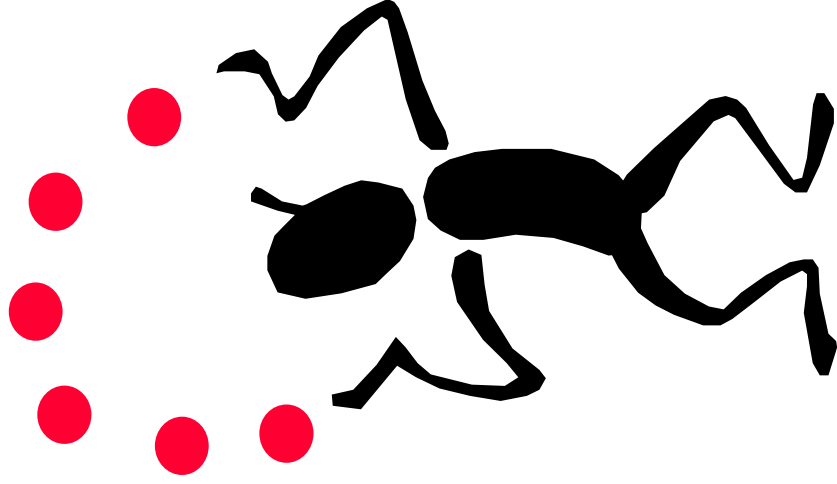


# Strategy is a Juggling Act

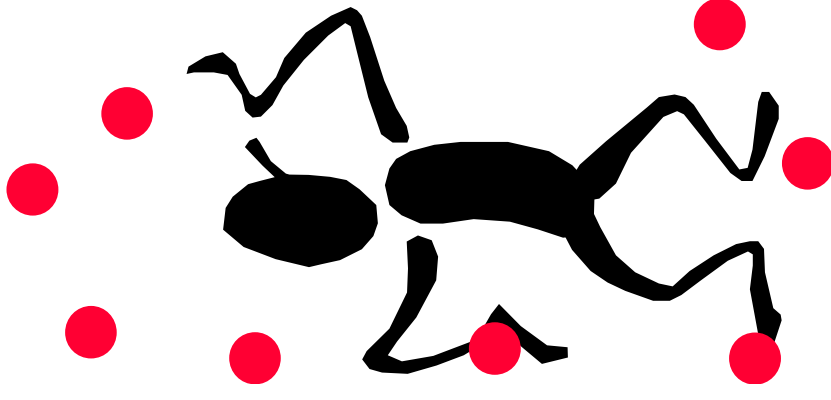
---

- Know your **environment**
- Know the important **parts** of your firm
- Know how the parts of your company fit together
- Know your competitors
- **Trade-offs** between current **activities** and new **options**
- Approaches to pursue new options via diversification
- **Integrate with leadership at different levels!!**

Apple –  
iphone



RIM –  
Blackberry



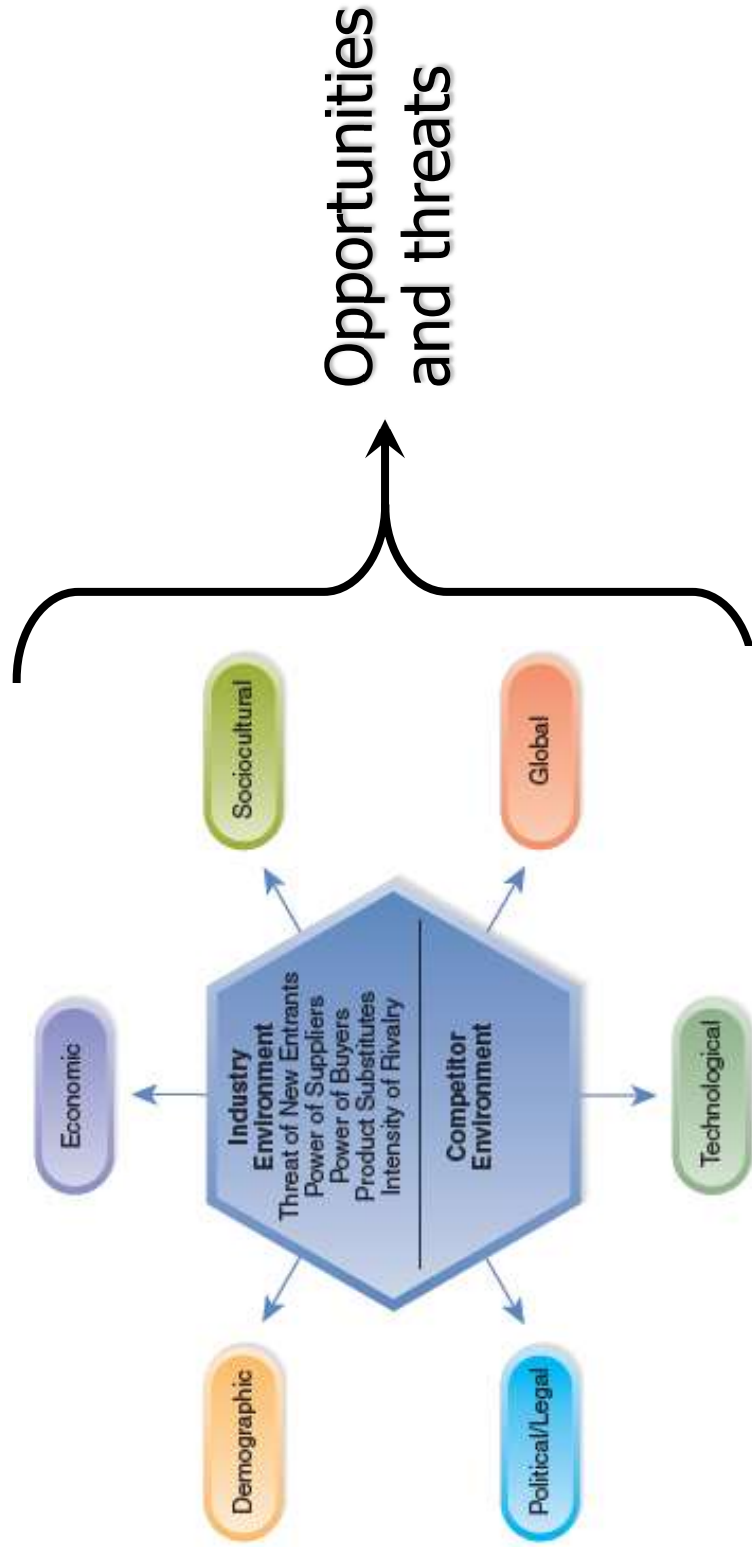
## From Industry-Level to the Firm Level

