STRATEGIC MANAGEMENT

Week 3

Resource-based view of the firm (RBV)& Dynamic Capabilities

Agenda and Learning Outcomes

- Understanding of the key ideas underpinning the resource-based view (RBV) and the key models that can be applied to organisations
- Understanding of the key ideas underpinning the Dynamic Capabilities approach and the key models that can be applied to organisations
- Understanding some of the criticisms and limitations of the Dynamics Capabilities approach and RBV

Edith Penrose
1914 –1996

RBV: sustainable competitive advantage

- If firms have homogenous (the same) resources they can conceive and implement the same strategy. For sustained advantage firm resources must be heterogeneous (different to other firms) and immobile (not easily acquired by other firms).
  - (Barney, 1991)
- Compare this to Porter's assertion that strategies are GENERIC regardless of the nature of the firm, its stage of growth, technological/knowledge base, leadership, etc.

RBV

- Barney (1991) notes that two assumptions are elemental to the RBV:
- (1) resources are distributed heterogeneously across firms, and
- (2) these productive resources cannot be transferred from firm to firm without cost (i.e., resources are "sticky").
- These assumptions are the axioms of the RBV

Foundations of resources and capabilities: Firm Resources

"all assets, capabilities, organizational processes, firm attributes, information, knowledge etc. controlled by a firm **that enable the firm to conceive and implement strategies that improve its efficiency and effectiveness**"

(Barney, 1991)

Foundations of resources and capabilities

The ***resources and capabilities*** of an organisation contribute to its long-term ***survival*** and potentially to ***competitive advantage.***

- ***Resources*** are the assets that organisations have (e.g. brand or a technology) or can call upon (e.g. from partners or suppliers), that is ***'what we have'***.
- ***Capabilities*** (sometimes referred to as competences) are the ways those assets are used or deployed, that is ***'what we do well'*** .

JOHNSON, G., WHITTINGTON, R., SCHOLES, K., ANGWIN, D., & REGNER, P. 2016. Exploring Strategy: Text and cases. Pearson Education.

Resources vs. Capabilities

- Resources are single/individual assets that exist at one point on the value chain e.g. brand, a charismatic leader
- Capabilities:
- **Connect multiple points across the value chain**

- Unlike capabilities, it is extremely unlikely that a resource will meet the RBV test for SUSTAINABLE competitive advantage!

Capabilities

Capabilities usually emerge over time e.g. as a result of:

- Refinement of business processes
- Learning by doing
- Experimentation
- Adaptation
- Developing knowledge
- Developing systems and procedures
- Are often a combination of leadership style, technology and organisational culture

Capabilities that confer SUSTAINABLE advantage are complex and reside at multiple points across the Value Chain

Capabilities are NOT generic they are firm specific

RBV criteria for heterogeneity (difference) and immobility (stickiness)

The four key criteria by which capabilities can be assessed in terms of providing a basis for achieving ***sustainable*** competitive advantage are:

- ***Value***
- ***Rarity***
- ***Inimitability and***
- ***Organisation - no strategically significant organisational substitutes***

VRIO

Barney, J. & Hesterly, W. (2007) Strategic Management and Competitive Advantage: Concepts (Evaluating a Firm's Internal Capabilities Ch. 3), Pearson

Sustainable Competitive Advantage Requires all four criteria to be met

VALUE – contribution to revenue streams, reduction in costs, valued by customers, allow adaptation to change

RARITY – few or no competitors possess

INIMITABILITY – causal ambiguity, social complexity, isolating mechanisms making them difficult for competitors to obtain and imitate.

ORGANISATION – do competitors have any capabilities that performs a different function but leads to the same outcome – customer value?

JOHNSON, G., WHITTINGTON, R., SCHOLES, K., ANGWIN, D., & REGNER, P. 2016. Exploring Strategy: Text and cases. Pearson Education.

VRIO – Value
V – Contribution to revenue/cost reduction

- According to the RBV, valuable resources (includingcapabiliteis) are a necessary but not sufficinet criteria for sustainable competitive advantage.
- Resources/capabilities should contribute to revenue generation/cost reduction in order to create value
- Resources are seen as valuable when they enable a firm to implement strategies that improve a firm’s efficiency and effectiveness by exploiting opportunities or by mitigating threats or more radically redefine industries and markets with innovative new offereings.

VRIO – Rare
R – RARITY of resources and capabilities

- ***Rare capabilities are those possessed uniquely by one organisation*** or only by a very few others.
  (e.g. a company may have patented products, have supremely talented people or a powerful brand.)

