Leveraging Resources & Capabilities
Resource Based View

Institution-based view: Formal and informal rules of the game

Fundamental question: What determines the success and failure of firms around the globe?

Resource-based view: Firm-specific resources and capabilities

- Focusing on Resource Based view
  - Discuss SWOT analysis
  - Value Chain Analysis
  - VRIO Framework
SWOT Analysis

An analytical tool for determining a firm’s

- **S**trengths
- **W**eaknesses
- **O**pportunities
- **T**hreats

What is a strength and what is a weakness???

Think about later with strategy and structure

Institutional Change, cultural differences such as masculine vs. feminine cultures, etc.
Resources and Capabilities

**Resources (and capabilities)** – the tangible or intangible assets a firm uses to choose and implement its strategies

Classify based on observable and unobservable

- **Tangible Resources** – assets that are observable and easily quantified

- **Intangible resources and capabilities** – assets that are hard to observe and difficult to quantify
  - *Harder to imitate than tangible*
Tangible Resources

Financial resources
- Ability to generate internal funds
- Raise funds externally

Physical Resources
- Plants, offices, equipment, and locations
- Access to raw materials

Technological Resources
- Used to generate leading edge products
  - Patents, trademarks, copyrights, etc.
Intangible Resources

Human Resources
- Knowledge, trust, and talents

Innovation Resources
- Assets and skills to develop products or restructure processes

Reputational Resources
- Reputation has value
  - Brand power
  - Employer attractiveness
Firms use tangible and intangible assets to implement its strategies

**Tangible** – easier to imitate
- Financial
- Physical
- Technological

**Intangible** – more difficult to imitate
- Human
- Innovation
- Reputational
Strengths vs. Weaknesses
Resources and Capabilities

Value Chain
- A series of activities in the production of goods and services that make a product or service more valuable

Benchmarking
- Examining whether a firm has the resources and capabilities to perform a particular activity in a manner *superior to competitors*
  - Don’t have enough resources to do everything well
Value Chain

Which are primary activities and support activities?

Think about Apple

“Coffee is the product we sell but not the business we are in”

~ Howard Schultz, Starbucks
Why Are We Doing This Again?

Decision model for Value Chain Analysis

Do we really need to perform this activity in-house?

- Yes
  - Do we have the resources and capabilities that add value in a way better than rivals do?
    - Yes (keep doing it)
    - No
      - Acquiring necessary resources and capabilities in-house
      - Accessing resources and capabilities through strategic alliances

- No
  - Outsource, sell the unit, or lease its services to other firms
Outsourcing

turning over an activity to an outside supplier to perform on firm’s behalf
Questions to ask

Has it been *commoditized*? Has the product lost ability to command high prices?

- Once unique, not any more
- If commoditized, outsource it

If not commoditized:

- Industry specific/proprietary
  - Keep in house
- Common across industry(s)
  - Could go either way
IBM not computers
### In or Out?

<table>
<thead>
<tr>
<th>Comoditization</th>
<th>Industry Specificity</th>
<th>Commons across Industries</th>
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</thead>
<tbody>
<tr>
<td>High (commodity)</td>
<td>Outsource</td>
<td>Outsource</td>
</tr>
<tr>
<td>Low (proprietary)</td>
<td>In-House</td>
<td>????</td>
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- **Commodity** – low margins, outsource it!
- **Industry Specific**
  - Industry Specific and uses our proprietary technology, keep it in house
  - Process not yet commoditized but common across industries, maybe some kind of treatment for products, i.e. powder coating aluminum parts
Computer Tech Support

Main Support Line
(if start-up, press 1, if printer, press 2,...)

Windows/Office
Hardware
Printer Software

Common Across Industry
Outsourced

Proprietary Tech
Kept in house
Is Outsourcing Good for America?
Who, What, Where, When, Why?

