

BUS359

Contemporary Strategic Analysis

Lecture 5: Resources and Capabilities

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Recap: Further topics in industry analysis

Think-pair-share (5 minutes):

- What is a complement in industry analysis?
- What are the limitations of Porter's Five Forces?
- What tools/frameworks can we use to analyse dynamic competition?

Recap: Further topics in industry analysis

- What is a complement in industry analysis?

Complement → compatible of products/services → increase value.

- What are the limitations of Porter's Five Forces?

Competition/Stable competition (but hyper-competition)/Time – industry structure evolves/Macro

- What tools/frameworks can we use to analyse dynamic competition?

Game theory (specific rules/outcomes), segmentation analysis (divided markets into market customers in terms of similar needs), strategic group analysis (group of firms → follow the same strategies → cluster identification).

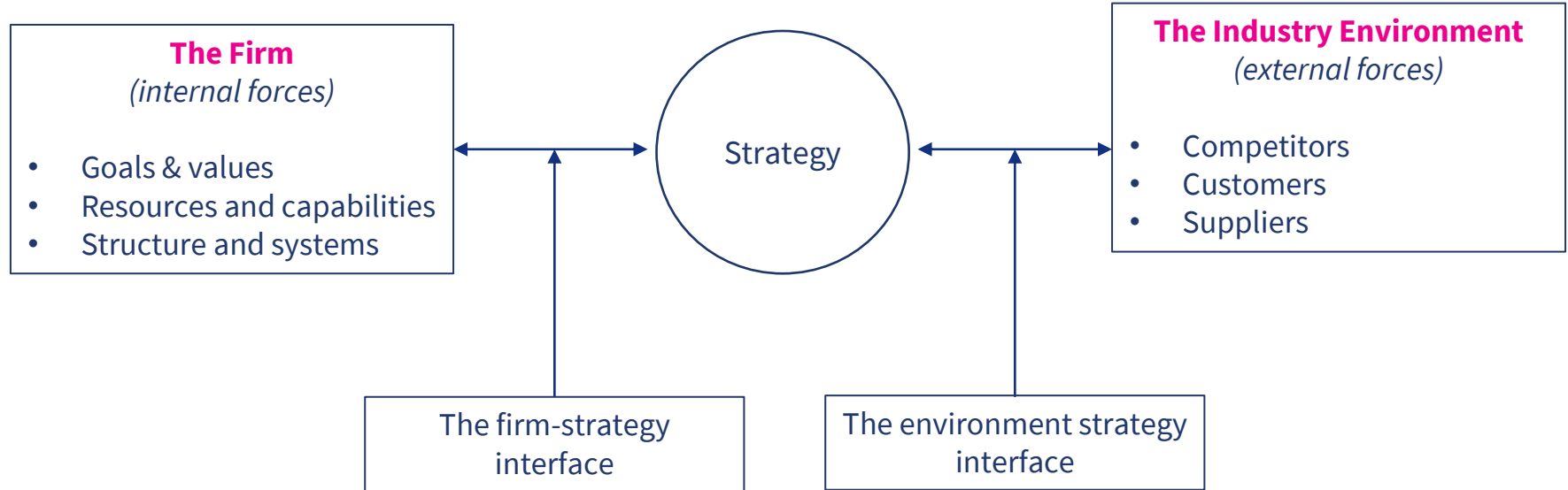
Common elements in successful strategy



Outline

- Resource-based view
- Identify and diagnose strategic resources as well as capabilities

Shifting the focus of strategy analysis: From the external to the internal environment



Class activities

Resource-based view of the firm

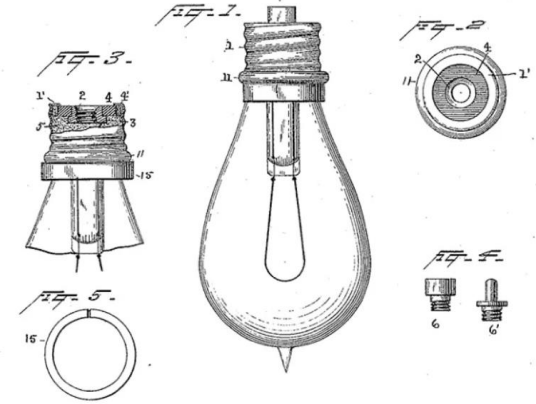
- Each firm possess a **unique collection of resources and capabilities**
 - Resources are productive assets owned by the firm
 - Capabilities are what the firm can do
- Firm's create value by exploiting their strengths

(No Model.)

T. A. EDISON.
LAMP BASE.

No. 438,310.

