TOPIC 4. STRATEGY: RESOURCE-BASED VIEW AND DYNAMIC CAPABILITIES.

Resource-based view*:* suggests that differences in business performance are driven by differences in business resources and capabilities (as opposed how 'average' businesses in an industry compete).

- *Industry-based view*: focuses on internal ***opportunities*** (O) and ***threats*** (T).
- *Resource-based view*: focuses on internal strengths (S) and weaknesses (W).

Resources / capabilities*:* the tangible and intangible assets a business uses to implement its strategies. The key is to understand how these resources / capabilities enhance business performance.

Tangible resources*:* observable and easily quantified.

- *Financial:* e.g. ability to generate internal funds; ability to raise external capital.
- *Physical:* e.g. location of plants, offices and equipment; access to materials and channels.
- *Technological:* e.g. possession of patents, trademarks and copyrights.
- *Organisational:* e.g. planning, control, management and information systems.

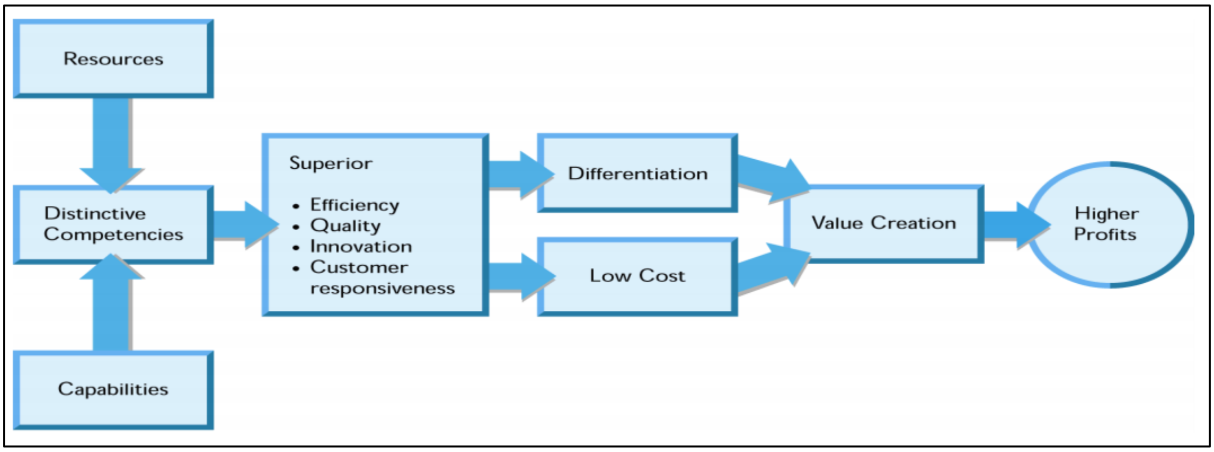
Intangible resources*:* hard-to-observe.

- *Human:* e.g. knowledge; trust; managerial talents; organisational culture.
- *Innovation:* e.g. a supportive business atmosphere; R&D capabilities.
- *Reputational:* e.g. perceptions of product quality and reliability; reputation of good CSR.

Building blocks of *competitive advantage* (low cost and differentiation):

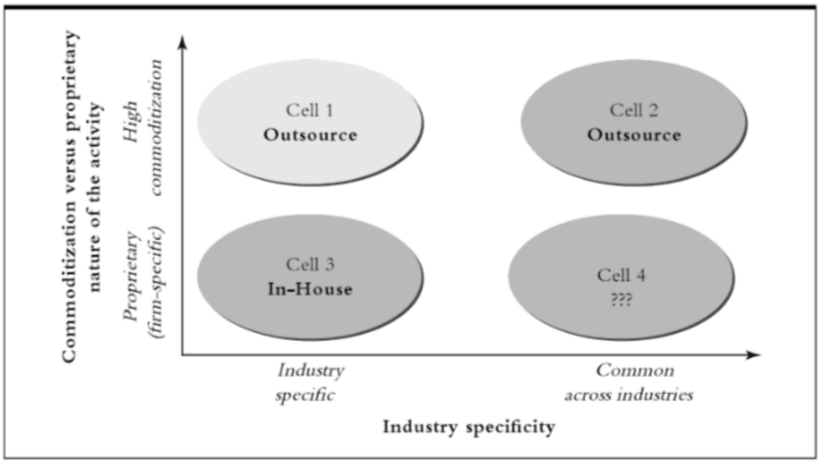
1. Superior *quality*.
2. Superior *customer responsiveness.*
3. Superior *innovation*.
4. Superior *efficiency*.

Resource-based view framework:



Value chain analysis*:* both *primary* and *supporting* activities within a value chain require a range of resources and capabilities. If managers find that a particularly activity within their business is inefficient or unsatisfactory (compared to competitors), they need to take appropriate action.

