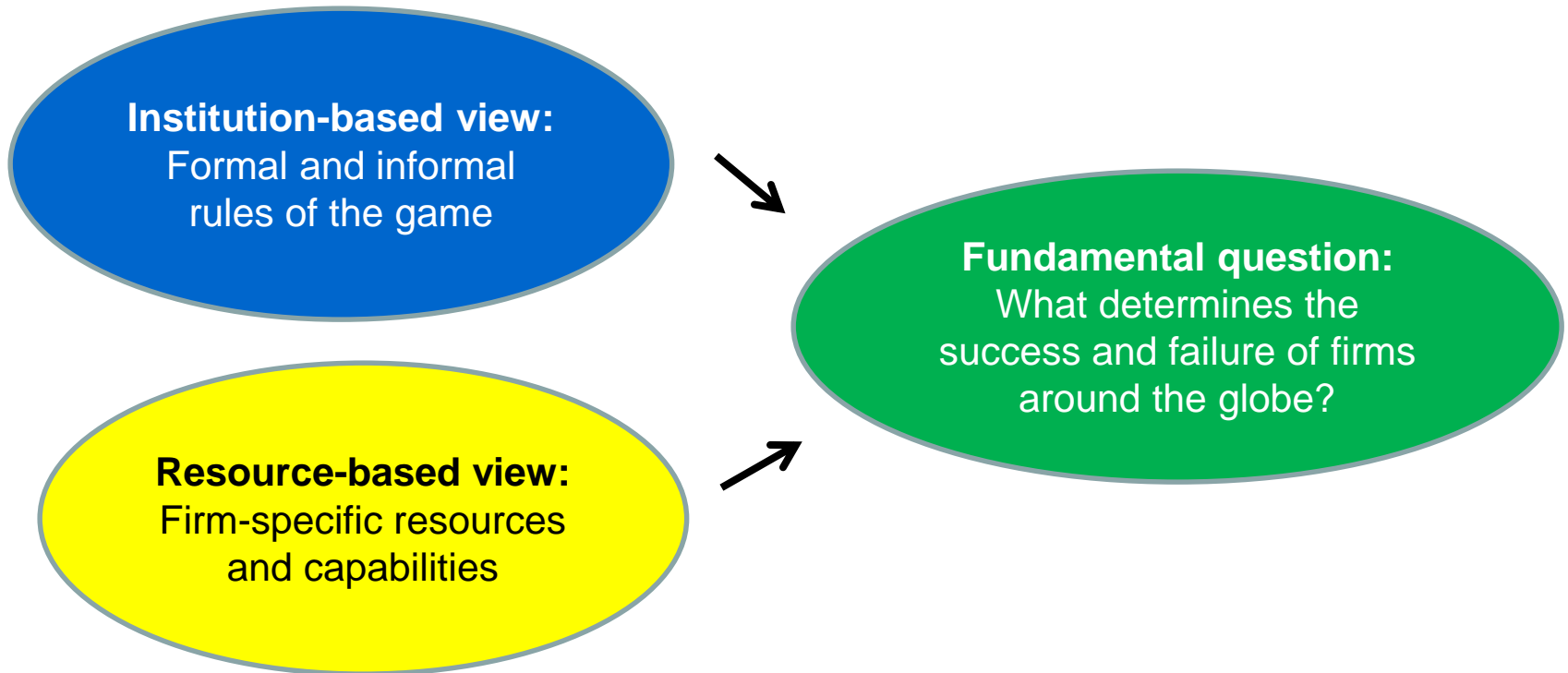


Leveraging Resources & Capabilities

Chapter 4



Resource Based View



- 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

Resources

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?

