

The Role of Resources and Capabilities in Strategy Formulation

Internal Environment

- Strategy is concerned with matching a firm's resources and capabilities to the opportunities that arise in the external environment.
- The interface between strategy and the internal environment of the firm
- Increasing emphasis on the role of resources and capabilities because
 1. Unstable industry environment
 2. Competitive advantage rather than industry attractiveness

Basing Strategy on Resources and Capabilities

- The **resource-based view (RBV)** of the firm:
the role of resources and capabilities as the principal basis for firm strategy and the primary source of profitability
- Resource-based theory suggests that resources that are valuable, rare, difficult to imitate, and non-substitutable best position a firm for long-term success.

Shifting the Focus of Strategy Analysis: From the External to the Internal Environment



Core Competency

- A harmonized combination of multiple resources and skills that distinguish a firm in the marketplace and therefore are the foundation of companies' competitiveness.
- A successful business has identified what it can do better than anyone else, and why.
- Its core competencies are the "why."
- Core competencies are also known as core capabilities or distinctive competencies.
- Core competencies lead to competitive advantages.

Honda Motor Company

- Founded in 1948
- Biggest motorcycle producer
- Strategy built around its expertise in the development and manufacture of engines

Canon Inc.

- First success in producing 35mm cameras
- Then developed fax machines, calculators, copy machines, printers, video camera, semiconductor manufacturing equipment.
- Application of three areas of technological capability precision mechanics, microelectronics and fine optics

Motorola

- The supplier of wireless telecommunication equipment, semiconductor, and direct satellite communications.
- Has undergone many transformation
- TVs, car radios, mobile phone
- Consistent focus on wireless electronics

Eastman Kodak

- Photographic products based on chemical imaging
- Threatened by digital imaging
- Invested billions but no improvement

- Greater the change in external environment more the internal resources and capabilities securing support.
- Industry attractiveness and competitive advantage

Monopoly rent : Profit arising from market power

Ricardian rent: Profit arising from superior resources-

- When the primary concern of strategy was industry selection and positioning, companies tended to adopt similar strategies.

