THE UNIVERSITY OF NEWCASTLE
AUSTRALIA

Faculty of Business and Law

GSBS6481 International Business Strategy

Week 3: The Resource-Based View of International Business Strategy

Dr. Hao Tan

Reference

- Peng, Mike W (2021), *Global Strategy*, 5th ed. USA: Cengage Learning.
  - Chapter 3 Leveraging Resources and Capabilities
- Barney, J. 1991. Firm resources and sustained competitive advantage. Journal of Management, 17(1), 99-120, available through the UoN library link
- Lessard, D., Lucea, R., & Vives, L. 2013. Building your company's capabilities through global expansion, MIT Sloan Management Review 52(2), 60-67. available through the UoN library link

Key concepts

- Resources
- Capabilities
- Tangible versus intangible resources and capabilities
- The value chain
- Outsourcing and offshoring
- VRIO framework
- Complementary assets

Key concepts

- **Resource-based view**:

- Differences in firm performance are driven by differences in firm resources and capabilities

- **Resource:**

- Tangible and intangible assets a firm uses to choose and implement its strategies
- **Capability**: What a firm does with their resources

Key concepts

- **Tangible resources:**
- Physical assets eg. land, cash, plant and machinery, and technology
- **Intangible resources**:
- invisible assets eg. Knowledge, organisational culture, relationships
- **Complementary assets**:
- noncore asset that complements and supports the value-adding activities of core assets eg. IT systems, outsourced partners

Key concepts

- **Dynamic Capability**
- A firm's ability to build and protect competitive advantage

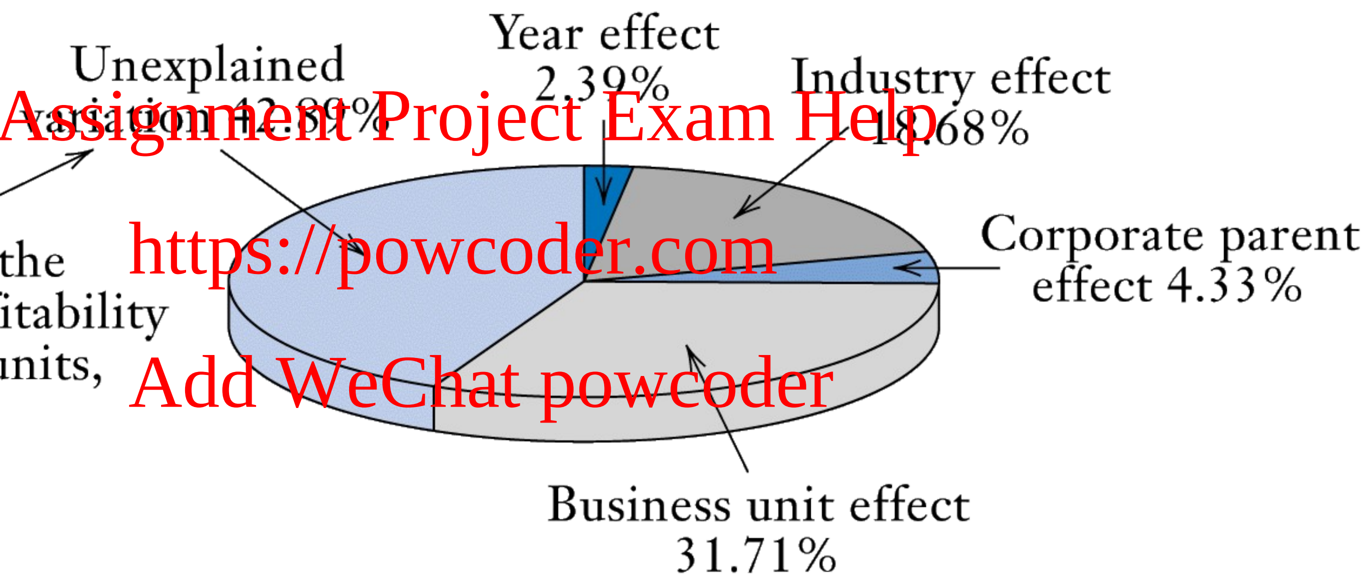
- Including: the ability to identify and seize opportunities and to reconfigure existing assets

- **Distinctive Competency:**
- a superior characteristic, strength, or quality that distinguishes a company from its competitors, eg. innovation, a skill, design, technology, brand recognition, marketing, workforce, customer satisfaction, or even being first to market. *Eg. Apple's ability to innovate*

Outline

- Theoretical background
- Resource-based View of International Business Strategy
  - Resources and capabilities
  - The VRIO framework
  - Value chain analysis
- Case activities
  - Article discussions
  - Case study “Enhancing Value, Rarity, and Inimitability at Burberry

Industry and Business Unit Effects on Profitability



This represents the variation in profitability across business units, across time that cannot be accounted for by the identity of the business unit, its industry, its corporate parent, or the particular year.