Patented Oct. 14, 1890.



(Source: U.S. Patent Office)

McKinsey
& Company



Class activities

Why resource-based view?

a) Industry environments are unstable

Percent of total U.S. auto industry market share, by automaker, 1961–2014

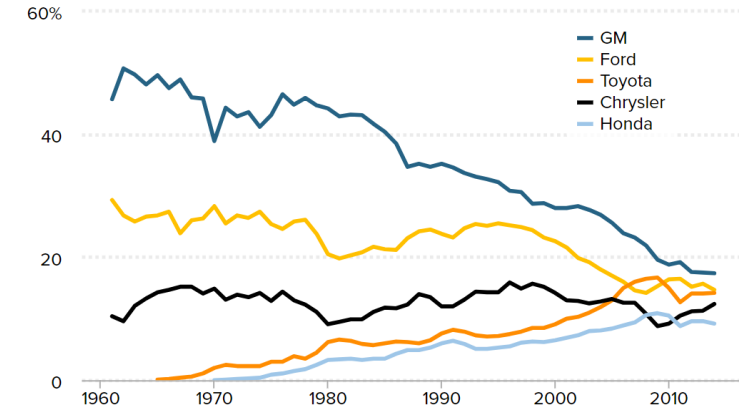
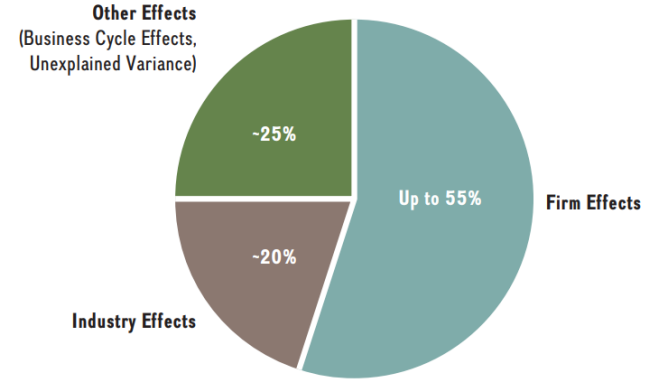


Chart Data

Source: WardsAuto (various years)

b) Firm effects are more likely source of value creation than industry effects

Figure. Industry, Firm, and Other Effects Explaining Superior Firm Performance



(Source: Exhibit 1.1. Strategic Management 3e, Frank T. Rothaermel, McGraw-Hill Education, Page 12)

c) Focus only industry attractiveness = similar strategy to competitors

(Source: The Decline and Resurgence of the U.S. Auto Industry, Economic Policy Institute)

Identifying resources

			Characteristics	Indicators
Value creation from economising and deployment	Tangible resources	Financial	<ul style="list-style-type: none">Borrowing capacityInternal funds generation	<ul style="list-style-type: none">Debt/equity ratioCredit ratingNet cash flow
		Physical	<ul style="list-style-type: none">Plant & equipment: size, location, technology flexibilityLand & buildingsRaw materials	<ul style="list-style-type: none">Market value of fixed assetsScale of plantsAlternate uses for fixed assets
Value creation from distinction and difficult to copy	Intangible resources	Technology	<ul style="list-style-type: none">Patents, copyrights, know howResearch & development facilitiesTechnical & scientific employees	<ul style="list-style-type: none">Number of patents ownedRoyalty incomeR&D expenditureR&D staff
		Reputation	<ul style="list-style-type: none">Brand(s)Customer loyaltyCompany reputation	<ul style="list-style-type: none">Brand equityCustomer retentionSupplier loyalty
		Culture	Shared beliefs, values, assumptions, rituals	Employee loyalty & satisfaction
Value creation from task execution	Human resources	Employees	<ul style="list-style-type: none">TrainingExperienceAdaptabilityCommitmentLoyalty	<ul style="list-style-type: none">Competency modellingEmployee qualificationsPay ratesTurnover

