

STRATEGY

Achieving a Competitive Advantage Through Readily Available Practices

by Jérôme Barthélemy

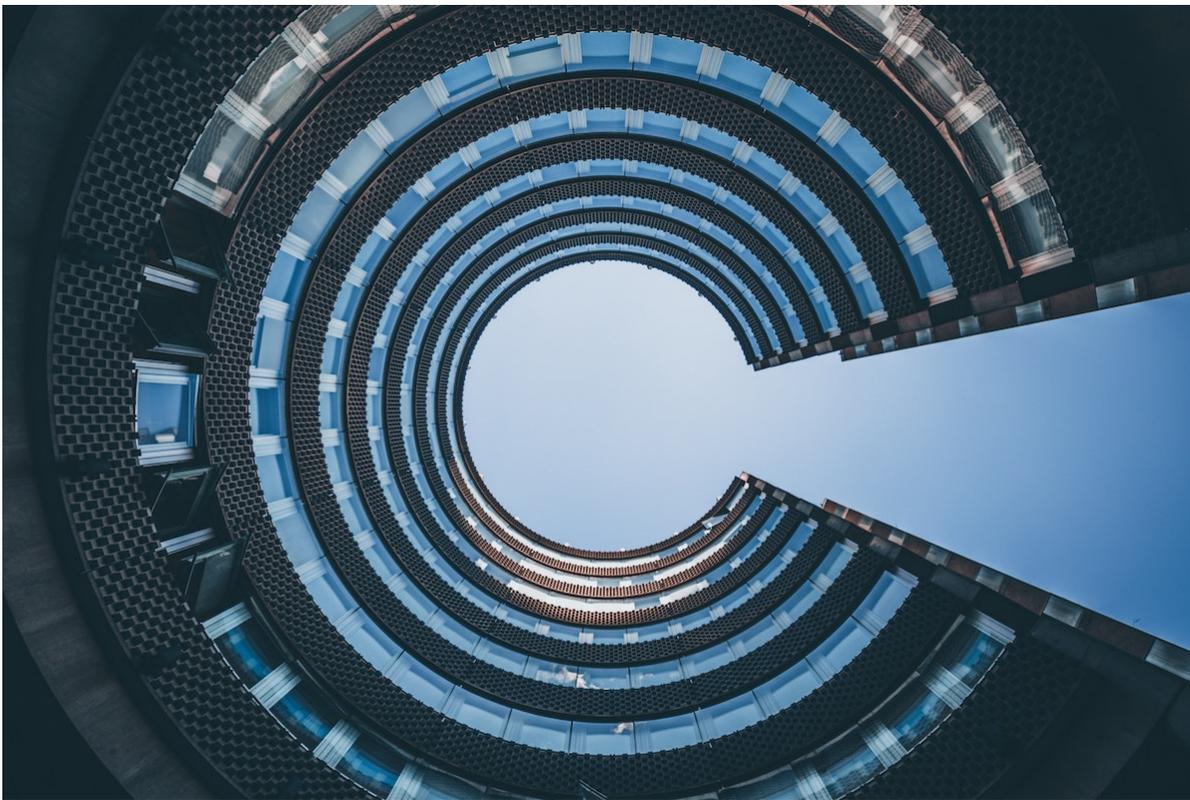


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Contrary to received wisdom, firms can outperform their competitors by implementing standard practices.

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In the strategy literature, there is a widespread belief that resources can only provide firms with a competitive performance if an isolating mechanism prevents their diffusion throughout an industry. This isolating mechanism is often thought to be inimitability. Therefore, readily available practices are unlikely to help firms outperform their competitors, especially in the long run. As a researcher put it: *“A company should not beat the competition by performing commodity-like activities that can be performed by anyone in the market. Companies are not supposed to leave money on the ground or find it there”*.

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To determine whether there is some truth to this belief, **I recently conducted a study on more than 650 wineries from the Saint-Emilion wine region over a 20-year period.** Saint-Emilion is the oldest wine region in Bordeaux, France. It provides an interesting research setting because it is possible to contrast the impact of a quintessential inimitable resource (the terroir) and a readily available practice (barrel aging).