Rumelt; McGahan and Porter

Theories of the firm

- Why do firms exist?

- What determines their scale and scope?

Holmstrom & Tirole (1989, p.65)

Or in other words, where do profits (above-normal returns) of the firm come from?

Theories of the firm (cont.)

- Key theories of the firm
  - Neoclassical perfect competition theory - the firm exists to combine resources to produce an end product
  - IO economics - firms exists to exercise monopoly power
  - Schumpeter - the purpose of firms is to create or adopt innovations that make rivals' positions obsolete
  - The Chicago School - firms exist to enhance efficiency in production and distribution
  - Transaction cost economics - firms exist to save transaction costs

Source: Conner 1991 *JoM*

The Resource-based View (RBV)

- Two Key Assumptions:
  - Resource heterogeneity
    - Each firm has a unique combination of resources and capabilities such that no two firms are "twins."
  - Resource immobility
    - Resources and capabilities unique to one firm cannot easily migrate to competing firms.
- The firm is defined by a bundle of unique resources and capabilities
- The task of general management is to adjust and renew these resources and relationships as time, competition, and change erode their value

Resources: What a firm Has...

- Resources represent inputs into a firm's production, such as capital equipment, skills of employees, brand names, finances and talented managers
- **And KNOWLEDGE**

Capabilities: What a firm Does…

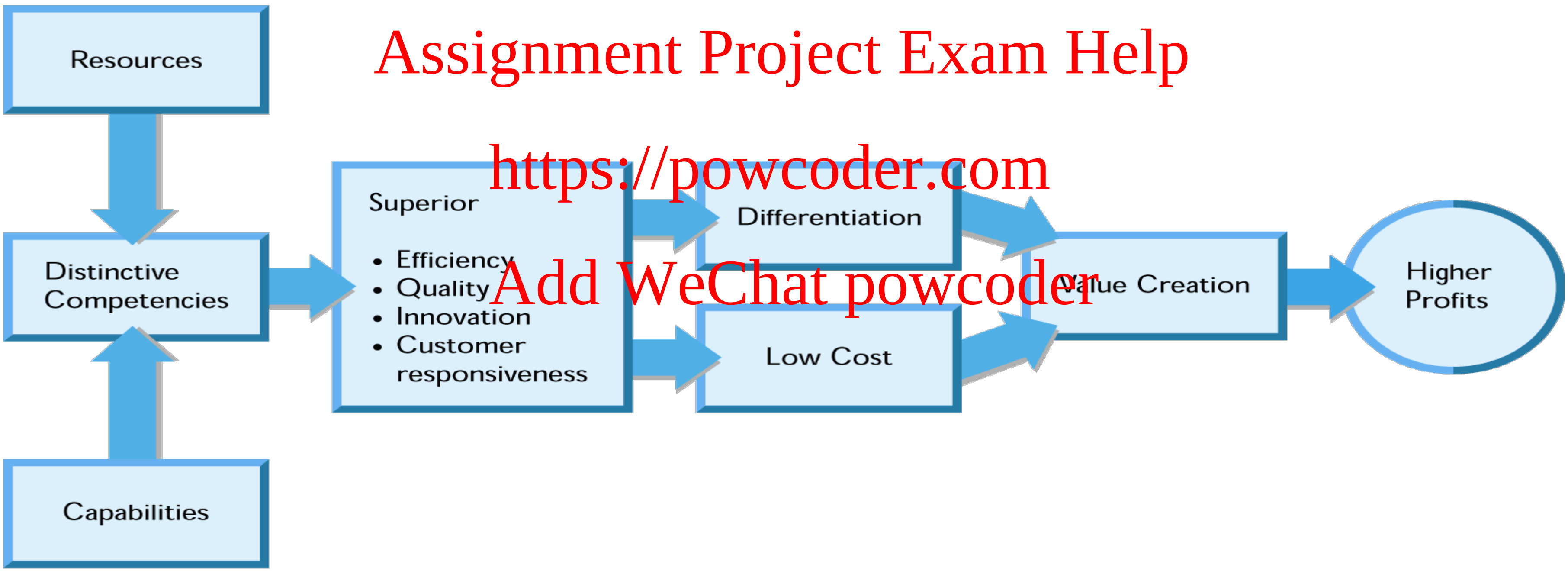
- Capabilities represent the firm's capacity or ability to integrate individual firm resources to achieve a desired objective.
- And putting the **knowledge** into action

