Strategic Managemet for Competitive Advantage
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Lecture 11
Resource-based View of Firm and Sustainability

Welcome to the course Strategic Management for Competitive Advantage. In the last class, we have talked about value chain analysis. Today we will be discussing about Resource-based View of Firm and Sustainability.

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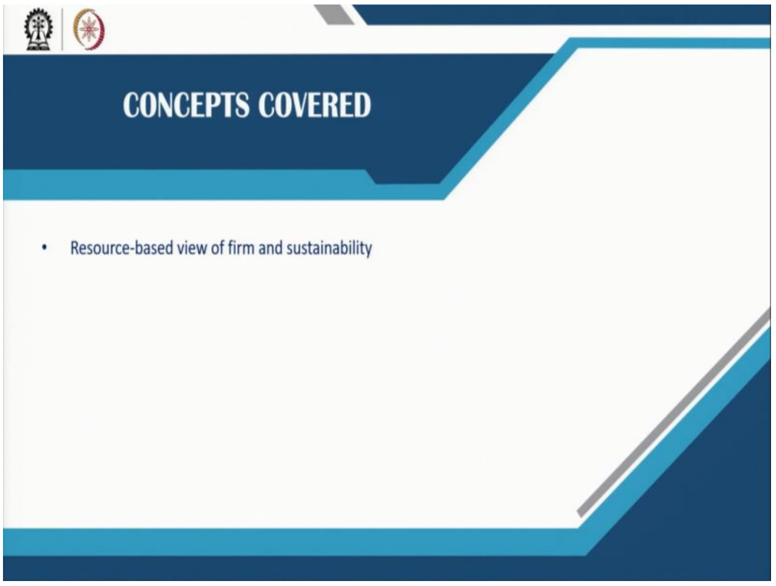

In this, we will be covering the following concepts. The resource-based view of firm and how to take the sustainable competitive advantage.

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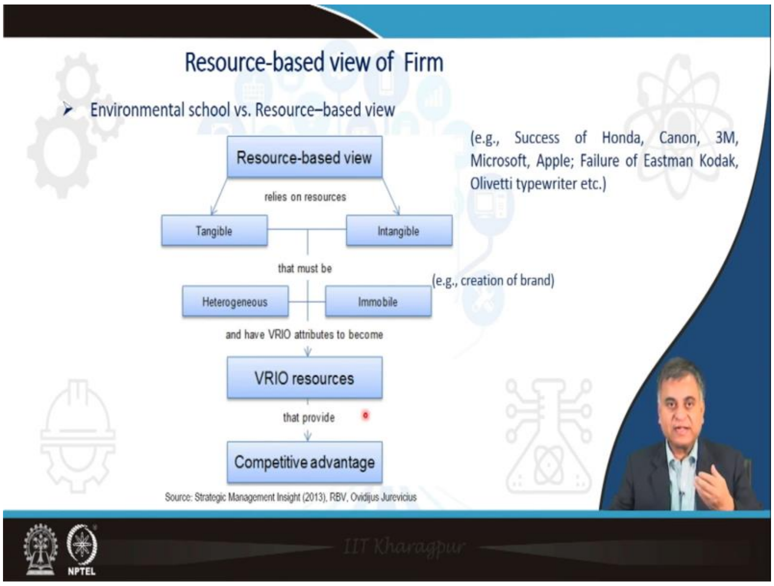

Next, we will be starting the resource-based view of firm. So long, we have discussed about the competitive advantage based on market-based, market-focused strategy. That is, like you scan the external environment for opportunities and you identify the opportunities and take advantage of those opportunities, and try to get the competitive advantage. This is called environmental school.

So, in fact, in 1970s and 1980s, all through that this environmental school was predominant. So, what they used to do? They used to scan continuously the external environment and identify opportunities and take competitive advantage to it. But in late 1980s and early 1990s, this resource-based view has emerged.

And in fact, C. K. Prahalad and Gary Hamel, in their landmark paper in Harvard Business Review, the “core competence of corporations”, there they emphasized this resource-based view. What is this resource-based view? They say, they argue that if the environment is in a state of flux and if change of environment is very fast, then it may happen so that the customers preference will/ may be volatile and customer’s loyalty, then the technology serving those customers those are also changing.

In such a situation, that opportunity you find it in the environment, if you make a strategy based on those market-focus strategy that will not last long, that will not be a stable strategy for the organizations. So, they propagated this resource-based view. It says in such situations, the internal resources of the organization, internal capabilities of the organization, distinctive competencies of the organization, that is, the core competence those are far more stable than the environmental-based strategy.

So, they say that every organization is a bundle of resources and capabilities. You have to make your strategy based on those competencies, then it will be far more stable and it can outlive the product life cycle. So, this is in essence, the resource-based view they have propagated.

And for example, take the case of Honda - Honda motors. Honda motors was established in 1948 and it is the largest motorcycle producers in the world. It also supplies automobile engines and many other parts. But Honda motors never defined itself as a manufacturer of motorcycles or automobiles.

What they have? They have distinct capabilities, distinct competence, they have developed over the years. More than that seven decades, they have developed it for manufacturing of gasoline engines, for all types of gasoline engines and related technologies. So, they have developed those core competences, and see how stable is their strategy. This is based on their internal resources and capabilities.