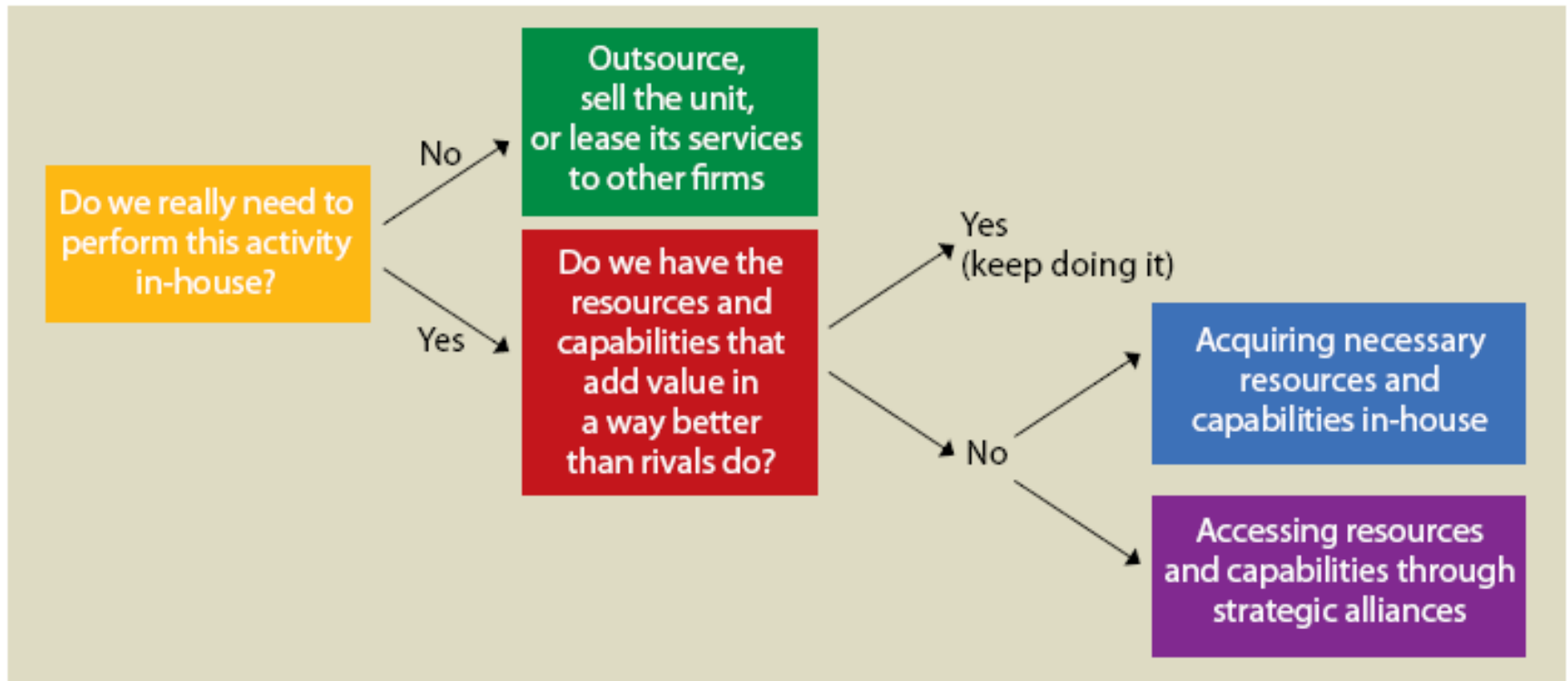
Think about Apple

“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



Deciding What to Outsource

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

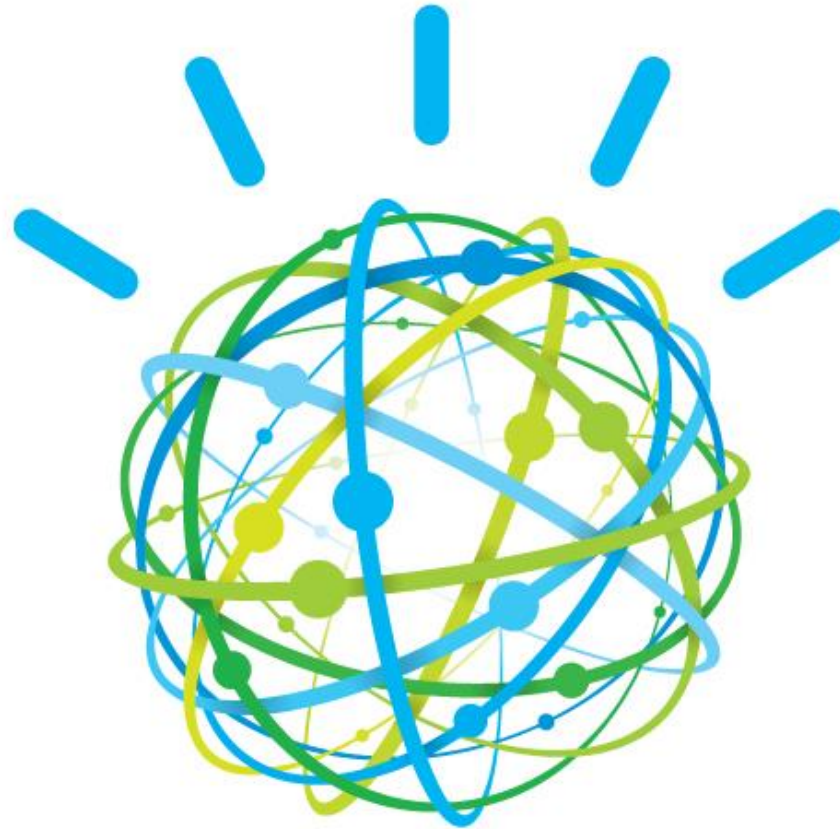
If not commoditized:

- Industry specific/proprietary
 - Keep in house
- Common across industry(s)
 - Could go either way

IBM not computers



lenovo



In or Out?