Tangible vs. intangible resources and capabilities

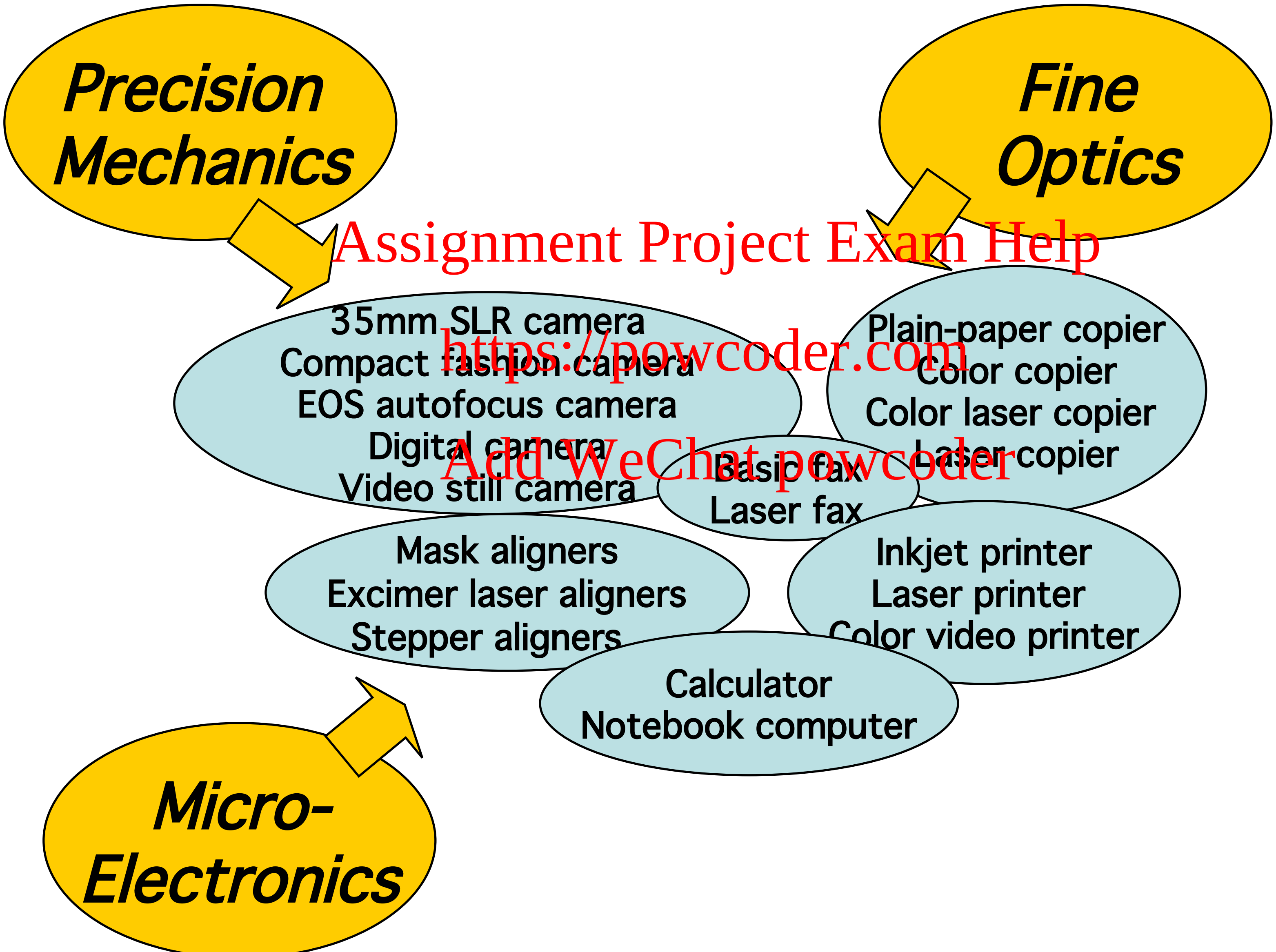
- **Tangible**
  - Resources and capabilities that are observable and easily quantified
  - Broadly organized in three categories:
    - Financial
    - Physical
    - Technological