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- **What percentage of variance in a firm's return on assets is explained by:**

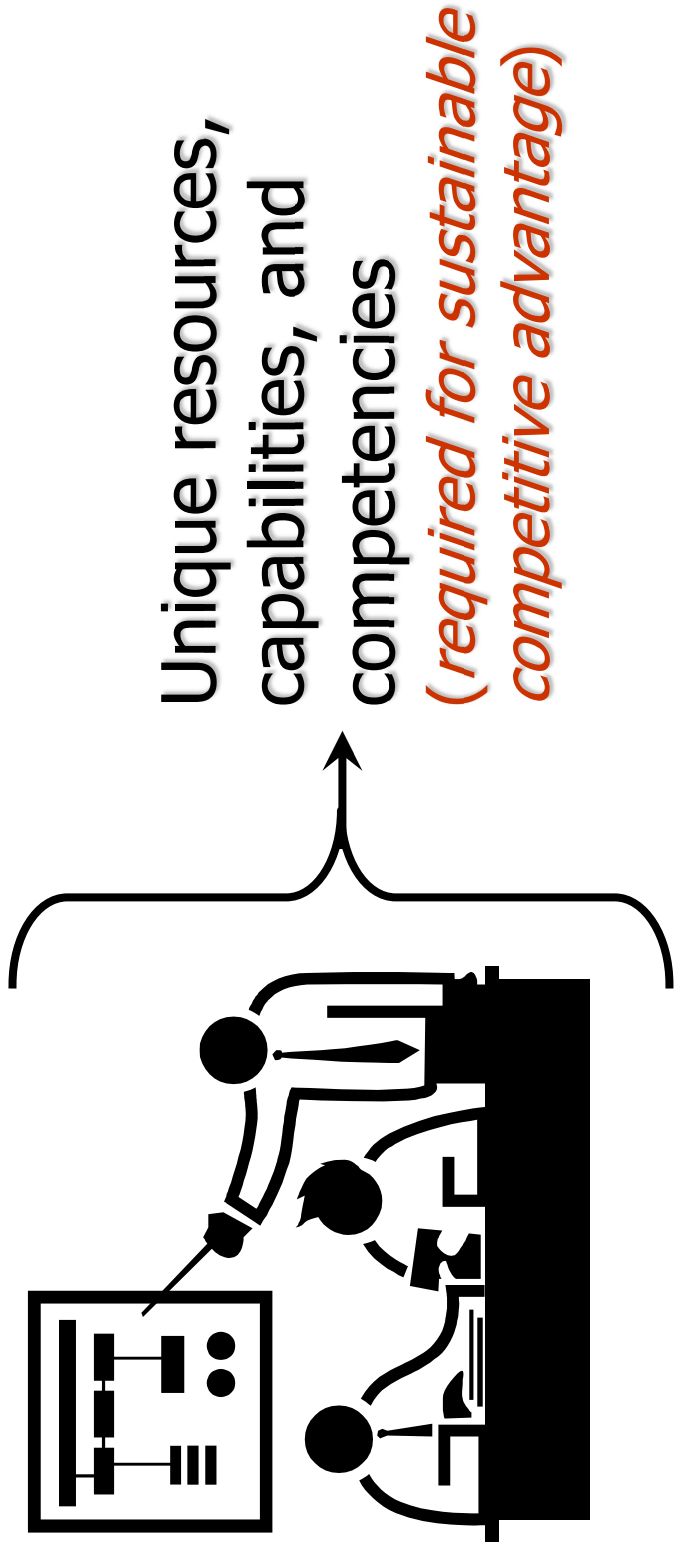
<b>Industry Effects</b>	<b>Business Effects</b>	<b>Corporate Effects</b>	<b>Year Effects</b>	<b>Unknown/ Country/ Leadership</b>
<b>18-20%</b>	<b>30-40%</b>	<b>5%</b>	<b>5%</b>	<b>30-50%</b>

# External Analyses' Outcomes



By studying the external environment, firms identify what they ***might*** choose to ***do***.

# Internal Analyses' Outcomes



By studying the internal environment,  
firms identify what they **can do**

# Apple Stumbles with Entry into Auto Industry

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- **Why did Apple scale back its ambitions for entering the auto industry?**
- **What resources/competencies might be needed to succeed in the industry?**
- **How do these align with Apple?**
- **Considering resources (internal context) and likely competitors (external context), what might be the most advantageous role for Apple in the auto industry?**

# What are Resources?

---

## Tangible

```
graph LR; T[Tangible] --- P[Physical]; T --- F[Financial]; T --- Te[Technological]; T --- O[Organizational]; P --- PList["• Location of operations and access to raw materials"]; F --- FList["• Ability to generate internal funds and raise external capital"]; Te --- TeList["• Intellectual property"]; O --- OList["• Management and information systems"];
```

