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CAPABILITIES DIFFERENTIALS AS STRATEGIC ASSETS OF FIRMS: A PRAGMATIC REVIEW

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ABSTRACT

Possessing and increasing the value of assets is one of the objectives many firms are working hard to improve in their current assets section of their balance sheet. However, in a turbulent competitive business environment, strong current assets alone do not guarantee a firms' sustainability .A firm's current assets are perishable and hence do not guarantee long term sustainability. Competitive edge businesses do not only focus on the development and possession of current assets or tangible assets, but also assets which may provide competitive advantages which are sustainable. Amit & Schoemaker (1993), Barney (1991), Michalisin & Acar (1994) called these strategic assets which are intangible (Michalisin et al., 1997). These resources are simultaneously valuable, rare, inimitable, non-substitutable (Barney, 1991), heterogeneous, immobile, ex post limits and ex ante limits to competition (Peteraf, 1993). This conceptual paper discusses how a firm can possess sources of sustainable competitive advantage via the development of strategic assets. The focus is put on the theory of capabilities differentials and intangible assets.

1.0 Intangible Resources as Strategic Assets

"Intangible" in Longman Dictionary (1991) is defined as "…which cannot be clearly understood or known". It is something which is hard to be codified and is ambiguous. While "resources" are defined in strategic management literature as all the various types of skills and assets possessed by a firm, which would determine its efficiency, effectiveness and competitiveness, and also enable it to reach sustainable competitive advantage, intangible resources are referred to as soft (Fernandez *et al*, 2000) or tacit resources, which are basically unique, difficult to acquire or replicate, and are accumulated through a firm's knowledge and information.

Hall (1992, 1993) and Coyne (1986) described intangible resources as a firm's capabilities. Fernandez, *et al*. (2000) categorized intangible resources into two categories, namely, people dependent and people independent. The people dependent resources refer to a firm's human capital, while the people independent resources refer to organizational capital, technological capital and relational capital.

According to the resource-based view, only resources with certain characteristics are capable of generating and sustaining high levels of economic rents (Amit and Schoemaker, 1993). Resources that are sources of sustainable competitive advantage and superior profits are called strategic assets (Amit and Schoemaker, 1993; Barney, 1991; Michalisin and Acar, 1994) and strategic assets are intangible (Michalisin *et al.,* 1997). These resources are simultaneously valuable, rare, inimitable, non-substitutable (Barney, 1991), heterogeneous, immobile, ex post limits to competition and ex ante limits to competition

(Peteraf, 1993). Intangible assets have been argued to be strong contributors to a firm's success by virtue of their inimitable properties (Hall, 1992, Michalisin *et al.,* 1997). Compared to tangible assets, Galbreath (2004) confirmed that intangibles such as organizational and reputation assets do contribute more significantly to a firm's success than tangible assets. Barney (1991) argued that strategic assets should meet the following criteria; (1) valuable resources in order to be strategic; it must have the capacity to improve the company's efficiency and effectiveness; (2) rare resources which are strategic to the extent that they are rare and demand for them is high; (3) imperfectly imitable resources. and (4) non-substitutability meaning that competitors cannot find a substitute for what it can do.

Nieto and Perez (2002) identified and compared the characteristics of strategic assets and non-strategic assets as follows:

Characteristics of non-strategic assets	Characteristics of strategic assets
Homogeneous	Heterogeneous
Transparent	Ambiguous
Codified	Tacit
Simple	Complex
Non-specific	Specific
Non-lasting	Lasting
High mobility	Low mobility
Separable	Non-separable
Tradable	Non-tradable

Source: Nieto and Perez, 2002.

The strategic assets' characteristics imply that sources of sustainable competitive advantage are often related to intangible resources. Intangible resources, also named knowledge, invisible assets, absorptive capabilities (Cohen and Levinthal, 1990), core competencies, strategic assets, core capabilities (Zander and Kogut, 1995), intellectual property rights, trademarks, information technology such as databases, networks and skills such as capabilities and competencies (Hall, 1992), organizational memory (Walsh and Ungson, 1991) or any other denomination with a similar meaning, and intangible resources are such as reputation and brand name, employee know-how, customer loyalty, social relationship, culture, employees' expertise and their commitment and loyalty, technology etc.

Itami (1987) observes that technology, accumulated consumer information, brand name, reputation and corporate culture are intangible assets which are invaluable to the firm's competitive power, and also the only real source of competitive edge that can be sustained over time.