- **Intangible**
  - Resources and capabilities not easily observed or difficult (or impossible) to quantify
  - Examples include:
    - Human
    - Innovation
    - Reputation

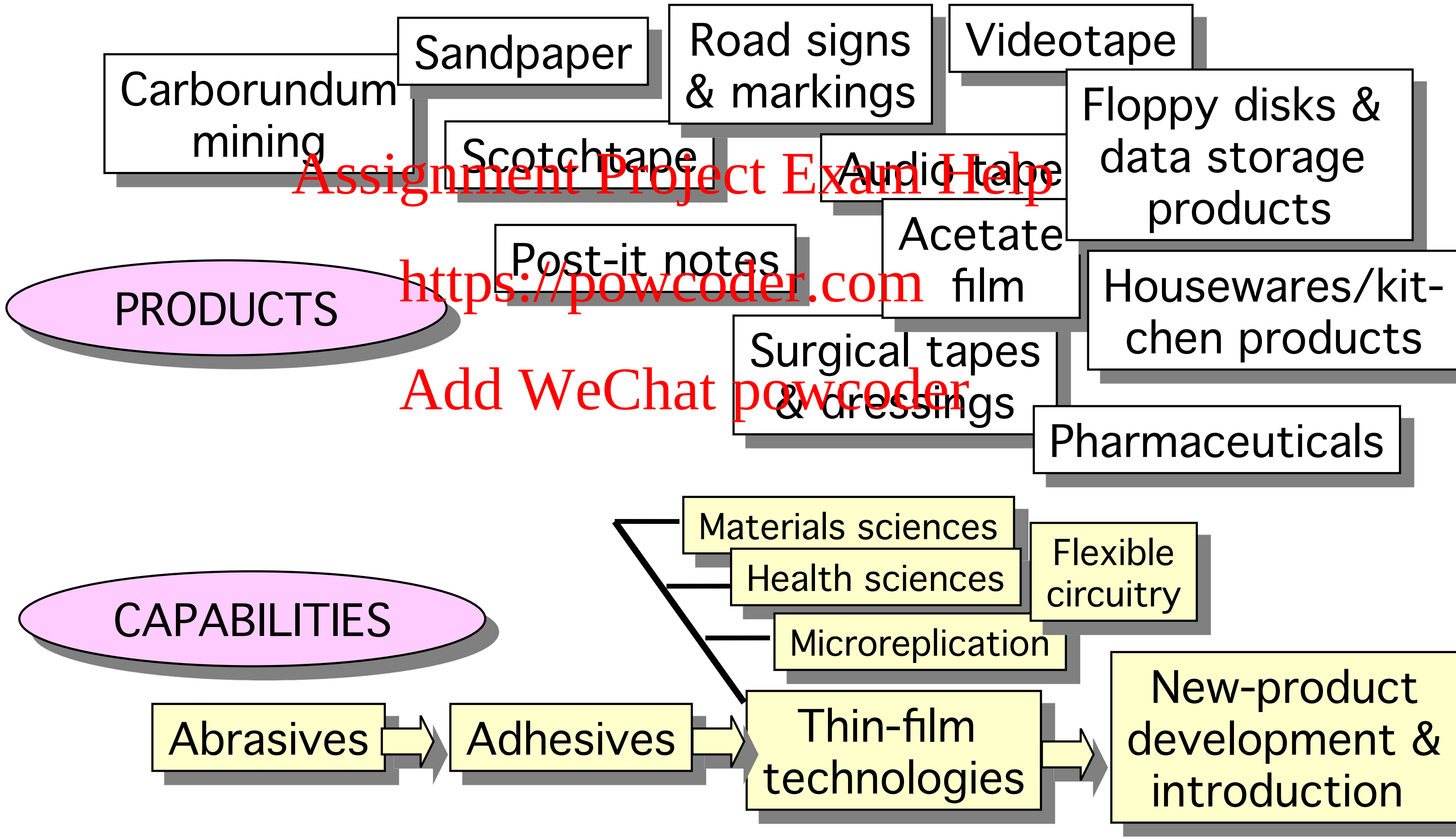
Competing on Resource/Capabilities/Competence