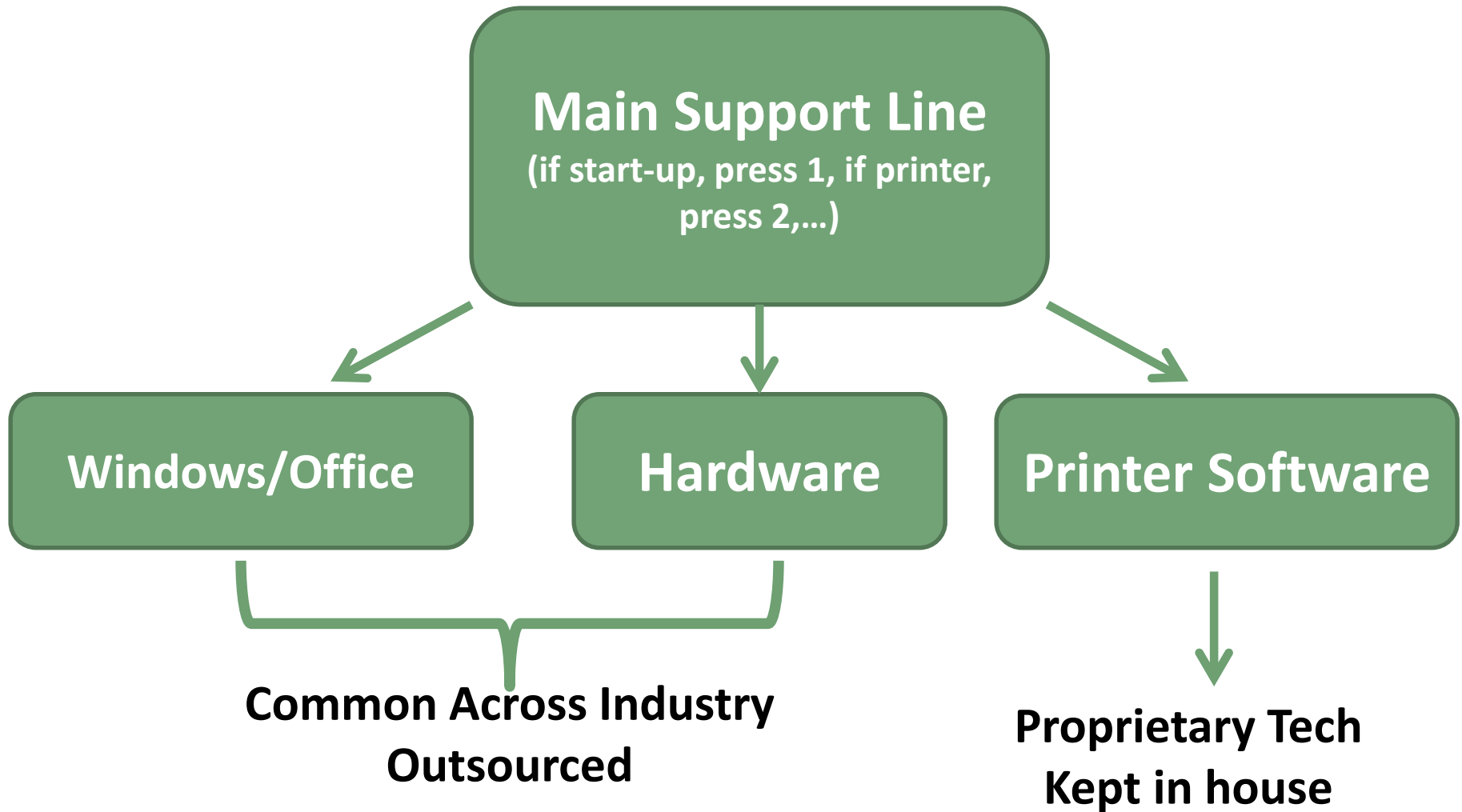
**Commodity –
low margins,
outsource it!**

		Industry Specificity	
		Industry Specific	Common across Industries
Commoditization	High (commodity)	Outsource	Outsource
	Low (proprietary)	In-House	???