- Location of operations and access to raw materials

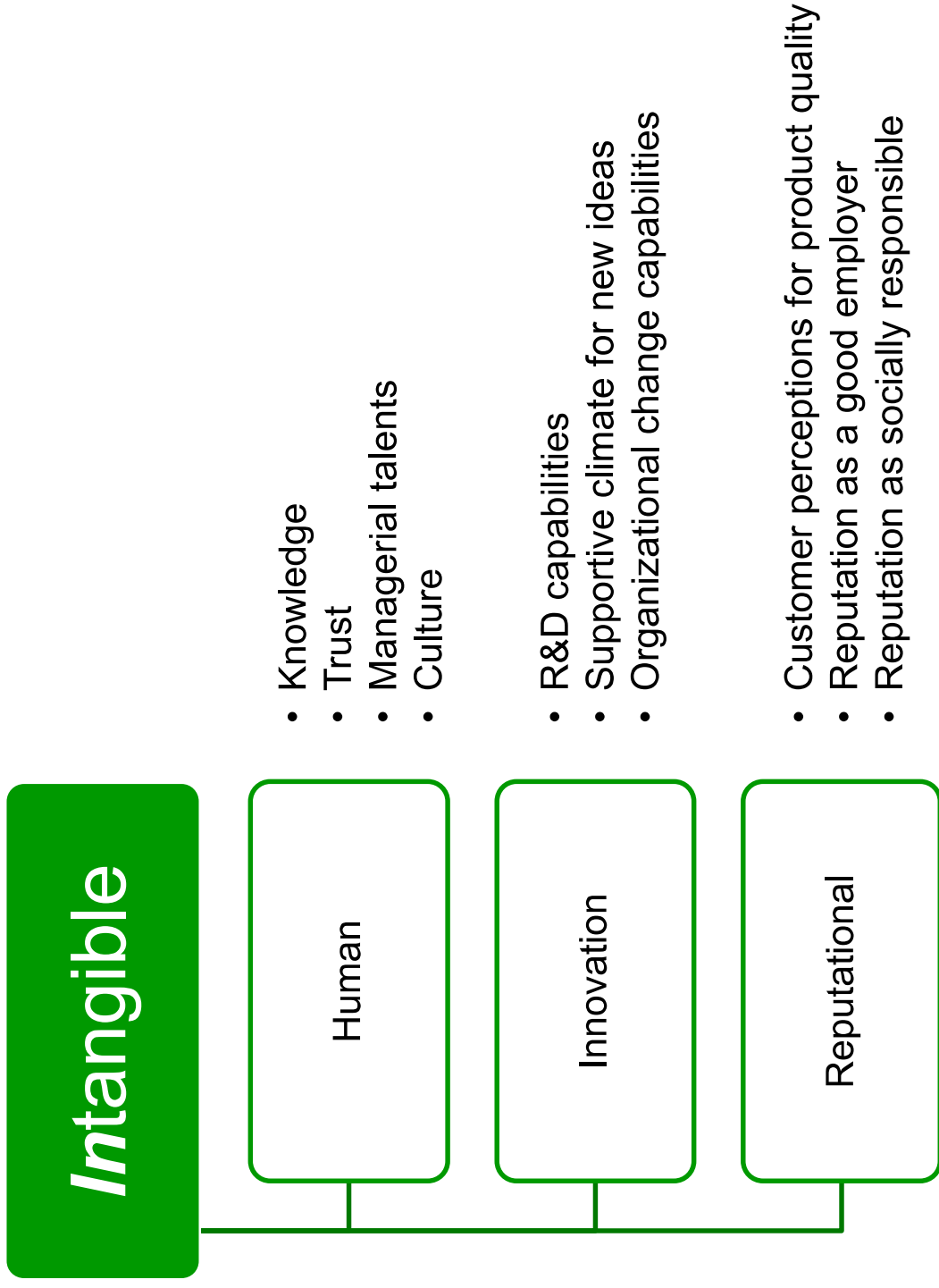
- Ability to generate internal funds and raise external capital

- Intellectual property

- Management and information systems

# What are Resources?

---



# What are resources? Tangible? Intangible?

## Resources are *inputs into a firm's production process*

TANGIBLE RESOURCES AND CAPABILITIES	EXAMPLES
Financial <b>GE</b>	<ul style="list-style-type: none"> <li>■ Ability to generate internal funds</li> <li>■ Ability to raise external capital</li> </ul>
Physical <b>McDonalds</b>	<ul style="list-style-type: none"> <li>■ Location of plants, offices, and equipment</li> <li>■ Access to raw materials and distribution channels</li> </ul>
Technological <b>Intel</b>	<ul style="list-style-type: none"> <li>■ Possession of patents, trademarks, and copyrights</li> </ul>
Organizational <b>Wal-Mart, Yum</b>	<ul style="list-style-type: none"> <li>■ Formal planning, command, and control systems,</li> <li>■ Integrated management information systems</li> </ul>
INTANGIBLE RESOURCES AND CAPABILITIES	EXAMPLES
Human <b>McKinsey, Southwest, Google</b>	<ul style="list-style-type: none"> <li>■ Knowledge</li> <li>■ Trust</li> <li>■ Managerial talents</li> <li>■ Organizational culture</li> </ul>
Innovation <b>Apple, P&amp;G, Caterpillar</b>	<ul style="list-style-type: none"> <li>■ A supportive atmosphere for new ideas</li> <li>■ Research and development capabilities</li> <li>■ Capacities for organizational innovation and change</li> </ul>
Reputational <b>Whole Foods, Starbucks</b>	<ul style="list-style-type: none"> <li>■ Perceptions of product quality, durability, and reliability among customers</li> <li>■ Reputation as a good employer</li> <li>■ Reputation as a socially responsible corporate citizen</li> </ul>

Table 4.1 + 4.2

Sources: Adapted from (1) J. Barney, 1991, *Firm resources and sustained competitive advantage* (p. 101), *Journal of Management*, 17: 101; (2) R. Grant, 1991, *Contemporary Strategy Analysis* (pp. 100–104), Cambridge, UK: Blackwell; (3) R. Hall, 1992, *The strategic analysis of intangible resources* (pp. 136–139), *Strategic Management Journal*, 13: 135–144.

# What are Capabilities?

---

- **“A capability is the capacity for a set of resources to perform a task or an activity in an integrative manner.”**
- **In other words ...**
  - **The deployment of resources to achieve a goal.**
  - **The ability to do something...**

# What Are Core Competencies?

---

- **Core competencies integrate resources and capabilities to provide enduring competitive advantages.**
- **3 Key Components**
  - **Apply across multiple markets**
  - **Add significant value to products/services**
  - **Difficult to imitate**

# What Are Core Competencies?

---

- “Core competencies are resources and capabilities that serve as a source of competitive advantage for a firm over its rivals.”
- **In other words ...**
  - A firm’s **unique** strength that allows a company to achieve superior efficiency, quality, innovation, or customer service. It allows the firm to **create** value and **capture** that value.
  - Often, a core competence results from **integration** of different resources and capabilities of an organization. Core competencies typically reside in a company’s **people**.

