Independence can be an advantage

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Measuring a firm's sustained competitive advantage solely on the basis of relatively superior returns can often hide the full picture.

One problem in identifying a firm's sustained competitive advantage (SCA) on the basis of superior profitability alone is that, in some cases, profitability may not be the sole determining factor.

This approach can sometimes fail to capture the real reason why some businesses are successful. For example, in some cases, a firm may forgo current profits altogether, in order to invest in human capital, technology, and customer and employee loyalty, with notable results.

To get around this challenge, it may be worth looking at other variables, as IESE professors Roberto García Castro and Miguel A. Ariño did for their article, 'The Multidimensional Nature of Sustained Competitive Advantage: Test at a United States Airline,' published in the *International Journal of Management*.

The authors argue that SCA is a multidimensional concept, and, to prove this, explore one such untapped dimension: a firm's relative autonomy from industry cycles vis-à-vis its rivals.

Higher autonomy, lower industry risk

Inspired by the investment banking staple, the capital asset pricing model (CAPM) in this case based on industry activity as opposed to capital market risk, the authors propose a simple measure to assess firm autonomy: a firm's level of independence from its industry.

Firm autonomy can be used as an accurate measure of the relative risk of the firm: higher autonomy means lower exposure to the industry cycle, thus reducing the firm's overall level of risk.

This approach complements traditional measures of SCA, which evaluate the level of a company's returns relative to competitors in a given industry.

Independence from ups as well as downs

Based on their analysis of 10 operators from the U.S. airline industry over a period of 21 years, the authors found that each firm's degree of independence from the prevailing environment helped to distinguish its behavior.

Owing to its strategy or resources, a comparatively independent company can outperform its rivals during the bad times, although some of its rivals may outperform it during the good times.

In one of the two cases identified, there was a high degree of autonomy but below industry-average performance. Therefore, autonomy can follow distinct patterns, given that there are other factors at work.

Low risk for low times

The combination of high returns and low risk are desirable features in the performance of any firm.

Indeed, in today's uncertain climate, investors may increasingly look to identify firms with a track record of resilience against recession and industry turmoil.

In short, independence (low risk), and not just performance (high returns), should be a key variable of SCA.

What's more, there remain several related dimensions to explore in the universe of SCA variables. Future research could look at the role of strategy, opportunistic adaptation and culture to develop a broader picture of a firm's SCA.