- ***Rarity could be temporary (***e.g. Patents expire, key individuals can leave or brands can be de-valued by adverse publicity)

JOHNSON, G., WHITTINGTON, R., SCHOLES, K., ANGWIN, D., & REGNER, P. 2016.
Exploring Strategy: Text and cases. Pearson Education.

VRIO – Inimitable
I – INIMITABILITY of resources and capabilities

Inimitable resources (capabilities) are those that competitors find ***difficult and costly to imitate, to obtain or to substitute.***

- Competitive advantage can be built on unique resources (a key individual or IT system) but these may not always be sustainable (key people leave or others acquire the same systems).

•Sustainable advantage is more often found in capabilities (the way resources are managed, developed and deployed) and the way capabilities are linked together and integrated across the value chain.

JOHNSON, G., WHITTINGTON, R., SCHOLES, K., ANGWIN, D., & REGNER, P. 2016. Exploring Strategy: Text and cases. Pearson Education.

I – INIMITABILITY of resources and capabilities – sources

1. History - path dependency
2. Causal ambiguity

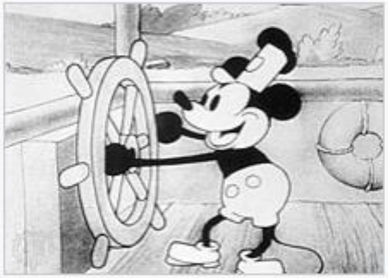
This is the level of detail needed for the assessments – consider all elements of VRIO and all 2 factors for Inimitability for each resource or capability

JOHNSON, G., WHITTINGTON, R., SCHOLES, K., ANGWIN, D., & REGNER, P. 2016. Exploring Strategy: Text and cases. Pearson Education.

VRIO - Inimitability
1) History - Path Dependency

- “If a firm obtains valuable and rare resources because of its unique path through history, it will be able to exploit those resources in implementing value-creating strategies that cannot be duplicated by other firms” (Barney 1991)
- “Firms without that particular path through history cannot obtain the resources necessary to implement the strategy”

- For example, Apple’s product and design history or Disney’s film animation, or Chanel’s fashion journey



Mickey's first appearance in *Steamboat Willie* (1928)

JOHNSON, G., WHITTINGTON, R., SCHOLES, K., ANGWIN, D., & REGNER, P. 2016. Exploring Strategy: Text and cases. Pearson Education.

VRIO - Inimitability
2) Causal ambiguity

"Causal ambiguity exists when the link between the resources controlled by the firm and a firm's sustained competitive advantage is not understood, or understood only very imperfectly" (by both the firms itself or its rivals)

Difficult to know which resources to imitate when they are tacit and complex

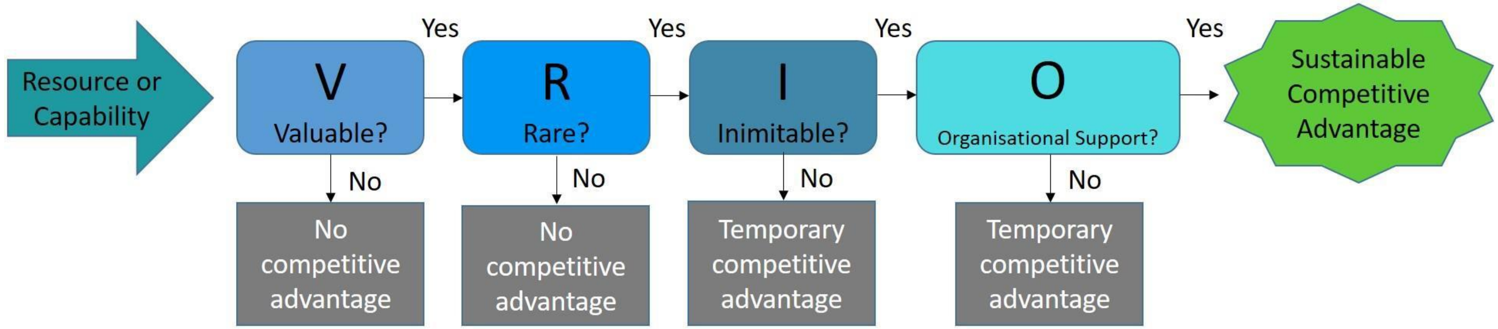
(Barney 1991)

"*You see: Nobody ever goes in, . . . and nobody ever comes out!*"
Willy Wonka and the Chocolate Factory

*note: there is an earlier “VRIN” model where non-substitutability is the “N”