# The Four Criteria of Sustainable Competitive Advantage

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## Valuable Capabilities

- Help a firm neutralize threats or exploit opportunities

## Rare Capabilities

- Are not possessed by many others

## Costly-to-Imitate Capabilities

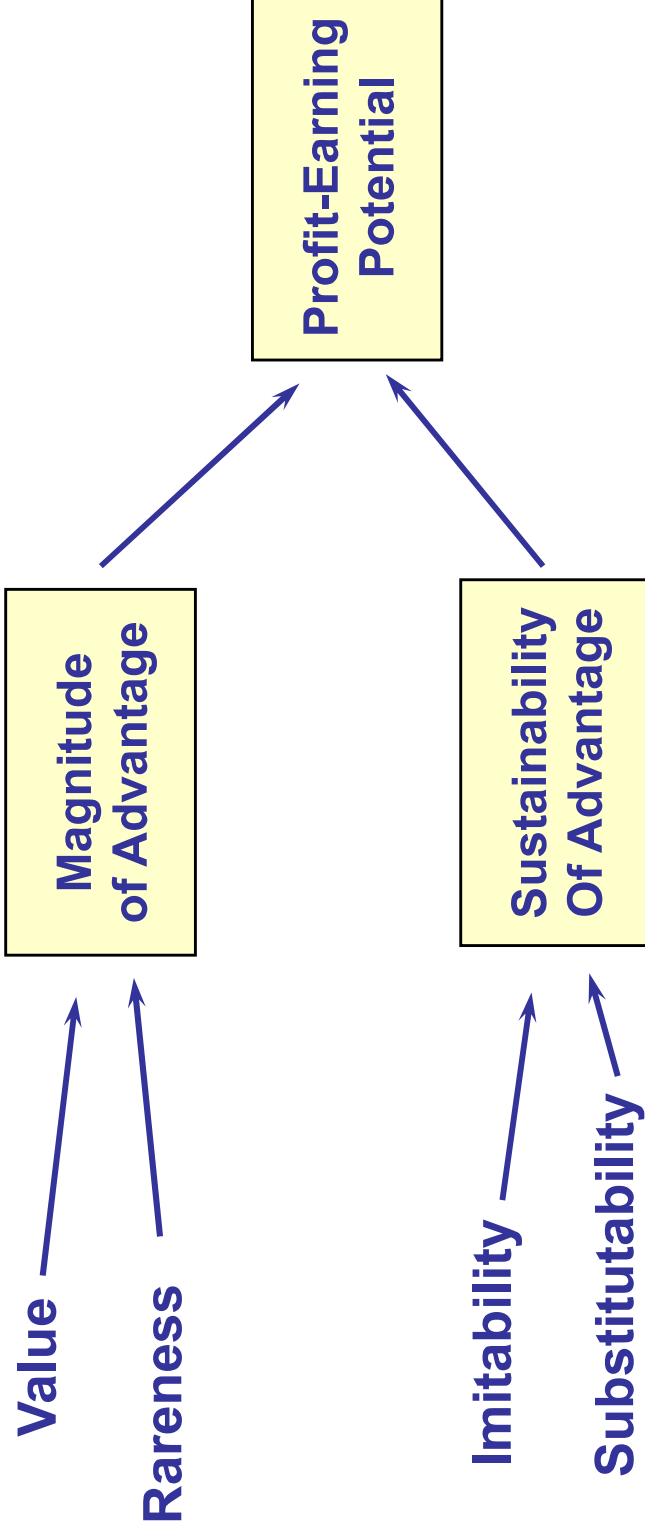
- **Historical:** Firm developed in an unusual way that supported the development of certain competencies (e.g. Southwest).
- **Ambiguous cause:** Cannot detect how a firm uses its competencies as a foundation for competitive advantage. (Wal-Mart, Intel).
- **Social complexity:** Interpersonal relationships, trust, and friendship among managers, suppliers, and customers.

## Nonsubstitutable Capabilities

- No strategic equivalent

# Profit-Earning Potential of Resources & Capabilities

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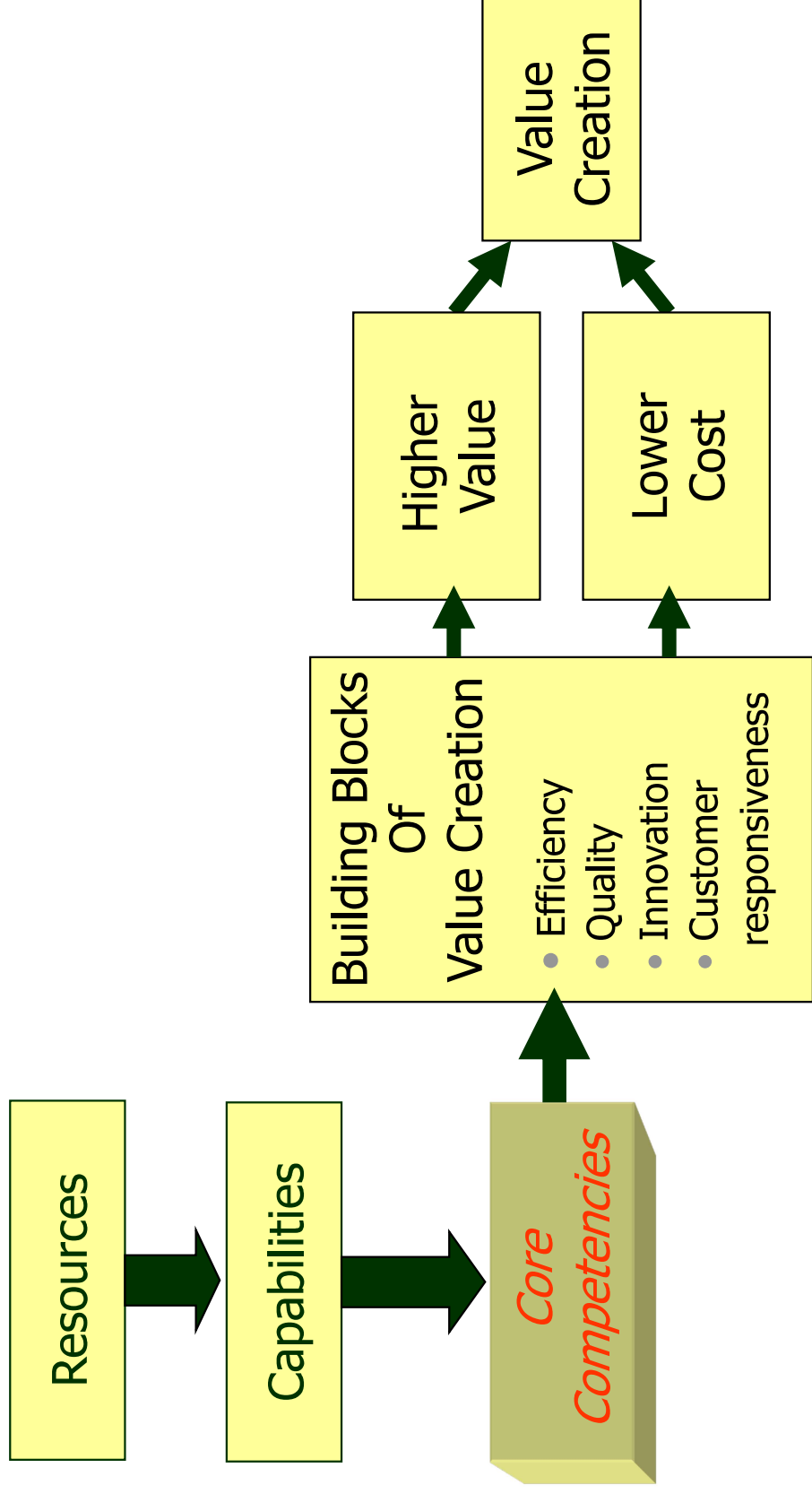