Consistent with the above arguments, this paper suggests that intangible resources can contribute to the sustainable competitive advantage of the service industry. Sources such as reputation and brand equity can positively influence a company's status and can also contribute to the loyalty of important constituencies such as customers, suppliers, employees and legislators. Such intangible resources are likely to be tacit and hard to imitate and codify (Kogut and Zander, 1992; Conner and Prahalad 1996). As a result, intangibles resources are difficult to acquire or develop, and to replicate and accumulate within the industry (Itami, 1987). Such difficulty in understanding and imitating intangibles resources is what makes them valuable and likely to be the basis of a sustainable competitive advantage for a firm (Lippman and Rumelt, 1982; Hall, 1993).

2.0 Capabilities Differentials as Firm's Intangible Resources and Strategic Assets

Competing on capabilities is a concept that has become the focus of management decision makers in their strategic planning. Great efforts have been put in to obtain core competencies through the development of a distinctive set of organizational capabilities or gap, rather than through traditional strategies based on industry positioning and pricing. Generally, the capability-based theory of competitive advantage suggests that a firm can achieve sustainable competitive advantage through distinctive capabilities possessed by the firm (Grant, 1991; Prahalad and Hamel, 1990; Hayes *et al*., 1996) and these distinctive capabilities allow firms to make better use of their resources and achieve rents (Mahoney and Pandian, 1992). Capabilities, in fact could be considered as the most important part of a firm's resources due to their high levels of casual ambiguity and strong barriers to imitation and substitution. Capabilities are formed through the co-ordination and integration of activities and processes, and are the product of collective learning of individual assets (Hafeez, *et al*., 2002). Galbreath (2004) in his study confirmed that capabilities contribute more significantly to firm success rather than either intangible or tangible assets, and firms actively seek to develop their knowledge base, both in the development of human capital and the processes and systems that enable the development, management and transference of tacit and explicit knowledge across the organizational. Furthermore, Shurchuluu (2002) said that capabilities are essential for a firm to create the ability to combine cost-efficiency with continuous productivity improvements for achieving competitiveness.

Kay (1996) argued that corporate success or failure is explained by the match of an organization's capabilities to the challenges faced in the business environment. Kay (1996) stated that a distinctive capability consists of a unique set of relationships and contracts between a firm and its stakeholders, which competitors cannot readily imitate; and these relationships are usually based on reputation, architecture or innovation, or a combination of the three. Kay (1996) also argued that distinctive capabilities lead to competitive advantage when they are applied to an industry and brought to a market.

Capabilities, by their very nature are intangible. They refer to a firm's capacity in using, treating and developing their resources for a specific purpose or objective; and this capacity is obtained from the firm's experiences, tacit knowledge, and unique complex of combinations of the firm's resources, and the firm's competitive advantage is based on its ability to respond to evolving opportunities which depends on business processes or capabilities. Businesses' success or failure depends on a firm's ability in choosing the right capabilities to build, managing them carefully and exploiting them fully (Stalk, *et al*., 1992). Shurchuluu (2002) described capabilities as both tangible and intangibles assets which include manpower, technology, physical infrastructure and financial capital, as well as the processes that enable the transformation of assets into products and services. A firm's capabilities may be perceived as its unique ability in doing things which will produce productivity improvements as well as competitiveness. The uniqueness of a firm's capacity reflects its capabilities and this uniqueness are intangible. The intangibility of these capabilities (due to its characteristics of being unimitable, rare, valuable and unsubstitutable) would make it a firm's strategic assets, which will create economic value for the firm in the short term and sustain competitive advantage in the long term.

Kotelnikov (2004) argued that sustainable competitive advantage allows the maintenance and improvement of the enterprise's competitive positioning in the market and it is also an advantage that enables business to survive against its competition over a long period of time. He identified the synergy of distinctive capabilities and reproducible capabilities as sustainable competitive advantage and not sustainable competitive advantage respectively. He divided distinctive capabilities into tangible capabilities and intangible capabilities, which are unable to be replicated by competitors. Tangible capabilities include intellectual property rights, exclusive licenses and statutory monopolies, whereas intangible distinctive capabilities cover a firm's strong brands, leadership, tacit knowledge and skills, teamwork, organizational culture and partnerships. Reproducible capabilities cover technical capabilities, financial capabilities, marketing capabilities, explicit knowledge and non-exclusive licenses.

