# Applied Strategic Management

## Resource Analysis

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# Lecture outline

- Resources, Capabilities and Competences
- Resource Based View
- Value Creation

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# Idiosyncratic resources

- Physical: tangible resources
- Human: Intellectual capital, Commitment
- Organizational: structure, control and co-ordination

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# Definitions

Firms Resources

- Assets
- Capabilities
- Organisational Processes
- Firms Attributes
- Information
- Knowledge

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# Resources ⇨ Capability

| | | |
|---|---|---|
| Threshold resources | - | resources to stay in business |
| Unique resources | - | those which create competitive advantage, difficult to copy |
| Inadequate resources | - | not good enough for industry standard but may be OK for other businesses |

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# Capability ⇨ Competences

**Competences** are knowledge and abilities in people, equipment or systems than the organisation can mobilise

| | | |
|---|---|---|
| Threshold competence | - | good enough to stay in business |
| Core competence | - | those which create competitive advantage ideally difficult to copy |
| Redundant competence | - | not good enough for this industry |

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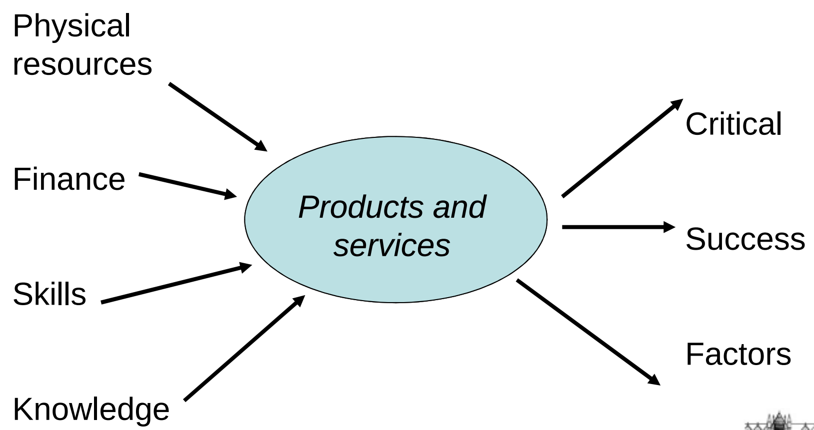
# Capability

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# Critical Success Factors

- The most important resources needed for success in any market
  - – link between resources and the competitive environment
  - – elements of the product or service that customers value
  - – used to distinguish between providers schools list

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# Distinctive capabilities

"*The Foundation of Corporate Success*" *(1993)* John Kay identified these resources leading to distinctive capabilities or competences.

**architecture**

**reputation**

**ability to innovate**

Kay's message is that there is no quick fix

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# Core skills and competences

- Hamel and Pralahad, in *"Competing for the Future"* (1994) said that resources such as special skills, knowledge and /or technology were the key to competitive advantage
- Examples would be;
  - new product technology (flat screen TV)
  - Patent (new medicine)
  - Special skills of staff (dynamic leader, specialist expertise)

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# Applied
# Strategic Management

## Resource Based View

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# RBV of Strategy

*RBV is a new approach to strategic thinking which says that industry and market analysis (à la Porter 5 forces) is not enough to give competitive advantage (SCA) which can only come from better use of resources – by developing resources and systems which are ahead of the competitors and cannot be imitated.*

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## Firm Resources and Sustained Competitive Advantage

Barney (1991) underlines the link between the firm resources and competitive advantages

**Firm resource:** “all assets, capabilities, organizational processes, firm attributes, information, knowledge controlled by a firm”.

**Competitive advantage:** A firm has a competitive advantage when “it is implementing a value creating strategy not simultaneously being implemented by any competitor”.

**Sustained:** “When the competitors are unable to duplicate the benefits of this strategy”.

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## Flaws in a strictly environmental model

- If all firms have same resources, they all have same strategically relevant capital.
- First-mover advantage is not conceivable (asymmetry in information is not allowed).
- Barriers to entry are not conceivable.