Winemaking is an elaborate process that includes harvest, destemming and sorting, fermentation, aging and bottling. From the end of fermentation until bottling, wines are said to be aging. Wines can be aged in vats or oak barrels. The benefits of barrel aging are well-known. As a winemaking consultant explained: *“If you put the same fine wine in tank or oak (barrel) and then taste both after 18 months’ aging, you will prefer the oak (barrel)-aged wine. Why? Because oak (barrel) gives the wine more intensity and density. Just the small oxygenation coming through the wood helps a lot in the aging process.”* For a practice to create value, it must either reduce costs or increase willingness to pay. In the Saint-Emilion region, most wineries strive to increase willingness to pay because higher-quality wines can be sold at considerably higher prices than lower-quality wines. Barrel aging is more expensive than vat aging, but there is evidence that the associated costs are lower than the benefits.

Findings from the study confirm the intuition that firms can outperform their competitors by implementing standard practices. In the wine industry, the use of barrel aging increases the likelihood of getting higher quality ratings by 72%. The often-heard argument that managers can and will implement all the readily available practices that can benefit their firms is a myth. Because readily available practices are not used by all firms in an industry, they can generate performance differences among them.

Results also indicate that firms benefit less from readily available practices when they possess inimitable resources. In the wine industry, the use of barrel aging has a weaker impact on wine quality when wineries have a superior terroir. The underlying rationale is twofold. First, the performance of firms with inimitable resources is already high. Thus, there are few opportunities for managers to further enhance performance by implementing readily available practices. As the performance of firms without inimitable resources is lower, there is more room for improvement through the implementation of standard practices. To some extent, it may even make up for the lack of inimitable resources. Second, managers have a selective attention. Because of their value creating potential, inimitable resources are more salient than readily available practices. Thus, managers in firms with inimitable resource tend to focus more on leveraging them than on trying to make the most of standard practices.

Finally, the study shows that performance does not only depend on whether firms implement readily available practices. It also depends on the extent to which other firms do so. In the Saint-Emilion region, the positive impact of barrel aging on wine quality has eroded as this practice became more widespread over time. Competitive imitation is a key feature of the business world. Practices tend to diffuse throughout an industry. The more firms in an industry use a practice, the less it will provide them with a competitive advantage. As two researchers put it: *“Organizations seek to emulate the performance successes of others by emulating their organizational forms and practices. This practice is institutionalized through concepts of best practices... Successes at understanding performance differences are self-destructive. As knowledge spreads, factors that previously distinguished high performers from low performers tend to disappear.”*

It can be noted that the diffusion of readily available practices throughout an industry can be quite slow. In the Saint-Emilion industry for instance, it took 20 years for the proportion of wines made using barrel ageing to increase from 48% to 78%. While the positive association between barrel aging and competitive advantage has declined over time, it has not totally disappeared.

What are the takeaways of the study? In the strategy literature, readily available practices are often criticized. According to Michael Porter for instance, operational effectiveness (which involves the use of standard practices) is less likely to generate a competitive advantage than strategy (which involves choices and trade-offs). Other scholars have argued that “best practices” are less likely to lead to a competitive advantage than “signature practices” or “next practices”.

Contrary to received wisdom, this study shows that firms can outperform their competitors by implementing standard practices, at least in the short run. While readily available practices cannot totally substitute for inimitable resources, they can provide firms with a temporary competitive advantage and help them secure the financial means needed to build inimitable resources. Thus, it is crucial for managers to learn how to identify and implement them before their competitors.

Valuable but overlooked practices exist in every domain. While most mergers and acquisitions fail, academic research has shown that a practice known as “staged investment” significantly increases their likelihood of success. “Staged investment” involves entering into a strategic alliance with the partner before eventually buying it. Thus, it considerably decreases the risks associated with mergers and acquisitions. As “staged investment” is only used in 1 percent of all mergers and acquisitions, it can provide firms that implement this practice with a competitive advantage.



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