**Week 3 Thoughts on applying the Resource-based View & Dynamic Capabilities**

This week you are required to apply the RBV, and in particular Barney’s 4 aspects (VRIO) to your organization and / or to assess your organization’s Dynamic Capabilities.

This week’s analysis seems straight forward but it is not:

The RBV perspective is weak on specifying concepts. It is difficult to determine the distinction between resources and capabilities and between capabilities and outcomes!

Inimitability is a difficult and complex concept that includes path dependence, social complexity and most importantly causal ambiguity, which are extremely difficult to isolate for analytic purposes even by the firm that owns them. This is compounded when it is a fairly young firm that does not have history to develop path dependency in organisational routines.

You may feel that there is not enough information on your organisation! Having sufficient information is problematic even for the firms that own the resources and capabilities. This is an information problem, complexity, embeddedness and historical dependency of resources (including capabilities) place them beyond analysis.

VRIN/VRIO – the last letter (Non-substitutable/Organizational support) was updated from N to O as non-substitutional was seen as very close to inimitable.

It may be useful to use a table similar to the one below for your analysis:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | * Valuable | * Rare | * Inimitable * (Path dependency, social complexity, causal ambiguity, isolating mechanisms) | * Non-subsitutable |
| * Resource1 (e.g. brand name) |  |  |  |  |
| * Eg.R&D |  |  |  |  |
| * E.g. patents |  |  |  |  |
| * Capability 1 |  |  |  |  |
| * Capability 2 |  |  |  |  |
| * etc etc etc |  |  |  |  |

PLEASE DO NOT JUST ENTER TICKS AND CROSSES IN EACH BOX. THERE NEEDS TO BE SOME EXPLANATION

Many students tend to say: R&D is valuable, Brand is rare, and so on – but that is pointless. EACH resource has to have all four characteristics to provide sustainable competitive advantage. Think of air: air is valuable, it is inimitable – but it’s not rare. So even if you have a tank full of the stuff, you won’t get rich (unless conditions change). So VRIO must be for each resource (including capabilities). ***It is only capabilities that are likely to meet all of the VRIO criteria, especially inimitability.*** A resource that has all VRIO elements should be invested in – and others may be lost/divested or outsourced. That’s the logic here.

**Temporary vs Sustainable competitive advantage**

The key idea is that any capability that is imitable can only ever provide temporary competitive advantage. To be sustainable the capability should be INIMITABLE (path dependent, historically situated, causally ambiguous, socially complex, and/or enjoy some sort of isolating mechanism e.g. intellectual property protection). Thus, the advantage can be maintained over time.

Things to reflect on

You will struggle to find appropriate information at the level of detail required for this analysis. Even the organisation that owns the resources and capabilities may find this dififcult. Critically reflect on this – i.e. take into consideration that in the ‘real world’ there is no perfect information and reflect on the implications of causal ambiguity for managers. While for Porter, for instance, the definition concepts is pretty straightforward, identifying and defining concepts is particularly problematic for the RBV.

How to be ‘critical’ – you might question whether RBV gives us a meaningful view of entrepreneurial and young firms and overall RBV may be okay in ‘static’ situations, but that in the kind of dynamic environments, where advantages continually erode and all things change, such a definition of VRIO may be of little value. Also, bear in mind Porter’s critique in his paper ‘What is Strategy’– here he claims basing strategy on firm level resources is NOT strategic because it does not consider RELATIVE competitive advantage. Porter also argues that industry attractiveness is key rather than individual firm factors.

**Dynamic Capabilities**

Teece et al. (1997, p.516) “*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*...”

It’s useful to think about how capabilities from your VRIO analysis could be conceptualized as ‘dynamic’ in some important way. Teece, 2007 identified 3 different types of generic dynamic capabilities which can provide one possible framework for your thinking: sensing, seizing and reconfiguring. Teece, 2007 p1319 states “*dynamic capabilities can be disaggregated into the capacity (1) to sense and shape opportunities and threats, (2) to seize opportunities, and (3) to maintain competitiveness through enhancing, combining, protecting, and, when necessary, reconfiguring the business enterprise’s intangible and tangible assets”*.

In identifying whether a capability is dynamic you might look at how capabilities have evolved over the history of the organization and which have been evident over time, or take a snapshot view of the organisation’s current dynamic capabilities.

**Working with theory**

It is **VERY important** to make clear and explicit links to your theoretical framework when displaying your analysis. Do not expect the audience (or marker/assessor) to do this in their own head! You need to **demonstrate** that you have applied the theory, otherwise your work appears descriptive and will not merit a high mark.

**Presentation skills**

It is important to develop good oral and non-verbal body language communication skills when presenting. This is an important employability skill. Speaking to the whole room, making eye contact with the audience and projecting your voice are very important. The class is a good place to practice and start to polish your skills.