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# Attribute of Resources

Not all resources can create sustained competitive advantage. In order to do so, it has to meet the **4 following conditions**:

- It must be **valuable.** It is able to be exploited at the right time,
- It has to be **rare** in origins. It id not readily available to competitors
- It has to be **imperfectly imitable**. This can due to its unique history, causal ambiguity and/or social complexity
- It does not have any **substitute** : no alternatives

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# Theory

**A firm can get a sustained competitive advantage when it possesses resources which are (the underlying theory assumes):**

- **Heterogeneous**
  Otherwise the competitors could easily introduce the same strategies
- **Immobile**
  Otherwise the competitors could easily get the needed resources to copy the strategies

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# Objections

**Two main objections:**

**First mover advantage**
"The first firm in an industry to implement a strategy can obtain a sustained competitive advantage".

→ The first mover must dispose of information, which is considered as a resource of a firm

**Entry/mobility barriers**
"If there are strong entry or mobility barriers, the firms may be able to obtain a sustained competitive advantage".

→ Barriers can only exist if competing firms dispose of heterogeneous and immobile resources

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# Framework

**Firm Resource Heterogeneity and Immobility**

+

**Value** **Rareness** **Imperfect imitability** **Substitutability**

=

**Sustained Competitive Advantage**

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# Theoretical Model

- Key assumption: firm's resource must be heterogeneous and immobile
- Framework: to achieve sustained competitive firm's resource must possess four key attributes.
- Attributes: Valuable, rare, imperfectly imitable and Non-substitutable

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# Applications/I

- With this framework is it possible to analyze the firm resources to understand if they can be sources of sustained competitive advantage. Example of resources:
- **Strategic planning.**
  - Formal (not likely to be a source of SCA).
  - Informal (likely a source of SCA).
- **Information processing.**
  - (not likely to be a source of SCA).
- **Positive reputation.**
  - (likely a source of SCA).

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# Applications/II

It is possible to better understand the relationship between strategic management theory and other business disciplines.

- **Social Welfare.**
  - The model is consistent with social welfare concerns.
- **Organization theory and behavior.**
  - The model help integrate the organizational and economical frameworks.
- **Firm endowments.**
  - Importance of management. Firms cannot purchase sustained competitive advantage on open market.

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## Value Creation

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# Value added concept

- Value of outputs (sales revenue) must be greater than the cost of inputs (labour, materials & capital)
  - not the same as accounting profits
- Adding value is the key to long term corporate success
  - successful companies show increasing added value

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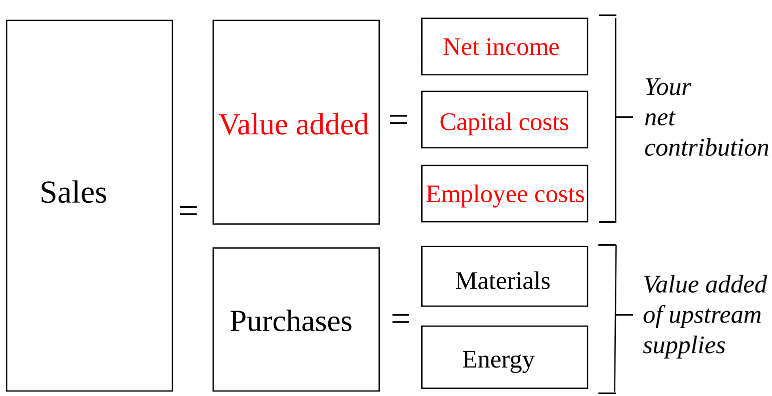
# Composition of Value Added

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# The Value Chain

- Concept developed by Michael Porter (1985)
- Shows how resources fit together to give competitive advantage
- Breaks down the whole production process to show the contribution made by each part
- Highlights problems – high cost or inefficient areas.

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# What is Competitive Advantage?