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



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

Mode of Activity

In-House

Outsourcing

Location of Activity

Foreign Location

Captive Sourcing / FDI

Offshoring

Domestic Location

Domestic In-House

Inshoring

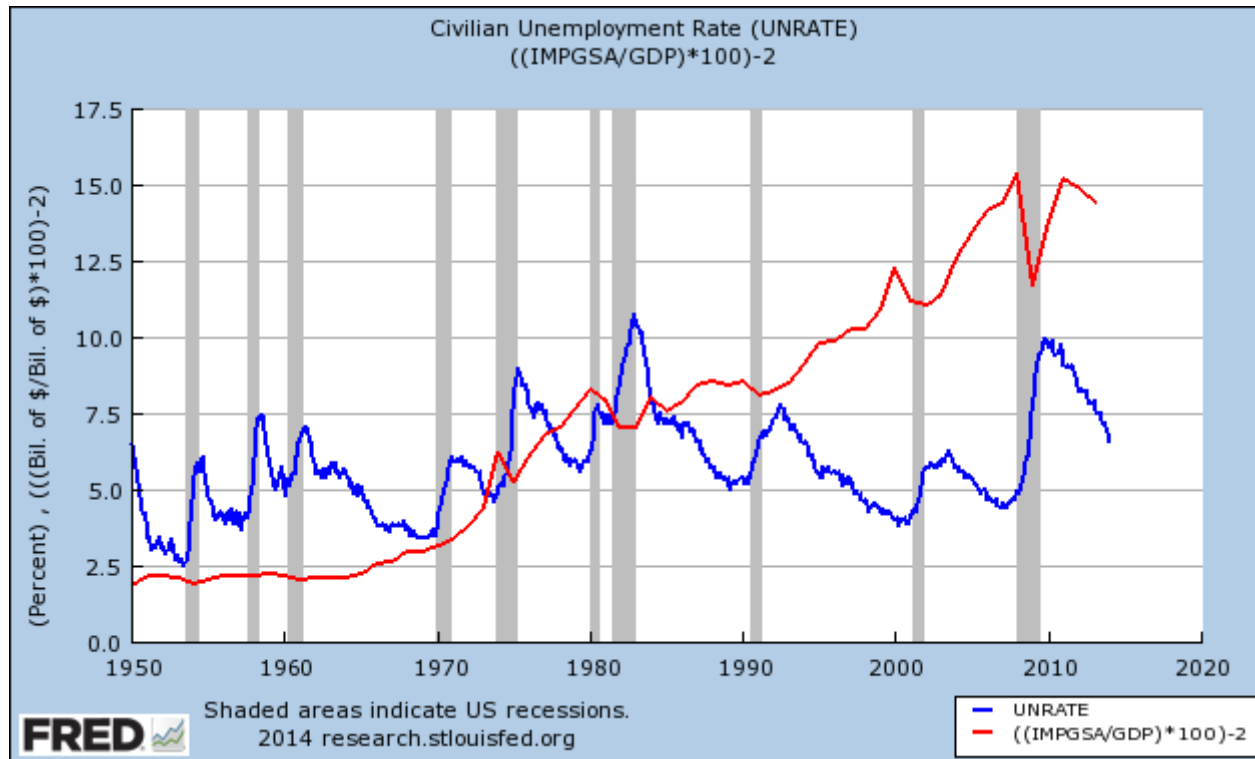
Inshoring:

outsourcing to a domestic firm

Are Offshoring and Captive Sourcing Good for America?



Does Trade Destroy Jobs?



- Imports have increased
- Unemployment has not
- Number of jobs unchanged, composition of jobs changes

VRIO Framework – Going beyond SWOT

Value

Rarity

Inimitable

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...



Source: endgaget.com

Missing a music store

i-Pods and i-Tunes
complimentary

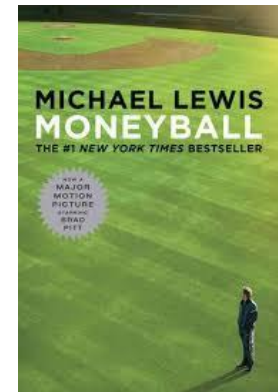
Organization

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

Is a resource or capability . . .