VRIO - Organisation *Non Substitutability**

- The value provided by the resource or capability cannot be easily copied through a close strategic equivalent
- For example, a high quality top management team cannot be closely replicated but a firm can focus on building their own
- One organisation might be able to attract top talent because of a charismatic CEO and another because of an amazing workplace culture
- The capability or resource is distinctive to the firm but the impact on the firm’s competitiveness is the same - equifinality



source: adapted from multiple internet sources

In your analysis - be careful to distinguish between resources and capabilities and apply the framework to each resource and each capability and NOT to the whole firm

UNDER WHICH CONDITIONS CAN FIRM RESOURCES BE A SOURCE OF SUSTAINABLE COMPETITIVE ADVANTAGE?

RESOURCES ARE UNLIKELY TO MEET ALL OF THESE CRITERIA. DISTINCTIVE CAPABILITIES, THAT ARE INTEGRATIVE ACROSS THE VALUE CHAIN, ARE LIKELY TO BE INIMITABLE

For your case organisation your analysis needs to be at a detailed level

Sports Direct example

Capability	Inimitability	
Integrative capability that links activities across the value chain from inputs to serving the customer: • **Sourcing** branded and premium sports apparel, shoes and accessories from leftover, out of season stock and for established brands e.g. Everlast • **Distribution** to warehouses, so that each warehouse has requisite stock levels for the retail outlets served • **Warehouse and inventory management**, clicks and bricks operation • **Stock management** logistics to get goods to shop floor • **Merchandising** and point of sale technology	**History dependent** – supplier relationships, legacy technology and work systems **Causal ambiguity** – the system relies heavily on technology and systematised working practices that can be subject to analysis and capture	Low to moderate Low Very low

For your case organisation analysis this is much too superficial

Resource or Capability	Valuable	Rare	Inimitable and non-substitutable	Organized to Exploit	Impact on Competitive Advantage
Strong Global Presence	Yes	Yes	Yes	Yes	Realized Sustainable Competitive Advantage
Specialty Coffees	Yes	No	No	Yes	Realized Competitive Parity
Upscale and Cozy Atmosphere	Yes	Yes	No	Yes	Realized Temporary Competitive Advantage

RBV to Dynamic capabilities

From

RBV - diagnosing current resources and capabilities i.e. ordinary capabilities that may be necessary to operate efficiently <u>now</u> but that may not be sufficient to sustain superior performance in a changing environment.

To

Dynamic capabilities – assessing the means by which an organisation has the ability to renew and recreate its strategic capabilities to meet the needs of <u>changing</u> environments.

JOHNSON, G., WHITTINGTON, R., SCHOLES, K., ANGWIN, D., & REGNER, P. 2016. Exploring Strategy: Text and cases. Pearson Education.

Dynamic Capabilities

Teece et al (1997) define dynamic capabilities as the firm’s ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments.

Dynamic capabilities thus reflect an organization’s ability to achieve new and innovative forms of competitive advantage

TEECE, D. J., PISANO, G. & SHUEN, A. 1997. Dynamic capabilities and strategic management. *Strategic Management Journal,* 18, 509-533.

Dynamic Capabilities

The "assumptions on which the RBV of the firm is based are that **resources are heterogeneous** across organizations and that this **heterogeneity can sustain over time**."

It explains "how some firms are able to earn super-profits in equilibrium and, as such, **it is essentially a static view**"

"It does not specifically address **how future valuable resources could be created or how the current stock of ...resources can be refreshed in changing environments**: this is the concern of the dynamic capability perspective."

AMBROSINI, V. & BOWMAN, C. 2009. What are dynamic capabilities and are they a useful construct in strategic management? International Journal of Management Reviews, 11, 29-49.

Dynamic Capabilities

This perspective is argued to be <u>an extension of the RBV</u>; when aligned with RBV it shares similar assumptions, and it helps us understand how a firm's resource stock <u>evolves over time</u> and thus how advantage is sustained

The dynamic capability perspective focuses on the capacity an organization facing a rapidly changing environment has to create new resources, to renew or alter its resource mix