What? Commodity.
Who? Not us.
When? ASAP
Why? Not Value Adding!
Where?
  - **Offshoring** – outsourcing to an international or foreign firm
  - **Inshoring** – outsourcing to a domestic firm
  - **Captive Sourcing** – set up a foreign subsidiary but work done in-house. (FDI)
### Captive Sourcing:
Set up a foreign subsidiary but work done in-house. (FDI)

### Offshoring:
Outsourcing to an international or foreign firm

### Inshoring:
Outsourcing to a domestic firm

<table>
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<th>Location of Activity</th>
<th>Mode of Activity</th>
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<tr>
<td>Domestic Location</td>
<td>In-House</td>
<td>Domestic Location</td>
<td>Outsourcing</td>
</tr>
<tr>
<td>Foreign Location</td>
<td>Captive Sourcing / FDI</td>
<td>Foreign Location</td>
<td>Offshoring</td>
</tr>
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**Offshoring**
- Captive Sourcing / FDI: set up a foreign subsidiary but work done in-house. (FDI)
- Domestic In-House: work done in-house.
- Offshoring: outsourcing to an international or foreign firm.
- Inshoring: outsourcing to a domestic firm.
Are Offshoring and Captive Sourcing Good for America?
Does Trade Destroy Jobs?

- Imports have increased
- Unemployment has not increased
- Number of jobs unchanged, composition of jobs changes
VRIO Framework – Going beyond SWOT

V value
R rarity
I imitable
Organization
Value

Value of product determined by the market
  ▪ Both customers and competitors

Only value-adding resources lead to competitive advantage
  ▪ Value-added is relative to competitors

If below average activity kept in house
  ▪ Cancels out value created in other activities
  ▪ Firms maximize profit
Rarity

Valuable is not enough
  - Valuable and common resources leads to parity

Lots of valuable tools and systems available
  - Use differently and better than competitors

Prohibit others from using
  - Patents, copyrights, trade secret

If everyone has it, you can’t make money from it!
Imitability

Imitable won’t be rare or valuable for long

Easier to imitate tangible resources
  – i.e. Southwest airlines flies city to city
    • Other discounters copying

Much more difficult to imitate intangibles
  – *Causal ambiguity* – difficult to observe actual cause of a firm’s successful performance
    • i.e. positive culture in sales force
      – Is it management? Hiring? Compensation?
  – Could be a combination of intangibles
Organization

Great ideas can flop
- Google and Motorola handsets
- Microsoft Zune
- Google glass
Organization

Microsoft Zune

Source: odopod.com

Apple i...

iPod + iTunes

Source: endgaget.com

Missing a music store

i-Pods and i-Tunes complimentary
Great ideas can flop

- Google and Motorola handsets
- Microsoft Zune

Need proper organization of *complementary assets* – combination of resources and assets that enable a firm to gain a competitive advantage

Ex: think salary cap in football
Organization

**Societal Complexity** – the socially intricate and interdependent ways that firms are typically organized

- Can’t just remove a piece or replace one like building blocks
- Refutes the “Lego” theory of the firm
## VRIO Framework

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<tbody>
<tr>
<td>No</td>
<td>—</td>
<td>—</td>
<td>No</td>
<td>Competitive disadvantage</td>
<td>Below average</td>
</tr>
<tr>
<td>Yes</td>
<td>No</td>
<td>—</td>
<td>Yes</td>
<td>Competitive parity</td>
<td>Average</td>
</tr>
<tr>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Temporary competitive advantage</td>
<td>Above average</td>
</tr>
<tr>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Sustained competitive advantage</td>
<td>Persistently above average</td>
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A few videos to wrap things up on outsourcing and globalization
Debate: Offshoring

<table>
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<th>Against</th>
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<tr>
<td>• Creates value for firms</td>
<td>• Nurtures rivals</td>
</tr>
<tr>
<td>• Access to low-cost and high quality labor</td>
<td>• Negative impact on developed economies</td>
</tr>
<tr>
<td>• Allows firms to focus on core capabilities</td>
<td>• US firms not bound by American ethical values</td>
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Implications For Action

Build strengths based on VRIO framework
  - Always compare against rivals
  - Don’t become complacent
Imitation is not likely to be successful
  - Won’t win by keeping up, need to lead
Firms build resources and capabilities for future competition
Students need to build capabilities to be valuable, rare, inimitable, and integral so jobs not outsourced