# Outcomes from Combinations of the Four Criteria

	Valuable? Rare? Costly to Imitate? Nonsubstitutable?	Yes	No	Yes/ No	Competitive Consequences	Performance Implications
No	No	No	No	Yes/ No	Competitive Disadvantage	Below Average Returns
Yes	No	No	No	Yes/ No	Competitive Parity	Average Returns
Yes	Yes	No	No	Yes/ No	Temporary Com- petitive Advantage	Above Average to Average Returns
Yes	Yes	Yes	Yes	Yes	Sustainable Com- petitive Advantage	Above Average Returns

# Resources & Capabilities: The Roots of Competitive Advantage

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# Resource-Based View (RBV) Assumptions

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## Two Basic assumptions of RBV:

1. Resource bundles are different across firms.
2. Resources don't move easily across firms:
  - ❖ **Resources are difficult to imitate**
  - ❖ **Benefits of resources depend on how they fit with other resources in the firm.**

**How do these assumptions compare with those of the I/O (5 Forces) model?**

# What is the difference between the RBV and Industry 5Fs perspectives of Strategy?

---

Industry Model of Above-Average Returns

Resource-Based Model of Above-Average Returns

1. **Strategy dictated by the external environment of the firm** (*what opportunities exist in these environments?*)
2. **Firm develops internal skills required by external environment** (*what can the firm do about the opportunities?*)

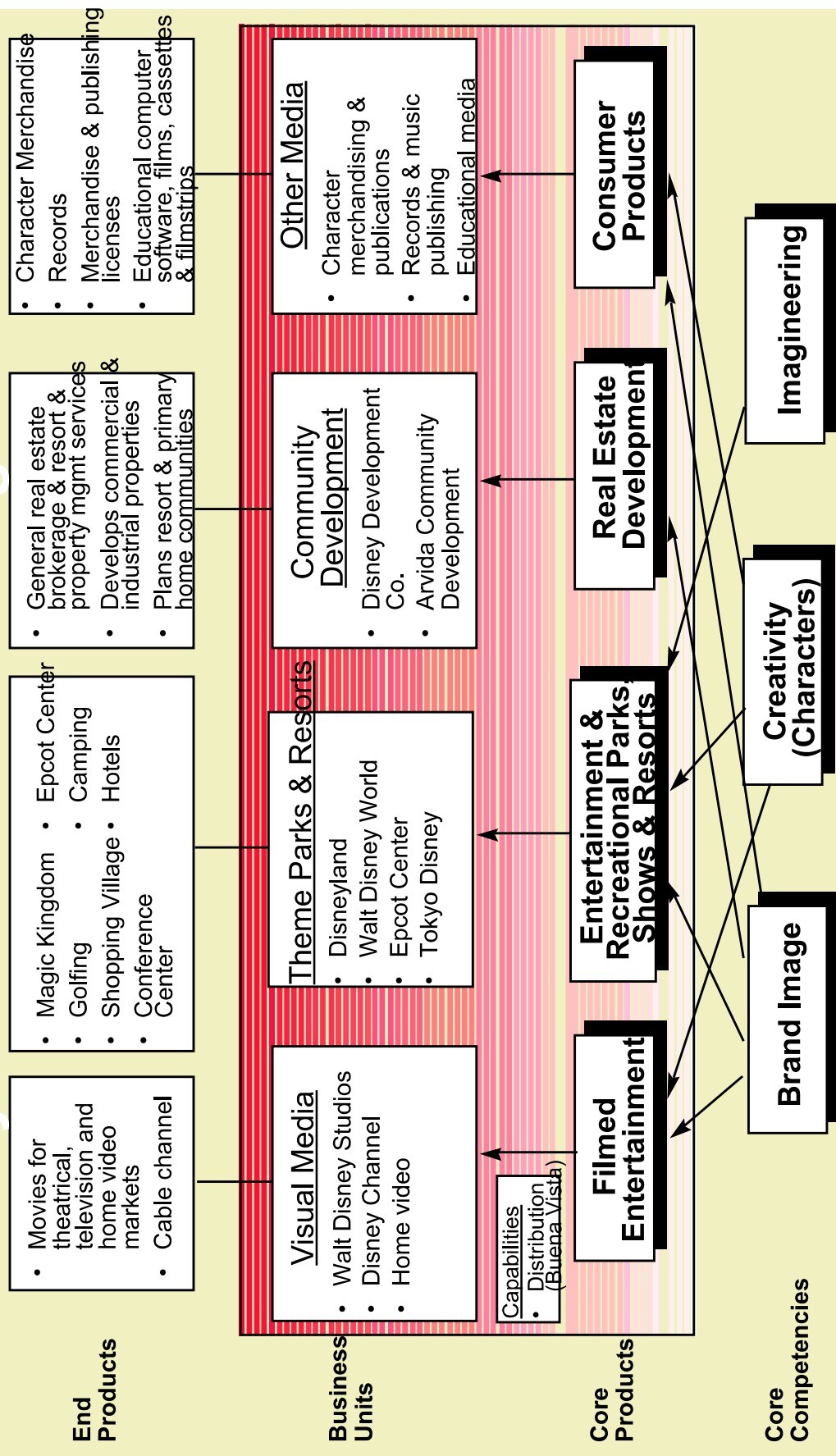
**Outside ... In**

1. **Strategy dictated by the firm's unique resources and capabilities**
2. **Find an environment in which to exploit these assets** (*where are the best opportunities?*)