FIGURE 3.3 In-House versus Outsource

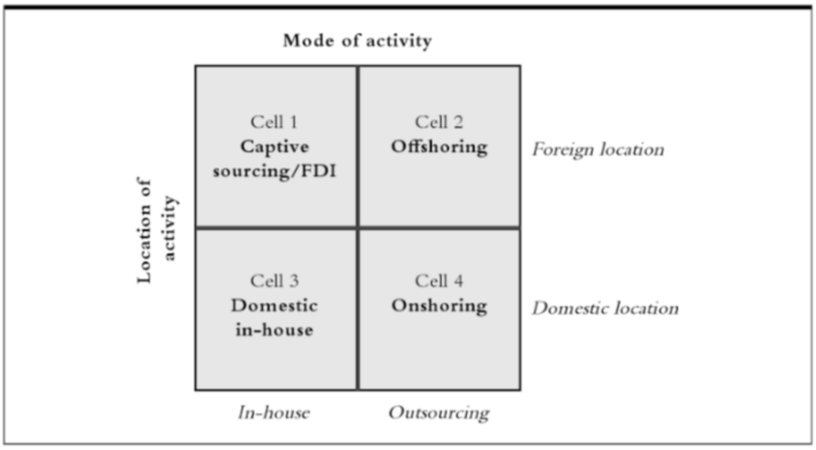


Outsource: turning over all or part of an activity to an outside supplier to improve performance. This enables a business to focus on its core competencies and exploit the supplier's economies of scale.

In-house: there are two strategies to enhancing in-house performance of an activity:

1. Improve and develop capabilities itself.
2. Access capabilities through alliances.

FIGURE 3.4 Location, Location, Location



Offshoring: international / foreign outsourcing.
Onshoring: domestic outsourcing.
Captive sourcing: setting up subsidiaries to perform in-house activities overseas.

Value chain analysis*:* enables managers to ascertain a business's strengths and weaknesses on an activity-by-activity basis, *relative to competitors*, in a SWOT analysis.

***VRIO framework**:* focuses on the *value* (V), *rarity* (R), *imitability* (I), and organisational (O) aspects of resources and capabilities.

- A competitive advantage that is *sustainable* is most effective.
- Two key *assumptions*:
  1. Resource heterogeneity: no two businesses have the same resources (twins).
  2. Resource immobility: resources unique to one business cannot easily migrate to others.

Four key questions:

1. *Do the resources or capabilities add **value**?*
2. *Are the resources or capabilities **rare**?*
3. *How **imitable** are the resources and capabilities?*
4. *Are the resources or capabilities exploited by the **organisation**?*

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

*Organisation (O): is the business **organised** to develop and leverage the full potential of the resources and capabilities in question?*

- *Complementary assets:* numerous noncore assets that complement and support the value-adding activities of core assets. This makes imitation particularly difficult.

***Debates and extensions**:*

- Business-specific versus industry-specific determinants of performance:
  - *Resource-based view*: performance is determined by resources and capabilities.
  - *Industry-based view*: performance is a function of industry-specific attributes.
  - Ultimately whether business performance varies ***across*** or ***within*** industries.
  - Both perspectives are *complementary* and should be applied simultaneously.
- Static resources versus dynamic capabilities: the resource-based view is argued to be inefficient and unrealistic for businesses operating in hypercompetition industries.

	Slow-Moving Industries	Fast-Moving (High-Velocity) Industries
Market environment	Stable industry structure, defined boundaries, clear business models, identifiable players, linear and predictable change	Ambiguous industry structure, blurred boundaries, fluid business models, ambiguous and shifting players, nonlinear and unpredictable change
Attributes of dynamic capabilities	Complex, detailed, analytic routines that rely extensively on existing knowledge ("learning before doing")	Simple, experiential routines that rely on newly created knowledge specific to the situation ("learning by doing")
Focus	Leverage existing resources and capabilities	Develop new resources and capabilities
Execution	Linear	Iterative
Organization	A tightly bundled collection of resources with relative stability	A loosely bundled collection of resources that are frequently added, recombined, and dropped
Outcome	Predictable	Unpredictable
Strategic goal	Sustainable competitive advantage (hopefully for the long term)	A series of short-term (temporal) competitive advantages

***Lessons from resource-based view**:*

- Build resources and capabilities (strengths) before targeting a particular industry or segment.
- Imitation is not a successful strategy.
- Competitive advantage does not last forever. *Strategic foresight* is needed to adapt.

***Four fundamental strategy questions**:*

1. *Why do businesses differ?* Resource heterogeneity.
2. *How do businesses behave?* By trying to capitalise on resources and capabilities.
3. *What determines the scope of the businesses?* Value chain analysis (outsourcing etc.).
4. *What determines the international success of businesses?* Specific resources.