Canon: Products and Core Technical Capabilities



Evolution of Capabilities and Products: 3M



Superior Resources do not necessarily mean Superior Performance: Transfer Fees and Team Performance in European Soccer

Top performers (Top teams in Spain, Italy & England 1998-2003)	Highest expenditures on new players (Top 3 in Spain, Italy & England)
Valencia (Sp)	Barcelona (Sp)
Real Madrid (Sp)	Chelsea (Eng)
Deportivo La Coruna (Sp)	Lazio (It)
Juventus (It)	Manchester United (Eng)
AC Milan (It)	Inter Milan (It)
Parma (It)	Juventus (It)
Manchester United (Eng)	AC Milan (It)
Arsenal (Eng)	Arsenal (Eng)
Liverpool (Eng)	Real Betis (Sp)

The VRIO Framework

- VRIO - A matrix analysis of the "sticky" nature of resources and capabilities of a firm and the difficulty of their replication elsewhere.

- The four criteria for assessing resources and capabilities and identity those that would lead to sustained competitive advantage

  - Valuable
  - Rare
  - Costly to imitate
  - Organized

Explaining the VRIO in a YouTube video clip

- A VRIO Framework Video Tutorial available at https://youtu.be/SD8XJw_qeNI

The VRIO Framework: Value

- Value = benefits – costs
- Only value-adding resources can lead to competitive advantage, whereas non-value-adding capabilities may lead to competitive disadvantage.
- 'Valuable' in a sense they enable a firm to implement its strategy

The VRIO Framework: Rarity

- The Question of Rarity
  - Valuable *common* resources and capabilities can lead to competitive parity but no advantage.
  - Valuable *rare* resources and capabilities can provide, at best, temporary competitive advantage.
  - Resources and capabilities that add value in new areas needed to keep up with the competition (benchmarking).
    - Once competitors develop equal abilities, then no unique and distinctive capability remains on which to build a competitive advantage.

The VRIO Framework: Imitability

- The Question of Imitability
  - Valuable and rare resources and capabilities are a source of sustained competitive advantage only if competitors have a difficult time imitating them
  - Imitation of tangible resources (such as plants, software, or trucking fleet) is easy.
  - Imitation of intangible resources (knowledge, managerial talents, and organizational culture) is much more difficult.
- Costly to Imitate
  - Capabilities that other firms cannot develop easily, usually due to:
    - Unique Historical Conditions
    - Causal Ambiguity
    - Social Complexity