To differentiate themselves from competitors, firms therefore generate strategies based on distinctive capabilities; and possession of distinctive capabilities will also help firms to pursue strategies that achieve competitive advantage. Thus, the interrelated relationship between a firm's capabilities and strategic planning illustrates the firm's capabilities as strategic assets.

Day (1994, p38) defined capabilities as "complex bundles of skills and collective learning, exercised through organizational processes that ensure superior coordination of functional activities". He described capabilities as the glue that brings assets together and allows them to be used to advantage.

Capabilities are typically extremely difficult to imitate (Dierickx and Cool, 1987), scarce and not easily copied by competitors (Benedetto, *et al*., 2003). Ratnatunga, *et al*, (2004) discussed capability as the distinction between "knowing" and knowledge" (Ryle, 1949; Polanyi, 1967); and Schon (1983) stated it as "our knowing is in our action". For these reasons, capabilities therefore could be seen as a firm's strategic assets, which allow it to create economic value and to sustain its competitive advantage.

Coyne (1986) stated that:
"For a producer to enjoy a competitive advantage in a product/market segment, the difference or differences between him and his competitors must be felt in the marketplace: that is they must be reflected in some product/delivery attribute that is a key buying criterion for the market. (p.55)"

"The most important condition for sustainability is that existing and potential competitors either cannot or will not take the action required to close the gap. If the competitors can and will fill the gap, the advantage is by definition not sustainable. (p.58)"

It is therefore important for an organization to identify where its capabilities gaps are and utilize the gap advantage to compete with its competitors.

Stalk, *et al*., (1992) noted that:
"The essence of strategy is not the structure of a company's products and markets but the dynamics of its behavior. And the goals are to develop the hard-to-imitate organizational capabilities that distinguish a company from its competitors in the eyes of customers (p. 62)."

Besides, Liedtka (1999) argued that because of the pace and unpredictability of change has rendered inflexible and vulnerable strategies based on narrowly focused definitions of products and markets; therefore, sustaining competitive advantage relies on the development of a broad-based set of capabilities.

3.0 The Concepts of Capabilities Differentials

The capability-based theory of sustained competitive advantage has gained prominence in strategy research over the last decade (Weerawaredena and O'Cass, 2003) and suggests that a firm can achieve competitive advantage through its distinctive or core capabilities (Grant, 1991; Hayes, *et al*, 1996; Prahalad and Hammel, 1990). According to the resource-based view, sustainable competitive advantage can be achieved by continuously developing existing and creating new resources and capabilities in response to rapidly changing market condition. Coyne (1986) developed the concept of a capability gap to determine whether a firm's competitive advantage actually exists. According to Coyne (1986) a capability gap existed when the function responsible for the differentiated product/delivery attribute is one that only the producer in question can perform, or one that competitors (given their particular limitations) could do only with maximum effort. He identified capability gaps into four categories, which are business system gaps, position gaps, regulatory/legal gaps, and organizational or managerial quality gaps.

1. Business system gaps

Business system gaps are developed from a firm's ability to perform individual functions more effectively than competitors and from the inability of competitors to easily follow suit. Examples of a business system gap are such as a firm's engineering and technical skills and knowledge in operating businesses, strategic marketing, strategic human resource management etc.

2. Position gaps

Position gaps are developed from a firm's prior decisions, actions, and circumstances. Examples of a firm's position gaps are reputation, consumer awareness and trust, and order backlogs. This position gaps are developed in an earlier management generation of a firm and a firm's current competitive advantage may be the consequence of past performance and experience.

3. Regulatory/Legal gaps

These gaps are developed from government's control on competitors who can perform certain activities, or the degree to which they can perform those activities. Patents, operation licenses, import quotas, and consumer safety laws are all important capabilities gaps among competitors.

4. Organizational or managerial quality gaps

This capability gaps are developed from an organization's ability consistently to innovate and adapt more quickly and effectively than its competitors. Examples of this capability gaps are a firm's flexibility, ability to out-innovate competitors and so forth.

Day (1994) and Day and Wensley (1988) then categorized capabilities into four categories, which are "inside-out" process, "outside-in" process, marketing, and information technology. "Inside-out" allows a firm to improve operation systems, production efficiency, reduce costs and increase competitiveness. "Outside-in" allows a firm in new market development, customer relationship and networking. Marketing capabilities allow a firm's strategic marketing planning; and information technology capabilities allow firm to diffuse market information effectively across all relevant functional areas and create market knowledge and innovation.