**Inside ... Out**

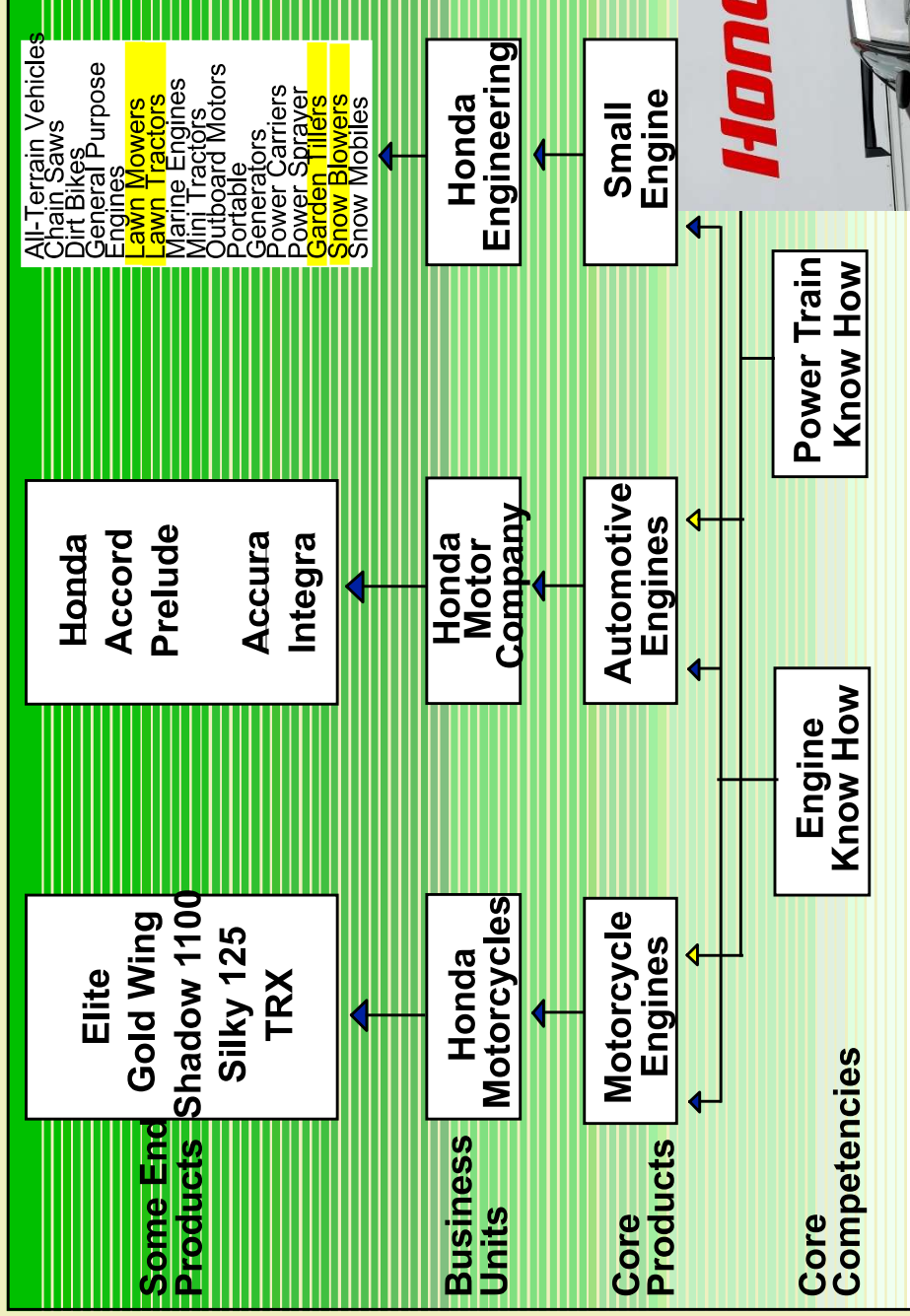
# Disney – Core Competencies

## Walt Disney Studios' 1984 Strategic Architecture



# Honda - Core Competencies

## Honda Motor Company's 1996 Strategic Architecture



## Key Questions for Managers:

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- How do we assemble bundles of resources and capabilities (R&C) in order to build core competences and create value for our customers?
- Will our competitors be able to imitate our R&C?
- Are substitutes available for our R&C?
- Will environmental changes make the R&C obsolete?
- In which markets can we leverage these R&C?

<b>Functional Areas</b>	<b>Capabilities</b>	<b>Examples of Firms</b>
Distribution	Effective use of logistics management techniques	Wal-Mart
Human resources	Motivating, empowering, and retaining employees	Microsoft Corp.
Management Information systems	Effective and efficient control of inventories through point-of-purchase data collection methods	Wal-Mart
Marketing	Effective promotion of brand-name products	Gillette Co. Polo Ralph Lauren Corp. McKinsey & Co. Nordstrom Inc. Solectron Corporation Norrell Corporation Crate & Barrel
<b>Examples of Firms' Capabilities</b>		
	Effective customer service	
	Innovative merchandising	
Management	Ability to envision the future of clothing Effective organizational structure	Gap Inc. PepsiCo
Manufacturing	Design and production skills yielding reliable products Product and design quality Miniaturization of components and products	Komatsu Gap Inc. Sony
Research & development	Innovative technology Development of sophisticated elevator control solutions Rapid transformation of technology into new products and processes Digital technology	Caterpillar Otis Elevator Co. Chaparral Steel Thomson Consumer Electronics

**Table 4.3**

# The VRIS Framework: Value

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- **The Question of Value**
  - **Creates value for the customer. It does not mean that it is expensive.**
  - **Only value-adding resources can lead to competitive advantage, whereas non-value-adding capabilities may lead to competitive disadvantage.**
  - **If firms do not shed non-value-adding resources and capabilities, they are likely to suffer below-average performance or become extinct.**
- ***Overall, the search for valuable resources and capabilities is an ever present challenge for virtually all firms.***