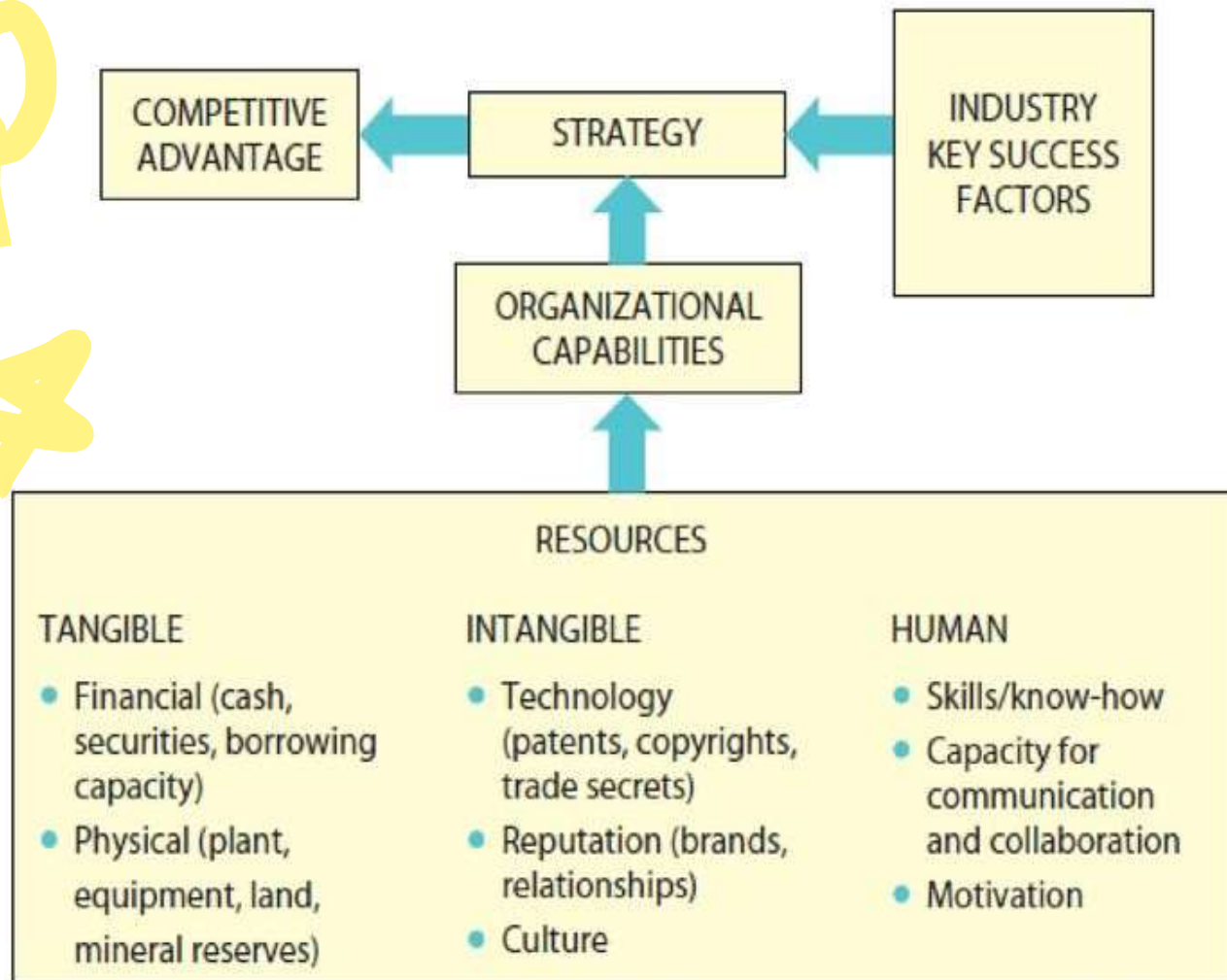
RBV

- Emphasizes the uniqueness of each company
- Profitability is not through doing the same as other firms, rather through exploiting differences

Competitive advantage

- Involves formulating and implementing a strategy that exploit a firm's unique strengths.
- **Resource:** Productive assets owned by the firm.
- **Capabilities:** What firm can do?
- Individual resources do not confer competitive advantage, they must work together to create organizational capability.
- Capability is the essence of superior performances.

The links among resources, capabilities and competitive advantage



Resource analysis

- **Tangible resources** are the easiest to identify and evaluate: Financial resources and
Physical assets
Intangible assets
- The primary goal of resource analysis is not to value a company's assets but to understand their potential for creating competitive advantage.
 1. What opportunities exist for economizing on their use?
 2. What are the possibilities for employing existing assets more profitably?

Intangible Resources

- Intangible resources are more valuable than tangible resources.
- Brand names or Brand value or Brand equity
- Intellectual property—patents, copyrights, trade secrets, and trademarks—comprise technological and artistic resources

Human Resources

- The firm's human resources comprise the expertise and effort offered by employees.