Hall (1992) had categorized the concepts of capabilities differentials into two groups. The first group is capabilities differentials based on competencies and the second group is capabilities differentials based on assets. The former group emphasises a firm's functional differentials and cultural differentials; while the later group emphasises a firm's positional differentials and regulatory differentials.

Hall (1992, 1993) described intangible resources as the feedstock of capabilities differentials, which result in sustainable competitive advantage and superior firm performance. He enhanced the Coyne's (1986) concept by identifying the intangible resources for each category of capabilities differentials: Intangible resources that are assets include organization culture, brand name, customer relationship, reputation and networks. Intangible resources that are skills include organization tacit knowledge or employee know-how.

1. The functional capabilities differentials

A firm which possesses these capabilities would be able to perform individual functions more effectively compared to its competitors and also from the inability of existing or potential competitors to imitable or easily follow suit. Important intangible resources for those of functional capabilities differentials are innovative capabilities, tacit knowledge, skills, experience of employees, suppliers, distributors, and other specific capabilities in a company, e.g. ability to communicate with customer and establish strong customer relationships, ability to involve people, flexibility in managing change and diversity, and intuition (creativity and ability to innovate).

2. The cultural capabilities differentials

The cultural capabilities differentials result from a firm's ability to consistently innovate and adapt more quickly and effectively to environmental change than its competitors. These capabilities differentials are based on perception of quality, ability to learn, beliefs, and values of its constituent members. When an organization's culture is being perceived as having high quality standards, good customer service, ability to manage change, innovative and engaging in a participative management style, these can permeate an organization and result in a sustainable competitive advantage (Hall 1993). Sadri and Lees (2003) explained that corporate culture is an intangible concept, which plays a meaningful role in corporations, affecting employees and organizational operations throughout a firm. The intangible resources of those cultural capabilities differentials are a firm's flexible and innovative culture, a tradition of being the best, responding to challenge, giving good customer service, etc.

3. Regulatory capabilities differentials

The regulatory capabilities differentials result from government and authority bodies' control on firms activities from the regulatory/legal perspective. The intangible resources of those regulatory capabilities differentials are a firm's intellectual property rights, licenses and agreements, patents, copyrights, contracts, trade secrets, etc.

4. Positional capabilities differentials

These capabilities differentials are based on the consequence of a firm's past decisions, actions and circumstances. A firm's current competitive advantage may be the result of a past strategy and operation. Reputation, consumer awareness and trust, customer loyalty and order backlogs are some example of intangible resources of positional capabilities differentials.

Ordaz *et al*. (2003) identified Hall's taxonomy by induction of those intangible resources. They categorised those resources into two groups, assets and capacities; and propose that assets can induce two distinctive competencies, one regulatory and the other positional; while capacities can also generate into two distinctive competencies, one functional and the second is cultural.

Kotelnikov (2004) explained that the opportunity for firms to sustain their competitive advantage is determined by the firms' capabilities of two kinds, (1) distinctive capabilities and (2) reproducible capabilities, and this unique combination will help firms to achieve synergy. The characteristics of distinctive capabilities are those which cannot be replicated by competitors, or can only be replicated with great difficulty. Distinctive capabilities can be of many kinds: patents, exclusive licenses, strong brands, effective leadership, teamwork, and tacit knowledge. Reproducible capabilities are those that can be bought or created by competitors and thus by themselves cannot be sources of competitive advantage. Kotelnikov (2004) also identified three primary sources of distinctive capabilities, they are market structure that limits entry; company history which by its very nature requires extended time to replicate and; tacitness in relationships – routines and behaviour of "uncertain imitability" which cannot be replicated because no-one, not even participants themselves, fully comprehend their nature.

Kay (1996) argued that to be distinctive capabilities (differentials) rather than just skill, a capability must be sustainable (persist over time) and appropriable, which will principally benefit the company which holds it, rather than individual employees, customers or competitors. Kay (1996) listed three categories of distinctive capabilities, which meet this criteria of sustainability and appropriability:

1. Architecture

Architecture is the capacity of an organization to develop stable and continuing relationships between itself and suppliers, distributors, customers, partners and employees. These relationships contribute to a body of distinctive organizational knowledge that is more important than the sum of knowledge of individuals. Architecture needs a culture based on informal relational contracts enforced by the desire of the parties involved to continue working together.