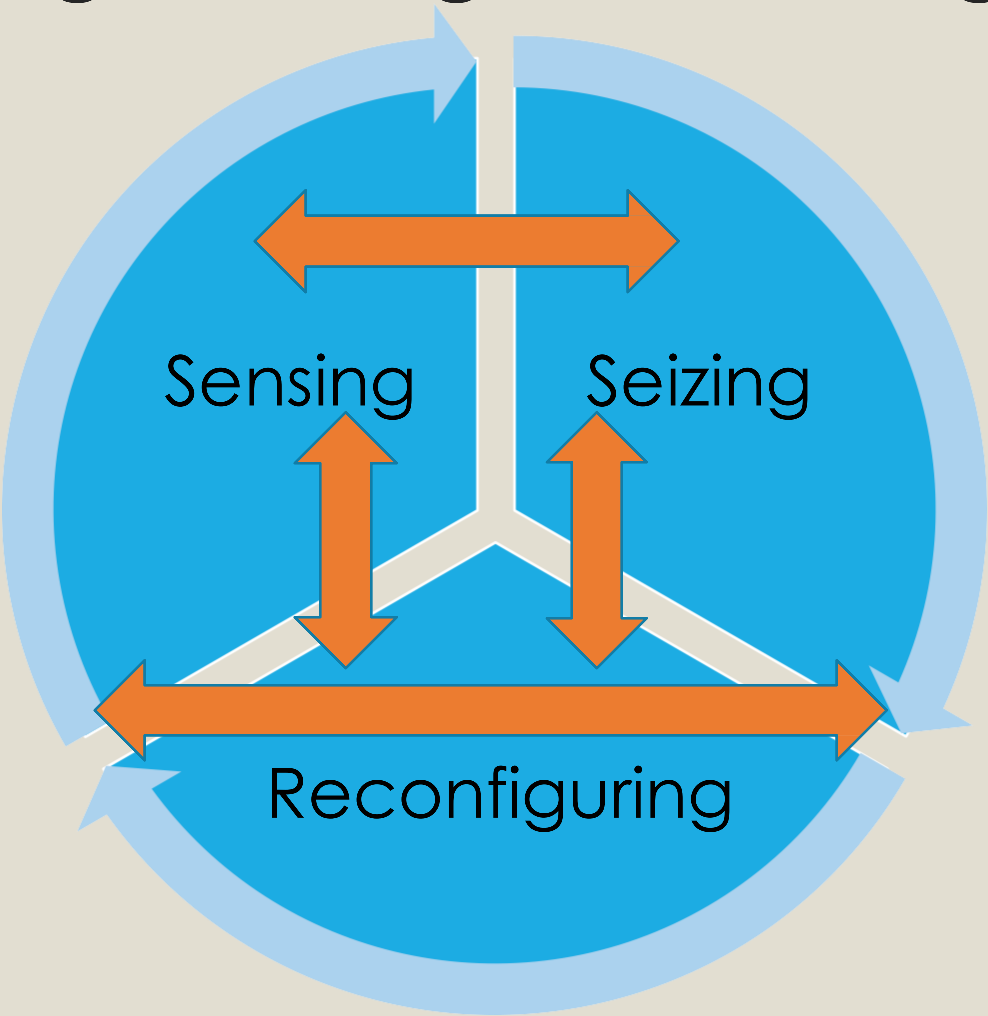
AMBROSINI, V. & BOWMAN, C. 2009. What are dynamic capabilities and are they a useful construct in strategic management? International Journal of Management Reviews, 11, 29 -49.

Dynamic Capabilities & Rapid Innovation

- How and why certain firms build competitive advantage in regimes of rapid change.
- Emphasises the importance of managerial strategies for developing new capabilities, such as the management of knowledge, innovation, learning and skill acquisition
- Focuses on capabilities that enable firms to demonstrate timely responsiveness and rapid and flexible product innovation

TEECE, D. J., PISANO, G. & SHUEN, A. 1997. Dynamic capabilities and strategic management. *Strategic Management Journal,* 18**,** 509-533.

Analysing Dynamic Capabilities: Sensing, Seizing & Reconfiguring



Adapted from: TEECE, D. J. 2007. Explicating dynamic capabilities: The nature and microfoundations of (sustainable) enterprise performance. Strategic Management Journal, 28, 1319–1350.

- ***Sensing capabilities (or routines)*** – scanning, searching and exploring new opportunities across markets and technologies
- For example, R&D and market research, learning about customer needs, knowledge management and organisational learning, external linkages, anticipation and creative foresight
- Superior access to information or ability to organise filter and interpret information
- Understanding latent demand e.g. the need to socially connect with others (Facebook) or to make product choices based on other user reviews (Amazon)

Adapted from: TEECE, D. J. 2007. Explicating dynamic capabilities: The nature and microfoundations of (sustainable) enterprise performance. Strategic Management Journal, 28, 1319–1350.

