonest competition is a challenge for all companies, although the companies register their brands according to legal regulations. Organizational capital, in a sense, could be protected through patenting and licensing, but it is in direct correlation with the human capital that is beyond the limits of this analysis.

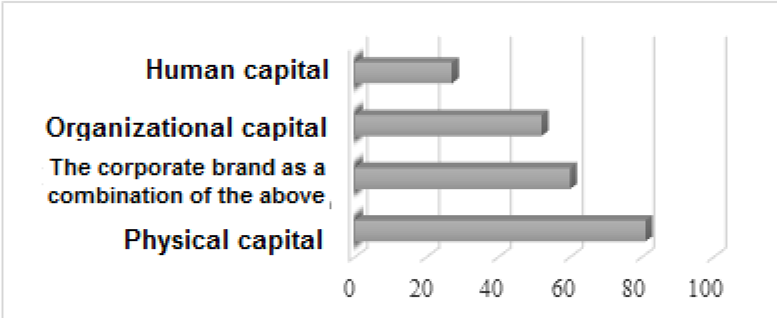

Figure 7 Companies ownership over resources

After gaining a clear understanding of the dominance of the corporate brand in terms of the features that it should meet to be a source of sustainable competitive advantage, the research was aimed towards the analysis of the different categories of resources depending on the companies' commitment to upgrade and improve them. The results clearly reveal the awareness of companies about the importance of the corporate brand. The second ranked is the human capital, which confirms that the "soft" dimension of companies is the source of success, Figure 8:

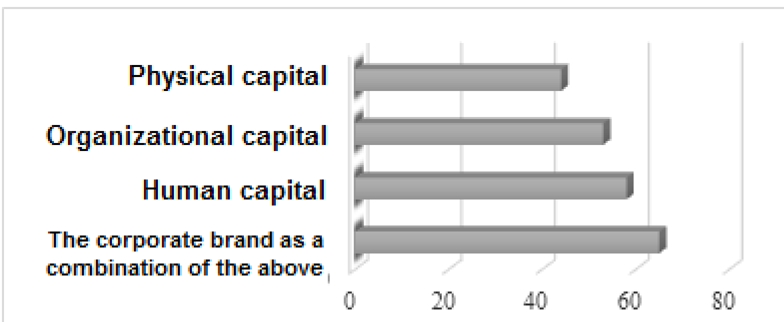

Figure 8 The commitment of companies to upgrade and improve the resource base

5. Conclusion

The key to successful implementation of the approach based on resources in the selection and implementation of the company's strategy is the understanding of the relationships between resources, capabilities, competitive advantage and profitability, in particular, the understanding of the mechanisms by which competitive advantage can be sustained in the long run. This involves the design of strategies that will ensure the maximum effects of the original features of the company, which, exactly, the corporate brand unites.

A major challenge for companies, regardless whether they have more or less known and recognized corporate brand, is the need to constantly reform and the combine all resources and activities in the process of building and managing the corporate brand.

The recognition of such activities in the day-to-day functioning of the companies in the Republic of Macedonia is an unbeatable argument in favor of the claim that they know and can harness the potential of their most valuable resource. The achievement of cohesion between the rich theoretical knowledge and the strict practice is the key to a long-run success of companies. The challenge lies in converting exceptions into a trend.

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