2. Reputation

Reputation, often a brand communicates information about the quality and reliability of a product, which customers cannot easily acquire for themselves. Reputation takes a long time to develop and a company often uses a brand name in a new market to speed up the process of developing a reputation.

3. Innovation

Innovation has many associated costs and uncertainties. The benefits of innovation are often not enjoyed by the innovating company because, unless a support structure of patents or standards can be established, competitors imitate it.

Kay (1996) also explained that a company needs to identify the markets where its distinctive capability is relevant, and then put together the skills to capture those markets. To achieve competitive advantage therefore, a company needs to apply its distinctive capabilities to a market where it can derive most benefit from them.

A Comparison Between, Coyne (1986), Hall (1992, 1993), Day (1994), Kay (1996), Ordaz *et al*. (2003) and Kotelnikov (2004) on the Concepts of Capability Differentials

Coyne (1986)	**Hall (1992, 1993)**	**Day (1994)**	**Kay (1996)**	**Ordaz *et al*. (2003)**	**Kotelnikov (2004)**
Term used: Capability gaps	Term used: Capabilities differentials	Term used: Capabilities	Term used: Distinctive capabilities	Term used: Assets and capacities	Term used: Distinctive capabilities and reproducible capabilities
Business system gaps	Functional capabilities differentials	Inside-out process system Marketing capabilities	Architecture-re	Functional capacities	Tacitness in relationships
Positions gaps	Positioning capabilities differentials	Outside-in process system	Reputation	Positional assets	Market structure that limits entry
Organization or managerial quality gaps	Cultural capabilities differentials	Information technology capabilities	Innovation	Cultural capacities	Company history which by its very nature requires extended time to replicate
Regulatory/legal gaps	Regulatory capabilities differentials		Architecture-re	Regulatory assets	

Source: Various Studies.

4.0 Capabilities Differentials of Intangible Resources as Strategic Assets For Sustainable Competitive Advantage of Firms In Service Industry – A Proposed Conceptual Model

4.1 Functional Capabilities Differentials: Know-how

The know-how of employees is the intangible resources, which results in distinctive competencies and assists a firm sets it apart from its competitors. This ability is found based on the skills and experiences, or know-how of employees, which are strategic assets of a firm. Such assets are a firm's learning curve effects, innovation, strategic management, corporate entrepreneurship, new organizational forms and core competence. Ordaz *et al*., (2003) proposed that functional capabilities are derived from the knowledge, abilities, and experience of the employees.

The concept of learning curve effects denotes how cumulative lifetime experience in an activity contributes to efficiency. The more experience in an activity, the more efficient the job would be performed. Innovation refers to how a firm uses its innovative talent to create superior knowledge and techniques, which will create superior advantage over its competitors. Strategic management is a firm's agility in a dynamic environment and ability to make appropriate adjustments to the resource base. A firm may acquire, develop and reconfigure its resources to exploit new opportunities and avoid threats. Corporate entrepreneurship is about the firm's capability to develop new programs or courses through continuous innovation to meet markets demands. New organizational forms refer to a firm's management restructuring due to a dynamic environment and to be sustained in the industry. New forms of organization are such as the learning organization, knowledge–based organization, network or virtual organization, etc. Finally, core competence refers to specialized expertise which a firm possesses, which could allow it to outperform its competitors.

Based on the above, a firm's functional capabilities differentials can be identified as the following intangible resources, which contribute to its sustainable competitive advantage:

- Excellent service quality
- Corporate entrepreneurship
- Learning curve experience
- Innovative organization
- Effective strategic management
- New organizational forms
- Possession of Core competence
- Effective strategic management
- Effective human resource management
- Advanced information technology

4.2 Cultural Capabilities Differentials: Aptitudes of Firms

A firm's culture is also its strategic assets which are typically rare and difficult to imitate due to its forming of unique personalities of a firm's members or senior management and its unique history. Besides, a firm's values, beliefs, knowledge, attitudes of mind and assumptions are difficult to describe and causally ambiguous, yet understood. Ordaz *et al.,* (2003) explained that a firm's cultural capacities can be derived from the capacities that can be imputed to the organization as a whole. A firm's positive culture will set it apart from competitors and also binds staff together for better working commitment and performance. Kotter and Heskett's (1992) findings indicated that organizational cultures emphasizing all organizational constituencies outperform those that do not and will become more important to the success and failure of organizations in the future.