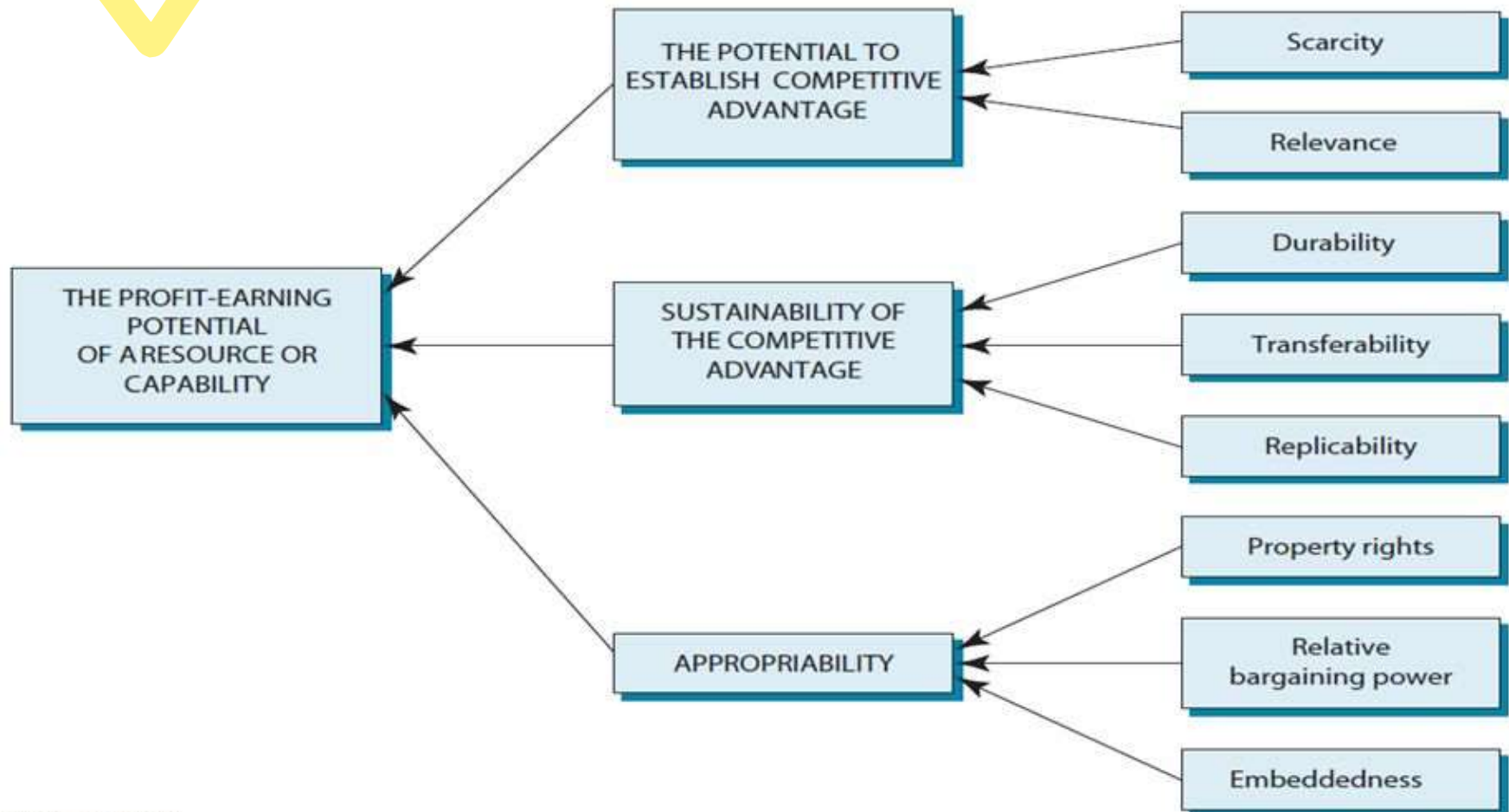
Capability

- An organizational capability is a “firm’s capacity to deploy resources for a desired end result.”
- Selznick used **distinctive competence** to describe those things that an organization does particularly well relative to its competitors.
- Prahalad and Hamel coined the term **core competences** to distinguish those capabilities fundamental to a firm’s strategy and performance

Core competences

- make a disproportionate contribution to ultimate customer value, or to the efficiency with which that value is delivered and
- provide a basis for entering new markets.

Appraising the Strategic Importance of Resources & Capabilities



VRIO Model

- VRIO framework is the foundation for internal analysis.
- VRIO is an acronym for valuable, rare, inimitable, and organization (as in owned by the organization).



V
VALUABLE

R
RARE

I
INIMITABLE

O
ORGANIZED

NO				COMPETITIVE DISADVANTAGE
YES	NO			COMPETITIVE PARITY
YES	YES	NO		TEMPORARY COMPETITIVE ADVANTAGE
YES	YES	YES	NO	UNUSED COMPETITIVE ADVANTAGE
YES	YES	YES	YES	SUSTAINABLE COMPETITIVE ADVANTAGE

Resource and Capability Analysis

- Step 1 : Identify the Key Resources and Capabilities
- Step 2 : Appraising Resources and Capabilities
 - Assessing Importance
 - Assessing Relative Strengths
 - Bringing Together Importance and Relative Strength

- Step 3 :Developing Strategy Implication
 - Exploiting Key Strengths
 - Managing Key Weaknesses