# The VRIS Framework: Rarity

---

- **The Question of Rarity**
  - **What you have and most/all competitors don't have.**
  - **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 abilities 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 VRIS Framework: Costly to Imitate

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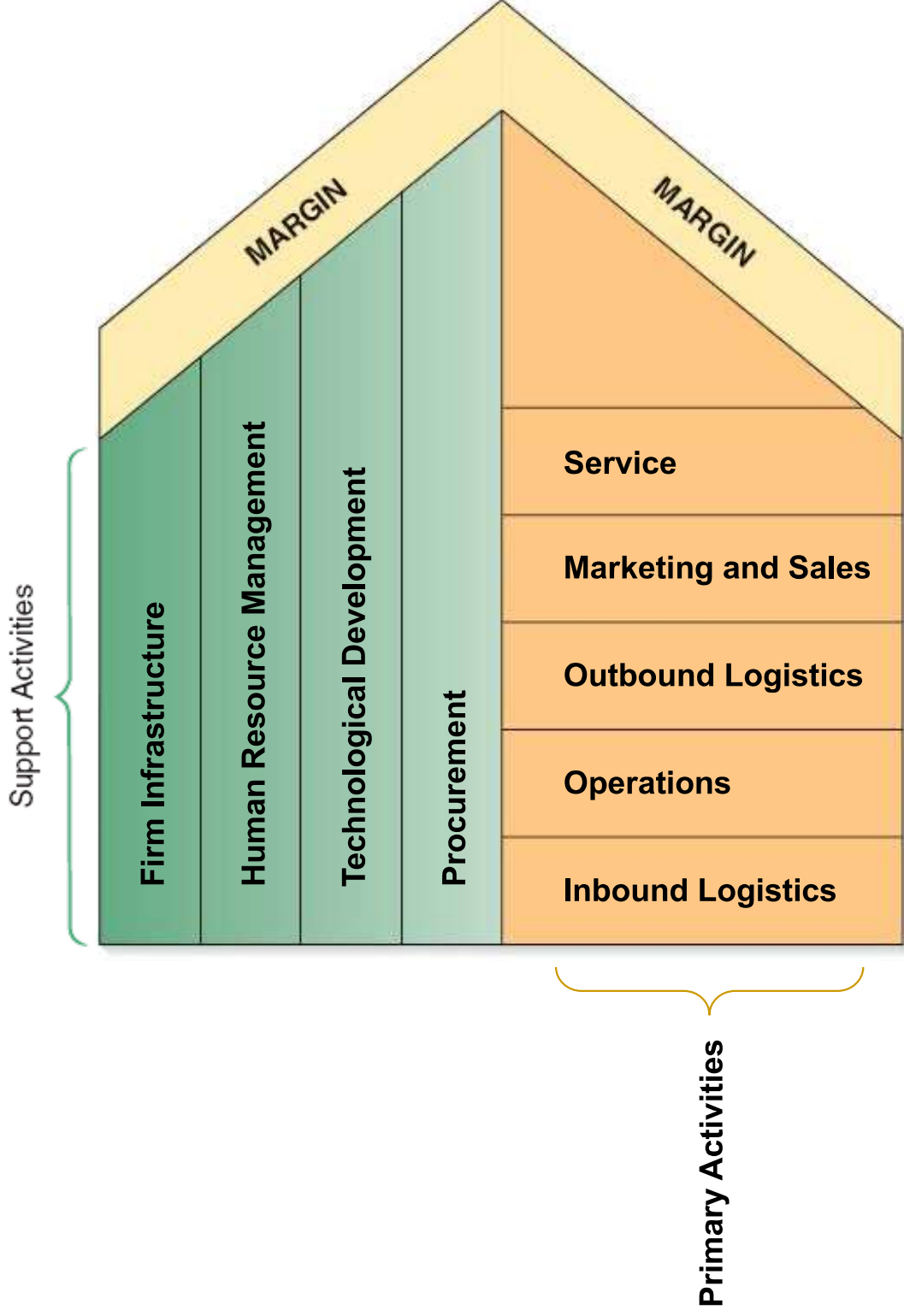
- *Unique Historical Conditions*  
Firm developed in an unusual way that supported the development of certain competencies (eg. Southwest, Coca Cola)
- *Causal Ambiguity*  
Cannot detect how a firm uses its competencies as a foundation for competitive advantage. (Wal-Mart, Intel)
- *Social Complexity*  
Complex interpersonal relationships, trust, and friendships among managers or a firm's reputation with **suppliers and customers or government**. (Particularly for firms with a differentiation strategy)
- *Speed of Change*

# The VRIS Framework: Hard (or Costly) to Substitute

---

- Valuable and rare resources and capabilities are a source of competitive advantage also if competitors cannot find a resource or capability that is different but is a strategic equivalent.
- **Warning:** Our definition of substitutes here is different than what we said for Porter's Five+ Forces.
- Substitutability Barriers:
  - Patents
  - Legal barriers
  - Lack of knowledge
  - Technical requirements
  - Customer behavior.

# The Basic Value Chain



# Value Chain Application

(Value Chain as a collection of resources and capabilities)

---

- Step 1. Disaggregate the firm into separate activities.
- Step 2. Identify the key resources and capabilities associated with each activity; Assess linkages across activities.
- Step 3. Appraise resources and capabilities (judgment call)
- How important is it to our strategy?
  - Does the firm have the resources and capabilities to perform a particular activity in a manner superior to competitors? Need cost/benefit info to do well.
- Step 4. Determine what incremental or revolutionary changes are needed to improve performance.
- Resolve weaknesses/outsource
  - Build strengths

# Examining the Value-Creating Potential of Primary Activities

---

## **Inbound Logistics**

Activities, such as materials handling, warehousing, and inventory control, used to receive, store, and disseminate inputs to a product.

## **Operations**

Activities necessary to convert the inputs provided by inbound logistics into final product form. Machining, packaging, assembly, and equipment maintenance are examples of operations activities.

## **Outbound Logistics**

Activities involved with collecting, storing, and physically distributing the final product to customers. Examples include finished goods warehousing, materials handling, and order processing.

## **Marketing and Sales**

Activities completed to provide means through which customers can purchase products and to induce them to do so. To effectively market and sell products, firms develop advertising and promotional campaigns, select appropriate distribution channels, and select, develop, and support their sales force.