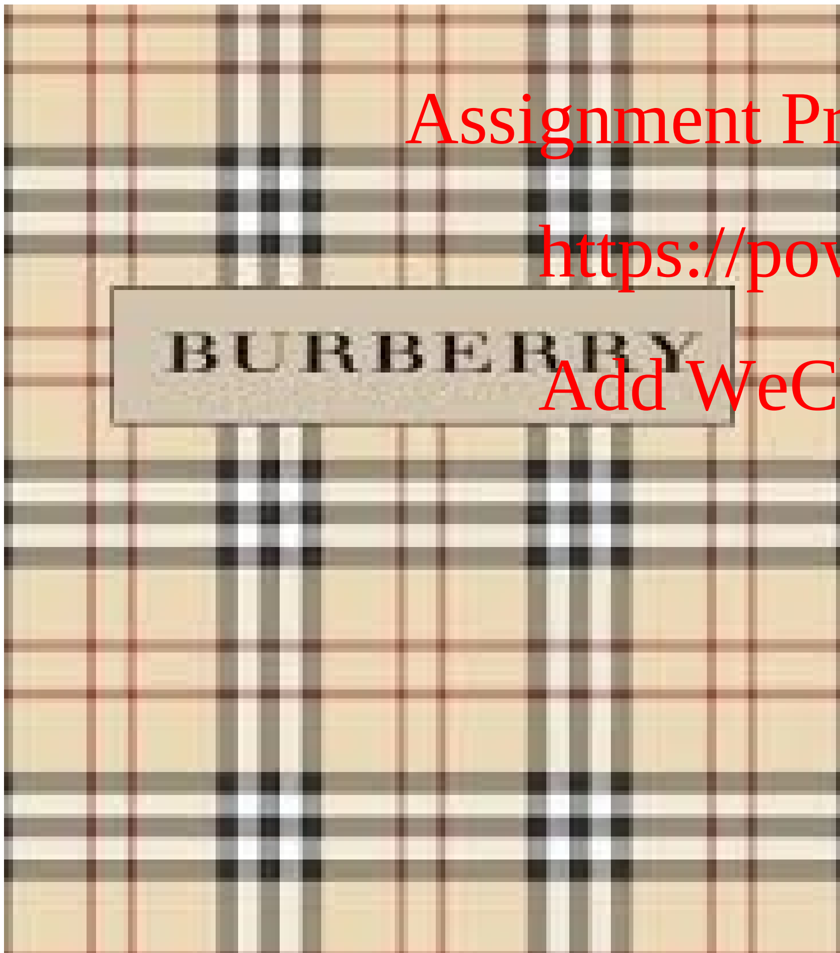
The VRIO Framework: Organization

- The Question of Organization
  - How is a firm organized to develop and leverage the full potential of its resources and capabilities?
  - Complementary assets

The VRIO Framework: Features of 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

Class activities



- Please read the short case "Enhancing Value, Rarity, and Inimitability at Burberry" (available in the course site), and answer the following discussion questions

  1, Why did Burberry find itself trailing other luxury brands?

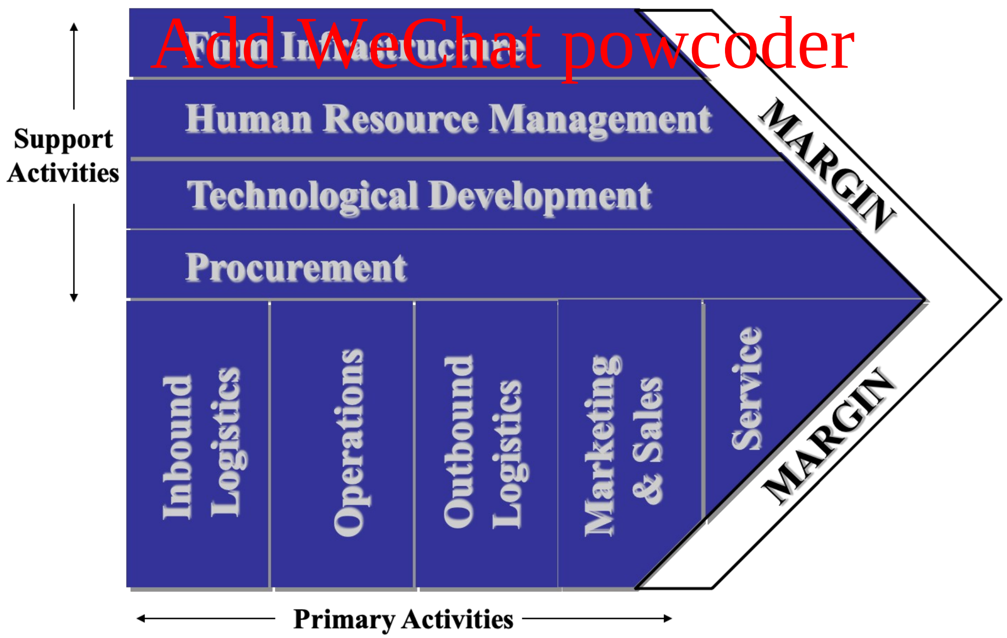
  2, What resources that Burberry identified that enabled the company to turn around?

  3, Would the resources lead to sustained competitive advantage? Why or why not?