Identifying organisational capabilities

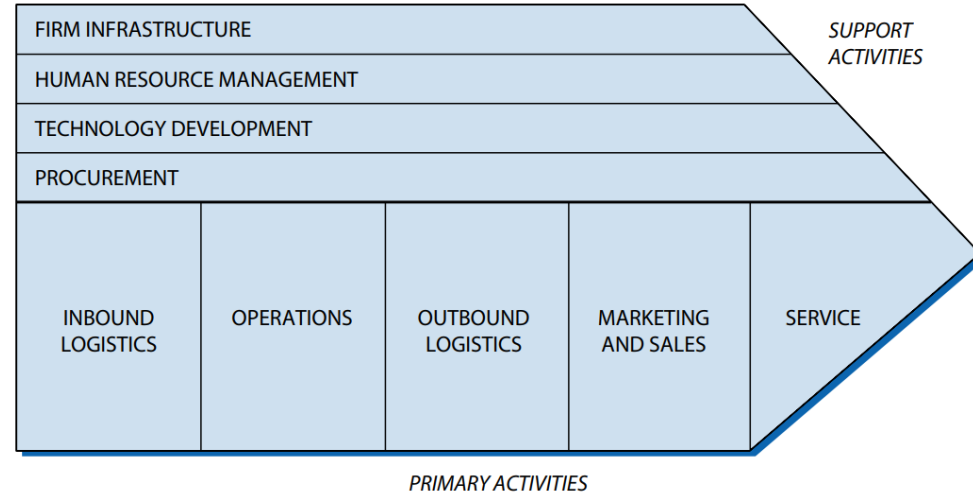
- Core competencies/distinctive capabilities are what the firm can do **better** than its competitors.

- They can be determined by either:

- Functional analysis** – what are the capabilities in operations, logistics, design, engineering, sales, marketing, HR, etc.?
- Value chain analysis** – what are the primary activities and support activities?

- Primary = directly involved in production & selling of product/service.
- Support = coordinate and support primary activities.

Figure. Porter's value chain

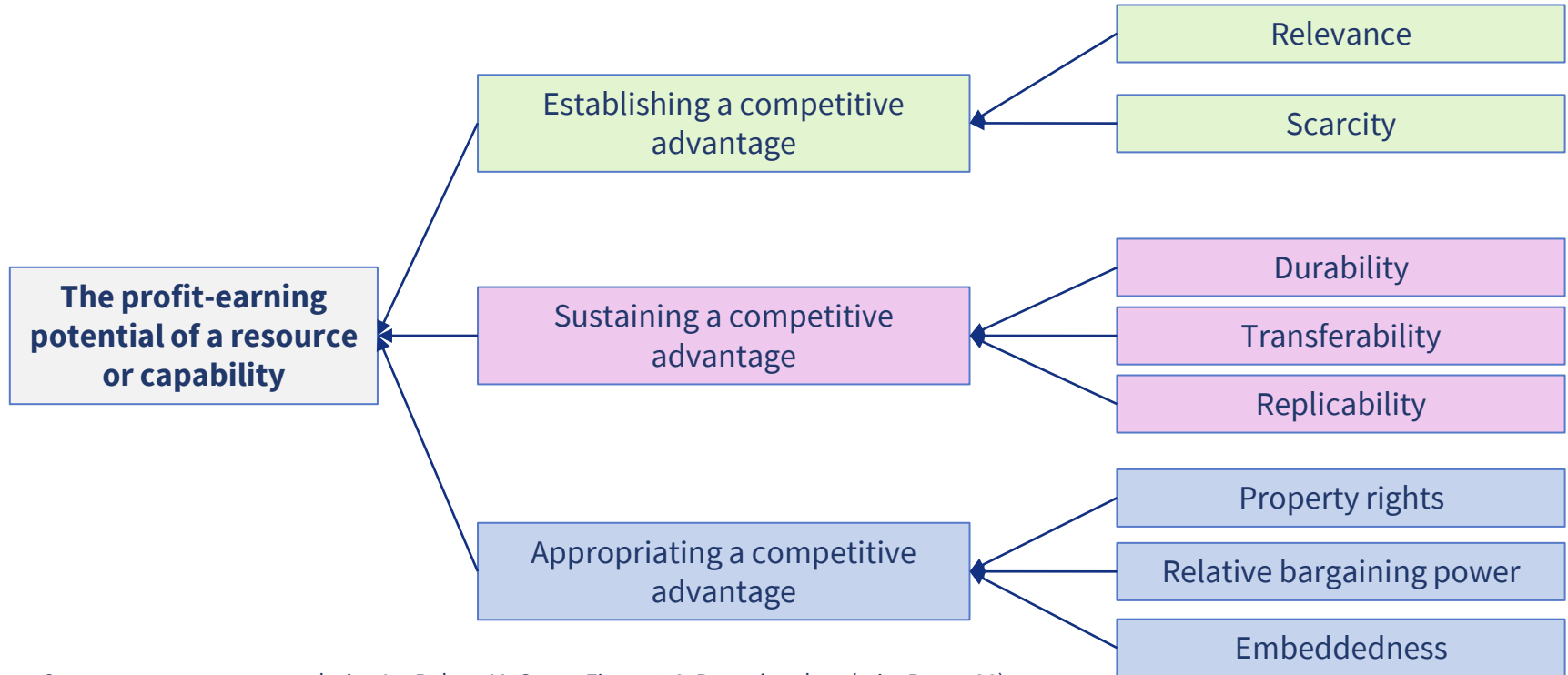


(Source: Contemporary strategy analysis 10e, Robert M. Grant, Figure 5.4. Porter's value chain, Page 117)