Peters and Waterman (1982) and Dennison (1984) also found that organizations with strong cultures or commonly shared values obtain superior performance. The strong positive organization cultures promote employee innovativeness and autonomy, quality products, are customer oriented, encourage change to maintain competitive advantage, employees are valued, etc. It is also a prerequisite for organizational success. The examples of organization cultural attributes are a learning organization, human capital development, innovativeness, long-term vision, quality products and services, cooperation and teamwork, ethical values, sharing of skills and resources among departments and so forth. Some management scholars have outlined the importance of organizational culture as strategic asset:

i. Organization culture should be flexible to encourage innovation (Barney, 1996)
ii. It is needed for service industries to develop customer oriented service cultures in which the organization chart is inverted and customer and front line staff becomes the primary focus (Gronroos, 1990)
iii. The ability of organization culture to provide a source of competitive advantage is also inked to its ability to generate strategically valuable innovation through organizational learning (Williams, 1992)
iv. An organization needs to develop strong core values that emphasize innovation and flexibility if it is to develop sustained superior financial performance (Barney, 1986).

According to an article in Journalistic (2002), a firm which is able to sustain its positive cultures enjoys many benefits. Morale is improved, and the work environment is more enjoyable, with increased teamwork, openness to new ideas and sharing of information. This activates learning and continuous improvement because of the free flow of information. It also helps attract and retain good employees.

Based on the above, a firm's cultural capabilities differentials can be identified as the following intangible resources, which could contribute to a firm's sustainable competitive advantage:

- Tradition of being the best
- Positive culture
- Flexible culture to encourage innovation and face challenges
- Customer oriented service culture
- A firm's recognition of a positive culture as a source of competitive advantage

4.3 Positional Capabilities Differentials: Firm's Previous Endeavor

Positional capabilities differentials are a consequence of past actions, which have produced a certain reputation with customers, a certain advantageous location of facilities, etc (Hall, 1992). Porter (1980) had cited positive reputations of firms among customers and suppliers as sources of competitive advantage provided they are rare. Ordaz *et al*. (2003) explained that positional assets are derived from past actions that have given the company a certain reputation. The development of a positive reputation usually depends on specific difficult-to-duplicate historical settings, which may be imperfectly imitable (Barney, 1991). Klein and Leffler (1981) argued that a positive firm's reputations can be thought of as informal social relations between firms and key stakeholders which is likely to be socially complex, and therefore imperfectly imitable. Further, *Fortune's 1983 Reputation Survey* indicates that companies with a high reputation tend to outperform companies with a low reputation, and those whose reputation was categorized as quality of management; quality of products or services; innovativeness; long-term investment value; financial soundness; ability to attract, develop and keep talented people; community and environmental responsibility; and wise use of corporate assets.

Weigelt and Camerer (1988) had identified three types of reputation, they are company reputation, product reputation, and reputation associated with corporate culture. Corporate reputation refers to information about a firm's capability advantages, such as its plant capacity, location, managerial capabilities, strategies, financial soundness, and social responsiveness. Product and service reputation refers to the public or customers' perception on a firm's product quality, while corporation develop reputation refers to working environments and corporate culture. Greyser (1999) had also identified six key drivers of a company's positive reputation. They are a company's competitive effectiveness; market leadership, customer focus, familiarity and favorability, corporate culture and communications and these attributes are inimitable and immobile, and thus are strategic assets of a company in sustaining competitive advantage.

Based on the above literatures, a company's positional capabilities differentials as strategic assets could be assessed on the following attributes:

- High caliber management
- High caliber of staff
- Strategically invests in research and development
- Strong financial status
- Industry leadership and well-differentiated services and products.
- Offering services or products with good value for the money and clearly defined image/ quality.
- Services or products recognition by stakeholders
- Long-established company
- High ethical standards and recognizes social responsibilities
- Effective advertising, sponsorship of major events

4.4 Regulatory Capabilities Differentials: Law Protections

Regulatory capabilities differentials refer to a firm's possession of legal entities such as intellectual property rights, contracts, trade secrets, (Hall, 1991), brand equity etc., and these regulatory assets have evolved over the years as a strategic tool to create and sustain competitive advantage for firms in a marketplace. Ordaz *et al*. (2003) proposed that regulatory assets derive from the possession of some asset protected by law. Intellectual property concerns the creation of knowledge-based products or services, and to transform them into tangible forms like drawings, reports, plans or specifications for the purposes of legal protections and such knowledge then involves the creation of trade secrets, copyrights, patents and trademarks, which can offer protection from imitation. Property rights for trademarks emphasize on protecting the customers from being cheated with fraudulent products or services (Hall, 1992). For example, in the education industry, trademarks are crucial for private colleges in protecting their reputation especially a college's trademark in the issuance of certificates.