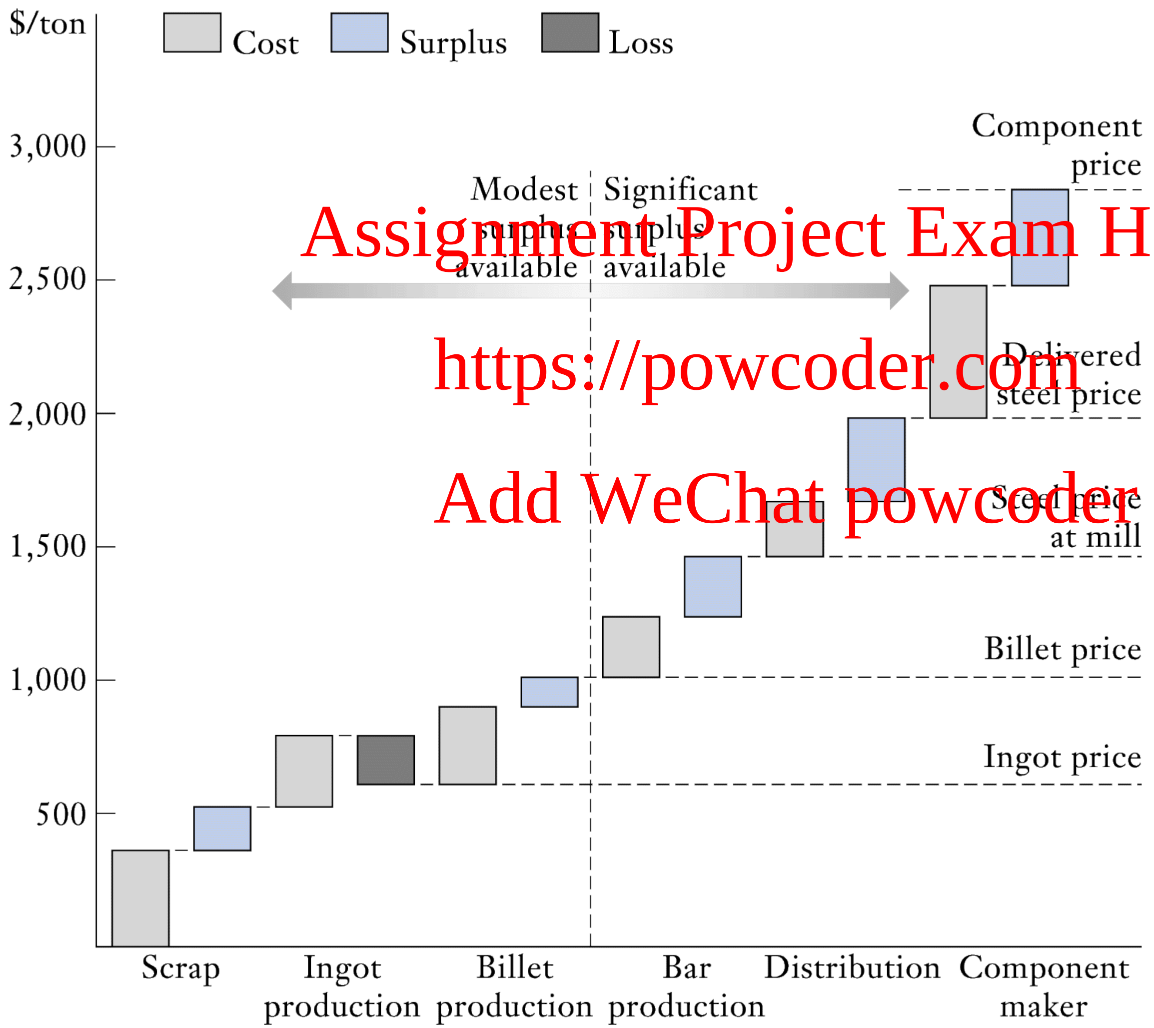
Analyzing the value chain

A chain of vertical activities used in the production of goods and services that add value