## **Service**

Activities designed to enhance or maintain a product's value. Firms engage in a range of service-related activities, including installation, repair, training, and adjustment.

***Each activity should be examined relative to competitors' abilities. Accordingly, firms rate each activity as superior, equivalent, or inferior.***

**Source:** Adapted with the permission of The Free Press, an imprint of Simon & Schuster Adult Publishing Group, from *Competitive Advantage: Creating and Sustaining Superior Performance*, by Michael E. Porter, pp. 39–40, Copyright © 1985, 1998 by Michael E. Porter.

# Examining the Value-Creating Potential of Support Activities

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## **Procurement**

Activities completed to purchase the inputs needed to produce a firm's products. Purchased inputs include items fully consumed during the manufacture of products (e.g., raw materials and supplies, as well as fixed assets—machinery, laboratory equipment, office equipment, and buildings).

## **Technological Development**

Activities to improve a firm's product and the processes used to manufacture it. Tech development takes many forms, such as process equipment, basic research and product design, and servicing procedures.

## **Human Resource Management**

Activities involved with recruiting, hiring, training, developing, and compensating all personnel.

## **Firm Infrastructure**

Firm infrastructure includes activities such as general management, planning, finance, accounting, legal support, and governmental relations that are required to support the work of the entire value chain. Through its infrastructure, the firm strives to effectively and consistently identify external opportunities and threats, identify resources and capabilities, and support core competencies.

**Each activity should be examined relative to competitors' abilities. Accordingly, firms rate each activity as *superior, equivalent, or inferior*.**

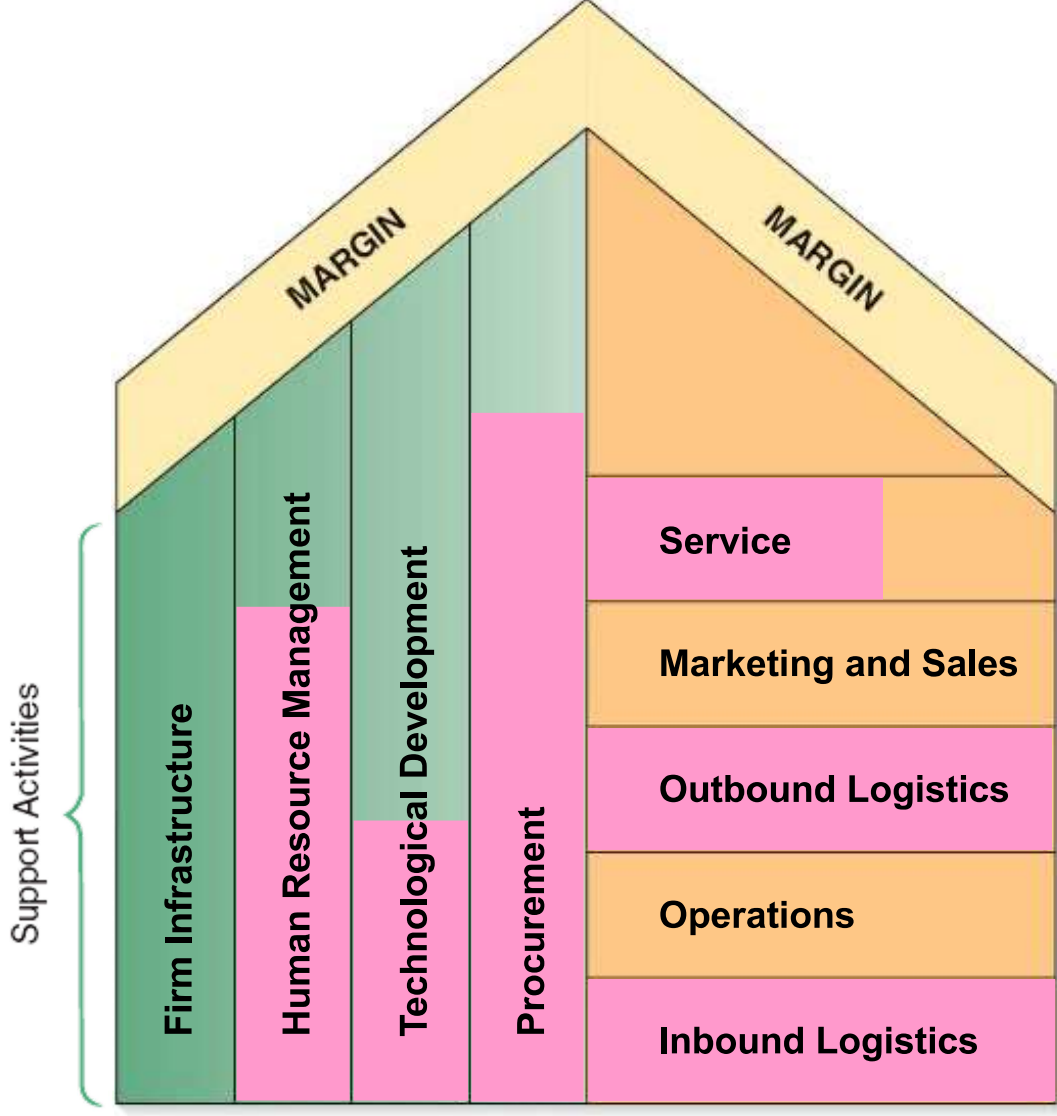
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# Outsourcing Decisions

A firm may outsource all or only part of one or more primary and/or support activities.

Outsourced activity 

Primary Activities 



# Outsourcing

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- **The purchase of a value-creating activity from an external supplier**
  - **Few organizations possess the resources and capabilities required to achieve competitive superiority in all primary and support activities.**
- **By performing fewer capabilities:**
  - **A firm can concentrate on those areas in which it can create value.**
  - **Specialty suppliers can perform outsourced capabilities more efficiently.**

# Outsourcing Benefits + Cautions

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- Improve business focus: outside experts handle various operational details
- Provide access to world-class capabilities without ownership.
- Sharing development risks
  - Make it Worthwhile: Outsource only to firms that really perform the activity well.
  - Don't Undercut Yourself: **Do not\*** outsource activities in which the firm *itself* can create and capture value, can neutralize threats or are needed to complete ongoing organizational tasks.
  - Future Use: **Do not\*** outsource activities that help develop new capabilities.