Copyrights refers to the protection of literary, dramatic, musical and artistic works, sound recordings, films and broadcasts by giving legal rights to the originators so that they may control the copying, adaptation, publishing, performing and broadcasting of the material (Hodkinson, 1987). In private colleges, the copyrights of curriculum/programs structures, courses syllabus, academic staffs' researches, lectures notes and presentation slides, and E-learning platforms are paramount strategic assets in sustaining their competitive advantage. Based on the above literatures, taking a college as an example, a college's regulatory capabilities differentials as strategic assets have been identified in the following attributes:

- Trademarks
- Intellectual property rights
- Licenses and agreements/contracts with business partners.
- Products or services assurances.

The Model of Capabilities Differentials as Sources of Sustainable Competitive Advantage for Firms in Service Industry

	Dimensions	**Attributes**
Competencies	Functional Capabilities Differential	Service quality Corporate entrepreneurship Learning curve experience Innovation Effective strategic management New organization form Core competence Effective marketing strategies Effective HR strategies IT
	Cultural Capabilities Differential	Tradition of being the best Positive management culture Flexible culture Customer oriented Culture as source of SCA
Assets	Regulatory Capabilities Differential	Trademark Intellectual property right Contracts/Agreements Accredited program
	Positioning Capabilities Differential	High caliber management High caliber staff Strategically invest in Research and Development Strong financial status Industry leaderships status Positive company image Stakeholders' recognition Long-established company High ethical standards and recognized social responsibilities Strong brand name and reputation

Source: Own Source

5.0 Conclusions

Generally, firms all around the world are aware of the importance of strategic assets in attaining sustainable competitive advantage, but are still searching for ways to create competitive advantage and what should be done to sustain this advantage. Even though the resource-based view is an approach that is concerned explicitly with the creation of competitive advantage, yet it is still not clear how to identify the drivers of competitive advantage (Carmeli, 2004). The model proposed makes it clearer to researchers and managers in identifying the sources of sustainable competitive advantage.

The literature suggests that firms compete in the market on the basis of firm's resources and capabilities, which will instill competitive advantage for the firm. However to secure competitive advantage, the firm must take into consideration the sustainability of their competitive advantage by possessing sources of sustainable competitive advantage or strategic assets (Amit and Schoemaker, 1993; Barney, 1991; Michalisin and Acar, 1994); and Coyne (1986), Hall (1992, 1993), Kay (1996), and Day (1998) suggested the concepts of capabilities differentials/distinctive capabilities as the main sources of sustainable competitive advantage.

This conceptual discussion offers management practitioners essential knowledge of sustainable competitive advantage and the resource-based view. Using Coyne's (1986) capabilities differentials and Hall's (1992) intangible resources as the feedstock of capabilities differentials has gained the reader a better understanding of the importance of possessing sources of sustainable competitive advantage by firms. The contribution is a model for analyzing and identifying core resources or strategic assets of a firm, and populations of firms, and their real roles with respect to the creation of sustainable competitive advantage and generation of superior performance. The conceptual model developed enables an understanding of the real state of strategic assets with respect to the four dimensions of capabilities differentials for sustainable competitive advantage creation, and can be a useful model for researchers and managers to follow. In other words, the conceptual model enables us to identify the resources profile of a firm as well as the resource profile of firms across related industries, which have similar characteristics.

Although this conceptual discussion has attempted to present a fairly comprehensive capabilities differentials theories of strategic assets as sources of sustainable competitive advantage, there are two significant issues that researchers need to address in future. First, the four dimensions of capabilities differentials need to be integrated in a more thorough manner than have been achieved here. Although these represent separate aspects of intangible resources, one can argue that they may share common resources. Second, the conceptual model proposed is developed more towards the services industry's characteristics; other areas or industries should also be looked into in future research studies.

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