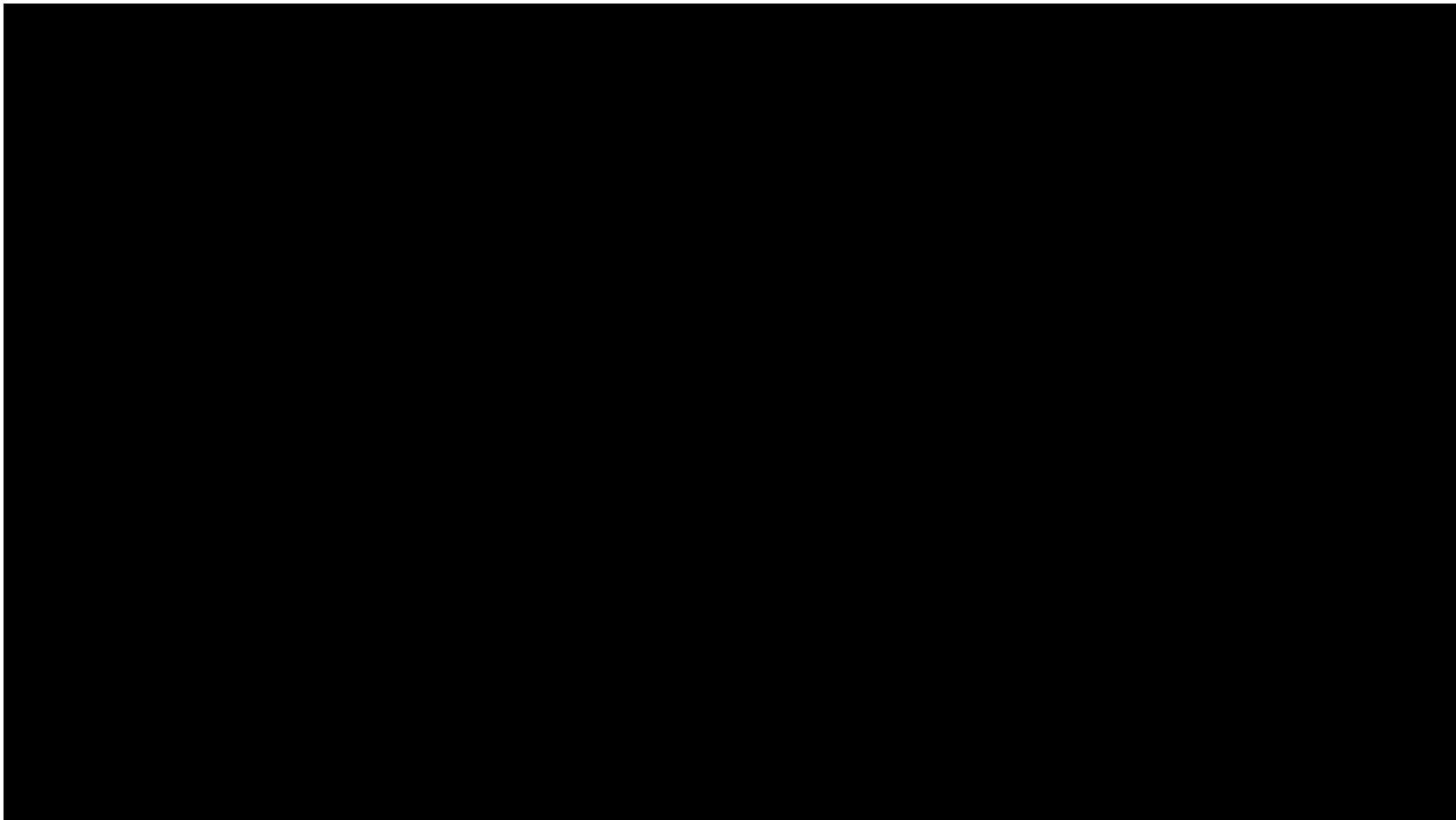
Valuable?	Rare?	Costly to imitate?	Exploited by organization?		Competitive implications	Firm performance
No	—	—	No		Competitive disadvantage	Below average
Yes	No	—	Yes		Competitive parity	Average
Yes	Yes	No	Yes		Temporary competitive advantage	Above average
Yes	Yes	Yes	Yes		Sustained competitive advantage	Persistently above average

Sources: J. Barney, *Gaining and Sustaining Competitive Advantage*, 2nd ed. (Upper Saddle River, NJ: Prentice Hall, 2002) 173; R. Hoskisson, M. Hitt, and R. D. Ireland, *Competing for Advantage* (Cincinnati: Cengage Learning, 2004) 118.

A few videos to wrap things up on
outsourcing and globalization







Debate: Offshoring

For

- Creates value for firms
- Access to low-cost and high quality labor
- Allows firms to focus on core capabilities

Against

- Nurtures rivals
- Negative impact on developed economies
- US firms not bound by American ethical values

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