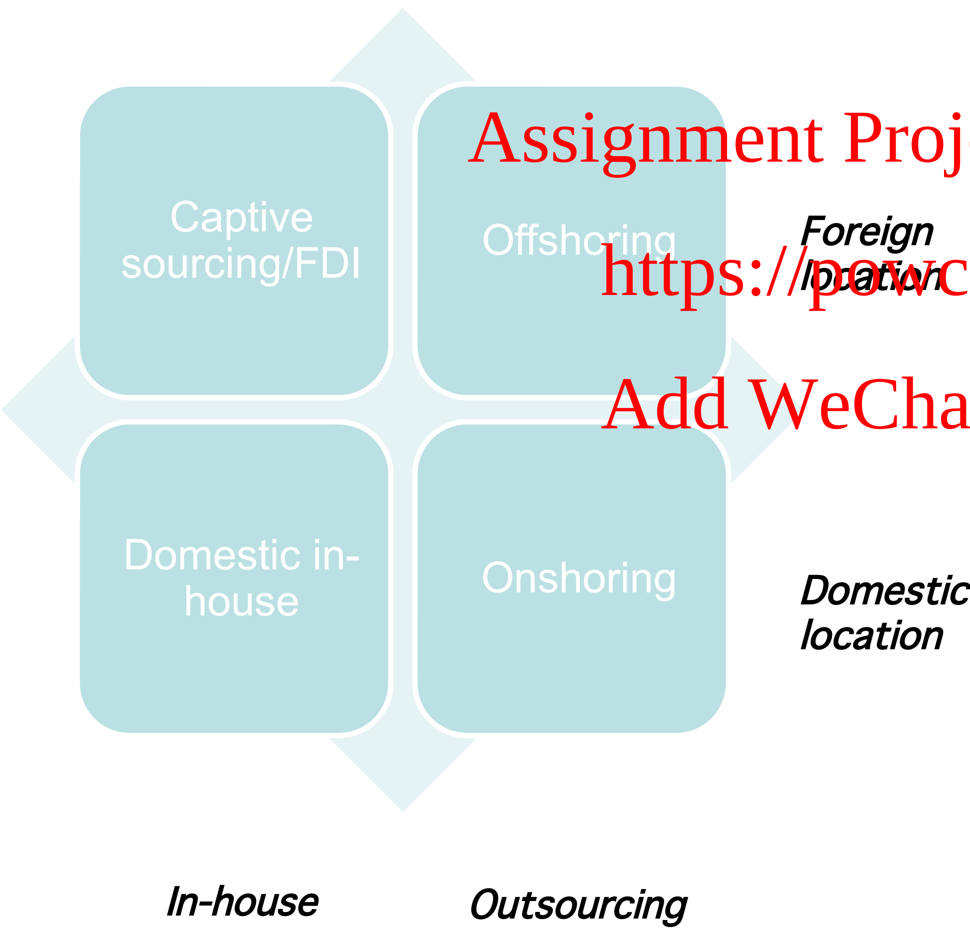
Firm's undertake a basic VRIO analysis of its resources to decide whether to keep an activity in-house or outsource it



Division of Value Created in Steel Production Chain



Offshoring and outsourcing



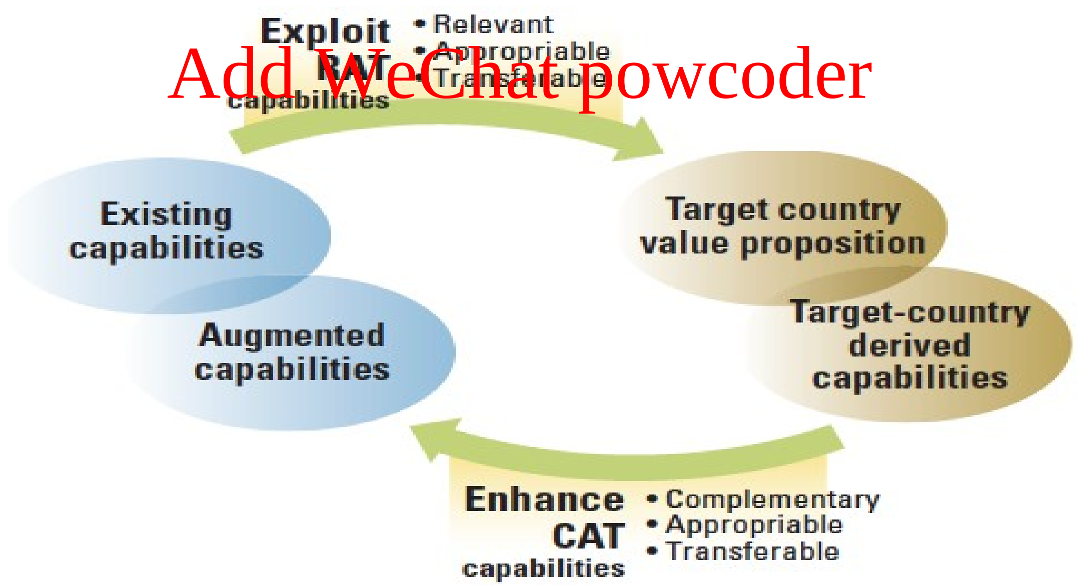
Outsourcing - Turning over an organizational activity to an outside supplier that will perform it on behalf of the focal firm.

Offshoring - Outsourcing to an international or foreign firm.

Inshoring - Outsourcing to a domestic firm.

Article discussion

- Lessard et al.: Building your company's capabilities through global expansion, available through the UoN library link
- Important questions:
  - Will a company's current capabilities provide a competitive advantage in a target market?
  - Will that new location give the company an opportunity to enhance its capabilities?



Lessard, et al. (2013) Building your company's capabilities through global expansion. MIT Sloan Management Review 54, 60-67. (available through the link in the course BB site)