- Competitive advantage arises from a value creating proposition, possibly by managing the strategy for competition (Porter, 1980) or by managing the firm's value creating activities (Porter, 1985).
- Barney (1991) contends that competitive advantage can be derived from rare, unique and heterogeneous resources that translate into firm's capabilities.
- Porter (1990) then reasons from his study of ten nations that it is the quality of the environment– the factor conditions, the demand conditions, the presence of related and supporting industries, and the firms' structure and rivalry within – that help incumbents achieve a high and rising level of productivity in a particular field.

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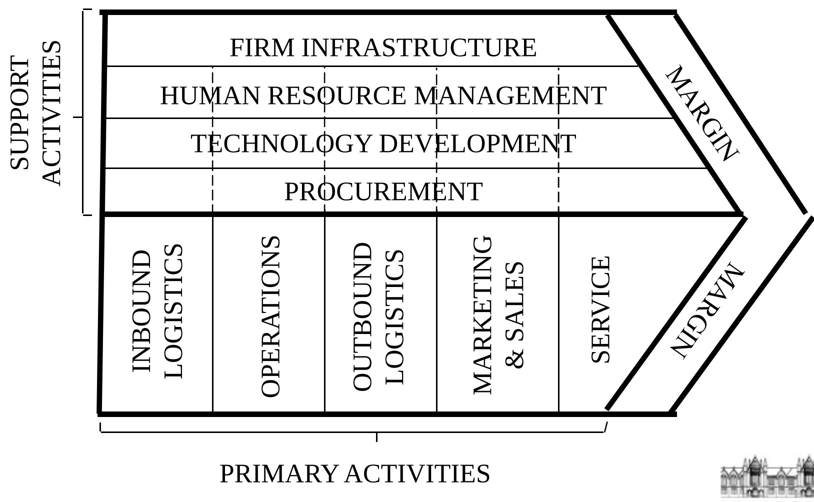
# The Generic Value Chain

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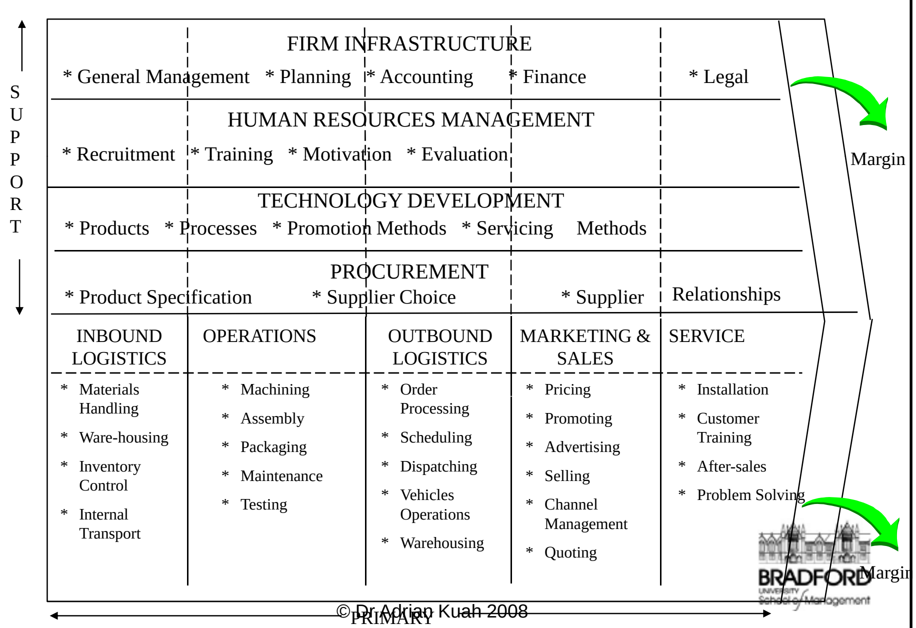
# Value Chain Activities

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# Competitive Advantage Based on Low-Cost Leadership