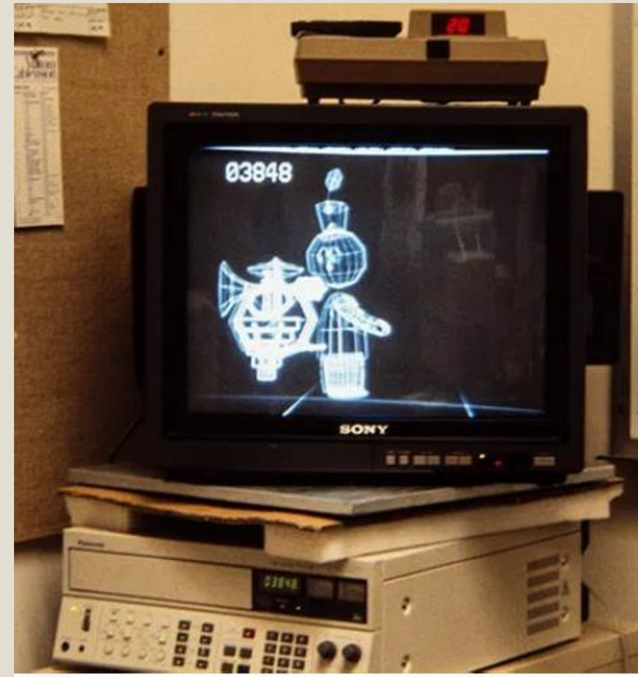
- ***Seizing capabilities*** – addressing opportunities through new products, services, processes and activities
- Strong delivery, execution, speed to market, development and commercialization activity, developing new business models
- Smart and flexible investment decision making, timing of resource commitments (when, where and how much)
- Recruiting and organizing the managers needed to supervise and coordinate delivering activities.

“The iPhone was the debut of the touchscreen, which would soon become standard in the category”

https://appleinsider.com/articles/18/06/29/the-story-of-the-original-iphone-that-nobody-thought-was-possible

Adapted from: TEECE, D. J. 2007. Explicating dynamic capabilities: The nature and microfoundations of (sustainable) enterprise performance. Strategic Management Journal, 28, 1319–1350.

- ***Re-configuring capabilities*** – new products and processes may require renewal and re-configuration of capabilities and new investments
- The ability to discard old capabilities and acquire new ones, to radically redesign routines e.g. from petrol powered cars to electric, or hand-drawn animation to digital



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Strategic Management Journal, 28, 1319–1350.

- Understanding of criticisms and limitations of resource based and dynamic capabilities perspective

Dynamic Capabilities Criticisms

Tautological (saying the same thing in different words/self defining statement)

- Cepeda and Vera (2007, 427) ‘if the firm has a dynamic capability, it must perform well, and if the firm is performing well, it should have a dynamic capability’
- Similar to the argument that all great firms have great leaders – if the leader is great, the firms performs well, and, if the firm is performing well the leader must be great. All great companies must have great leaders and all companies that perform well over time must have dynamic capabilities

AMBROSINI, V. & BOWMAN, C. 2009. What are dynamic capabilities and are they a useful construct in strategic management?
International Journal of Management Reviews, 11, 29-49.

Dynamic Capabilities Criticisms

Only an indirect effect:

- Eisenhardt and Martin (2000, 1106) also argue that competitive advantage lies in the resource configurations that dynamic capabilities create, not in the dynamic capabilities themselves – and that many firms will have similar dynamic capabilities

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Dynamic Capabilities Criticisms

- There are limits to the extent of the importance of such capabilities. They are vulnerable to threats of erosion, substitution, and above all to being superseded by a higher-order capability of the 'learning to learn' variety. This suggests that there can be an infinite regress in the explanation for, and prediction of, sustainable competitive advantage.
  - David J. Collis, 1994. "Research Note: How Valuable are Organizational Capabilities?," Strategic Management Journal, Wiley Blackwell, vol. 15(S1), pages 143-152, December.

RBV Criticisms

- Static rather than over time
  - Based on current internal situation but little to say about the changing external environment (it is assumed to be homogenous?)
- The theory has limited prescriptive value
  - Diagnostic identification but little to say about what resources or capabilities are needed or missing

Further Reading: Priem, R L and Butler, J E (2001) ‘Is the resource-based view a useful perspective for strategic management research?’, *Academy of Management Review*, Vol 26, no 1, pp22-40

RBV Criticisms

- **Treats the firm as a 'black box'**
  - **Identifies what capabilities a firm has but not "when", "where" and "how" they might be useful (Priem & Butler, 2001). '**
- **See module handbook for sources of reference**