Class activities

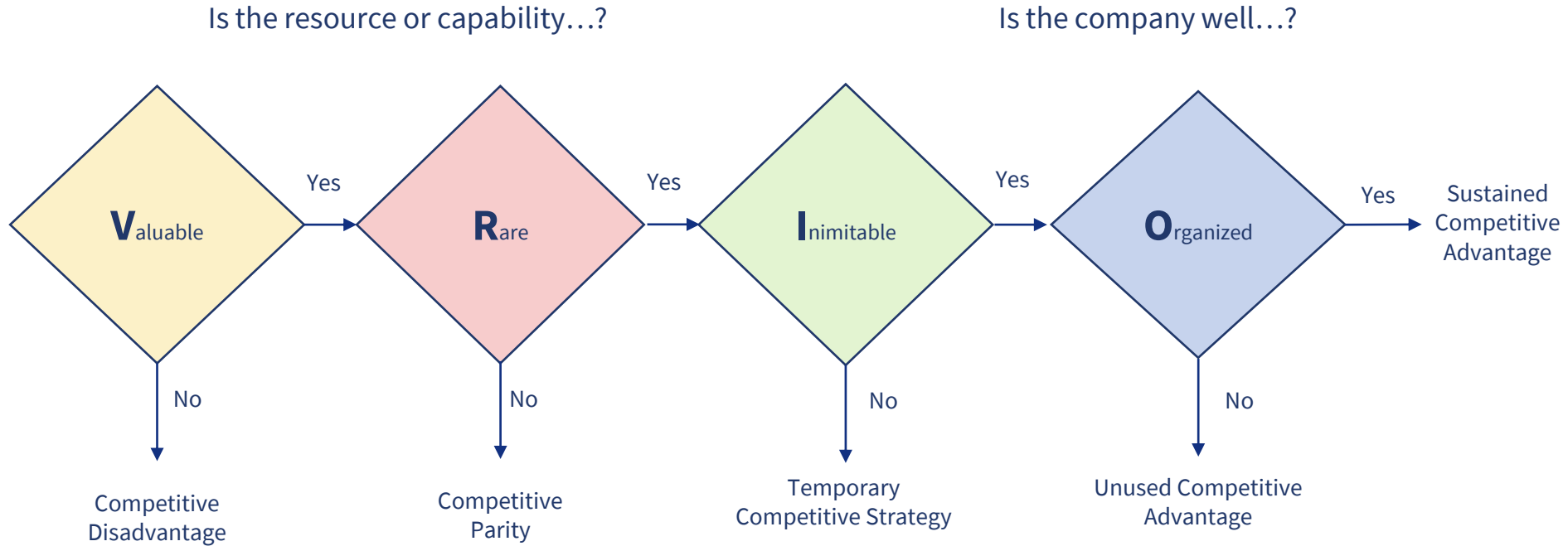
Appraising resources and capabilities (Grant)

Do they guarantee a sustainable competitive advantage?



(Source: Contemporary strategy analysis 10e, Robert M. Grant, Figure 5.6. Porter's value chain, Page 120)

VRIO framework (Barney, 1991) (1/2)



VRIO framework (Barney, 1991) (2/2)

	V alue	R are	I nimitable	O rganized	
Performance improves ↓	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

Comparison between Grant framework and VRIO framework

GRANT: Strategic Importance Framework	BARNEY: VRIO Framework	Comparison
Establishing competitive advantage		
<ul style="list-style-type: none">• Relevance	<ul style="list-style-type: none">• Valuable	Similar: both are concerned with creating value for customers
<ul style="list-style-type: none">• Scarcity	<ul style="list-style-type: none">• Rare	Identical: scarcity = rareness
Sustaining competitive advantage		
<ul style="list-style-type: none">• Durability	—	No equivalent criterion in VRIO
<ul style="list-style-type: none">• Transferability	<ul style="list-style-type: none">• Imitable	Similar: imitating a resource or capability requires either buying it (i.e., transferring it) or replicating it
<ul style="list-style-type: none">• Replicability		
Appropriating competitive advantage		
<ul style="list-style-type: none">• Appropriability	<ul style="list-style-type: none">• Organization	Similar: being organized to capture value implies the ability to appropriate value

Class activities

Sources: The VRIO Framework is found in J. B. Barney, “Looking Inside for Competitive Advantage,” *Academy of Management Executive* 9 (1995): 49–61 and J. B. Barney and W. Hesterly, *Strategic Management and Competitive Advantage* 5th edn (Pearson, 2014).