SUPPORT ACTIVITIES

| | |
|---|---|
| Infrastructure | Centralised cost controls |
| Human Resource Management | Intensive training to emphasise cost saving means; encourage employees to look for new ways to improve methods |
| Technology Development | Economies of scale or R&D and technology development; learning and experience amortised over large volume |
| Procurement | Purchasing from numerous sources; strong bargaining power with suppliers |

| | Inbound Logistics | Operations | Outbound Logistics | Marketing/ Sales | Service |
|---|---|---|---|---|---|
| PRIMARY ACTIVITIES | Large shipments: massive warehouses | Economies of scale in plants: experience effects | Bulk or large order shipment | Mass marketing: mass distribution: national and campaigns | Centralised service facilities in region |

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# Competitive Advantage Based on Differentiation

SUPPORT ACTIVITIES

| | |
|---|---|
| Infrastructure | Try to coordinate activities tightly between functions; build quality into organisational practices |
| Human Resource Management | Treat employees as special team members; emphasise design incentives that promote quality |
| Technology Development | Heavy R&D expenditures to make distinctive or even unique products; refinement of high quality manufacturing and technology processes; emphasis on excellence, world class quality |
| Procurement | Selective purchasing from best or world class suppliers |

| | Inbound Logistics | Operations | Outbound Logistics | Marketing/ Sales | Service |
|---|---|---|---|---|---|
| PRIMARY ACTIVITIES | Use of best materials, parts, and components | Extremely fine quality manufactured workmanship emphasised | Fast delivery to distributors; extra care in packaging and transport | Special, distinctive ads; technical sales and know-how | High emphasis on treating customer as special in-dividual; fast and courteous special service. |

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# How useful is it?

- Good diagram  - powerful image and concept
- Can be difficult to apply where
  - company does not control all stages
  - conglomerate companies in many sectors
  - data for each stage are difficult to obtain
- The value chain may reveal problems but does not help with solutions
- Need to consider value chains for the industry

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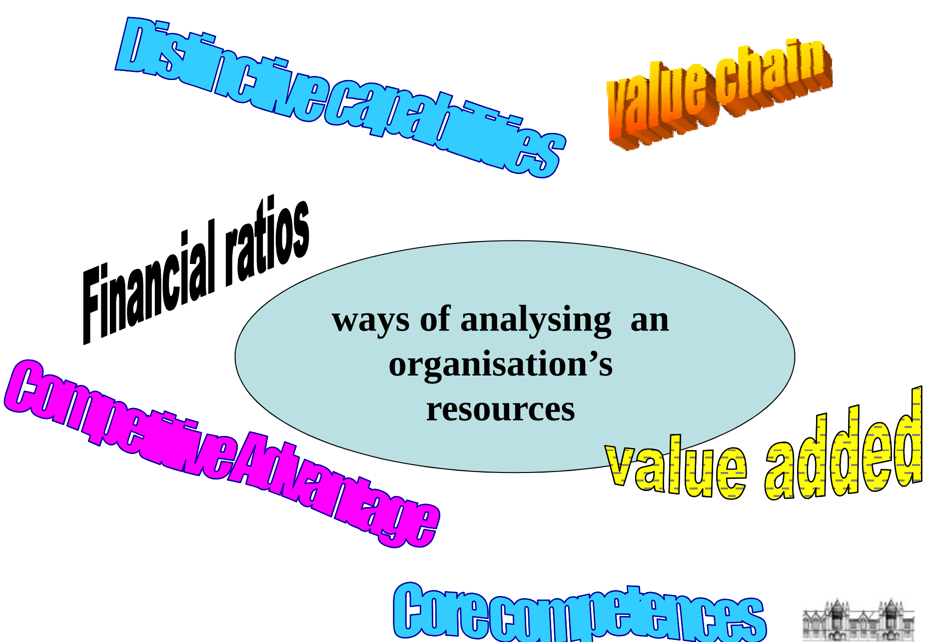


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