Limitations of resource-based view

Valuing resources is not easy

- Lots of resources
- Multiple-levels to analyse
- Dynamic environment means competitive advantage will be temporary – capabilities change over time and competitors adapt

Superior resources do not necessarily mean superior capabilities

e.g., British Airways vs Easyjet



SWOT analysis

Class activities

Helpful to achieving
the objective

Harmful to achieve
the objective

Internal origin
(attributes of **the
organisation**)

Strengths

Weaknesses

External origin
(attributes of **the
environment**)

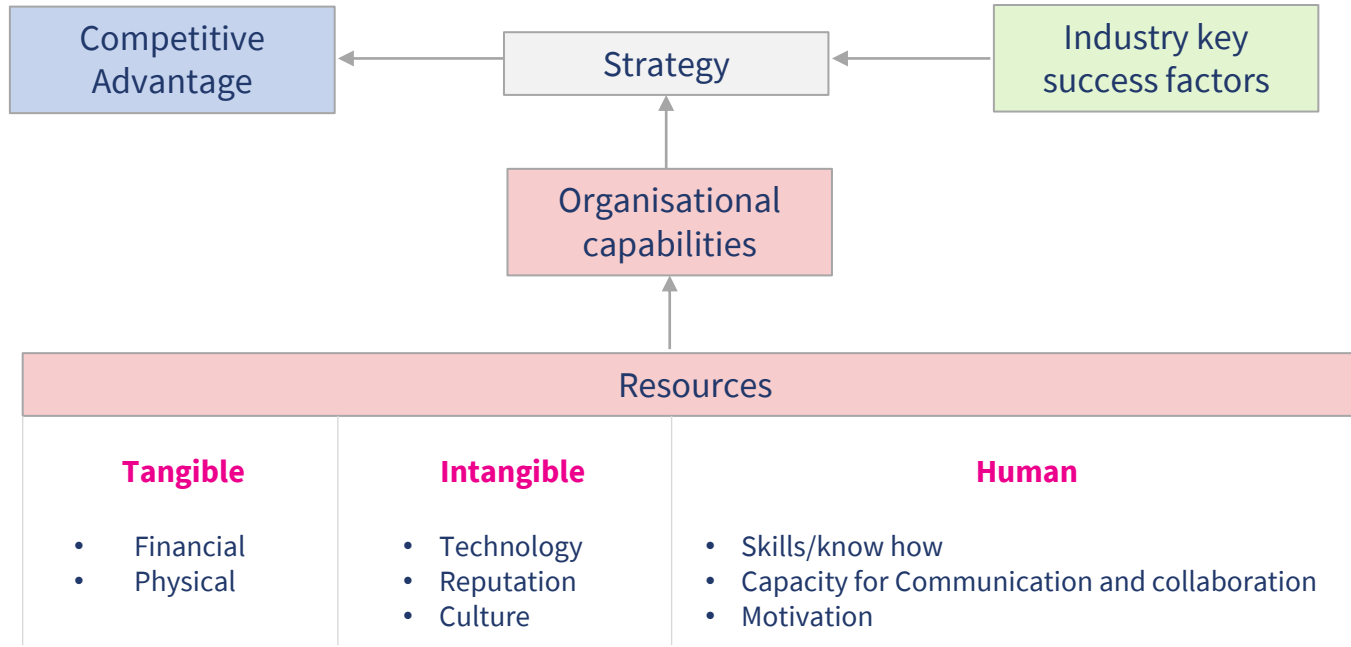
Opportunities

Threats

What is the problem with SWOT analysis?

- Questionable whether it is sensible to classify internal forces into strengths and weaknesses, and external forces into opportunities and threats.
- Better to identify internal and external forces separately, and then analyse their implications.

What have we learnt so far?



Summary & next week

Recap:

- Resources-based view and competitiveness
- VRIO framework
- SWOT

Forthcoming:

Lecture 6: Forms of competitive advantage

- Porter's generic strategies.
- Using the value chain to analyse.

Seminar session 5

- Required reading: Harley-Davidson, Inc., from Grant casebook.
- Discussion questions, refer to the QMplus module page.





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