Same is the case for Canon. Canon hit the market with the successful production of 35 mm camera. After that they have developed many other products, such as say, xerox machine, printer, then the household durables (manufacturers), then they have also done this semiconductor manufacturing machines.

So, as the videos, they have developed many many products. But all these products are based on three distinct technical know-how. One is the microelectronics, another is the precession mechanics, and third one is the fine optics. Based on those technological know- how and capabilities, they have grown - with those competencies, that is, their internal resources.

Similarly, 3M, 3M has more than 30,000 products and they started with sand paper. From sand paper, they went to the adhesive tapes. From there, they went for manufacturing of videos, audios, floppy disk, even with the healthcare products, medical products and many others, thin film coatings, around 30,000 products.

But all these are based on technical know-how of core areas of material science, precession products, and adhesive products. They leverage those technical know how. These are the examples for the internal resources and capabilities, and strategy based on that.

Now, what is this resource-based view? Resource-based view relies on resources. That says, the internal resources of the organizations. And what are the resources in an organization? Resources can be divided in two types of resources. One, it is tangible resource, intangible resource or the asset, tangible asset, intangible assets. So, what are the tangible assets?

Tangibles assets are those assets which can be touched, which has a physical form. Say, land, building, plant, machineries, equipment, computer, capital, all these are the tangible resources. This can be bought from the market. And another is the intangible resources. Intangible resource or assets are what?

Intangible assets are brand reputations, trademark, patent, goodwill, then the culture, then the skillsets, then organizations acquire knowledge, all these are intangible resources. These intangible resources cannot be transferred easily. But tangible resources you can, one can procure from the market, you can buy from the market. It can give you the short-term competitive advantage.

So, all organizations have their resources, tangible resource and intangible resource. These tangible resources give you the short-term competitive advantage because your competitors are also closely observing you. Suppose you buy a technology: they can also go to the market and buy that technology. You buy a new machine; they can also buy a new machine. So, it will give you short-term competitive advantage.

But intangible resources, say, the brand name, it takes several decades to build goodwill, then your patent, these remain with you. So, these are two types of resources. Then, the resource-based view assumes that the resources must be - there are two assumptions. One is all resources in an organization, it is heterogeneous in nature, these are not homogeneous - heterogeneous, and resources are immobile.

What is this heterogeneous resource? That is, no two companies are having identical resources, it is not possible. Say, for tangible resources, you might get a short term advantage but for the long term that your those immobile resources, those the brand, intangible resources that cannot be obtained or cannot be bought by the your competitors.

And also, it says that these heterogeneous resources means that even if you have the same machine, same environment, same market environment but your resources like - your skill level that no two organizations are the same. Skill levels, knowledge and all others are different that cannot be at the same level.

Take the case of, suppose, the resources are same, two organizations resources are same, then what happens? Like, if one company follows one strategy, others will also follow the suit, others will also follow it. So, there will not be any differences. So, prices will also be the same. So, no one can outperform each other, no one can outcompete each other. So, it is what? It is a perfect market situation.

But in real life there is no perfect market situation. The market is always imperfect. So, in real life there is no perfect competitions. So, therefore resources of any two companies are heterogeneous. This assumption holds true.

Take the case of Apple and Samsung. Apple and samsungs are in the sameindustry, same market, same sector, say i-phone, smartphone industry then it is maybe the notepad and all, they have the same products but you see that Apple follows one strategy, Samsung follows a different strategy. Apple's product prices are very high compared to the Samsung.

So, why does not Samsung follow the same price same strategy as Apple is following? Because they have heterogeneous resources - that brand name; brand name of Apple is far more superior than Samsung. So, Apple’s products are user friendly, aesthetic and brand name are different. So, that makes the bundle of resources between these two organizations different.

And even though, they are competing in the same segment of market, same environment and all, so, these are the heterogeneous and immobile resources. Like creation of brand, it takes (I told) lot of time, like Tata brand, it did not grow in 1, 2, 5 or 10 years, it took several decades to build.

Coca-cola brand, Microsoft brand, IBM brand - it took several decades to create. So, it is not easily transferable. So, it it is immobile and it remains with the organizations. So, this resource-based view also says, these are heterogeneous and immobile.

Now, take the case of Microsoft. Microsoft, as all of you know that it started its successful journey, first it came out with MS-DOS that is the disk operating system, that they developed for the IBM PC (IBM desktop). But after producing that, what did they do? They developed further with their resources, and competed with others, and - created an ecosystem and further developed Windows.

Then after Windows they developed MS-office suite. They developed MS-project, then they developed the internet applications like the Xbox live and all. So, they kept on developing. Because of what? They had the internal resources and capabilities. So, all these successes are based on this internal resource distinctiveness and and competency.

Similar is the case for Apple, Apple started with a desktop PC and after that they have developed further many (many) products such as notepad, ipad, iphone, ipod - all these smartphones andothers, . And they developed and their products are more aesthetic, userfriendly and have a huge following. So, how could they do it? They did it because of their internal resource capabilities. So, their strategies are mostly based on these capabilities. So, these are the resource-based some of the examples.

Now, take the failure of Eastman Kodak. Eastman Kodak for its 132 years, most of the time, it was one of the admired companies in US. But in 2012 it went to solvency, bankruptcy. So, but it started (established) in 1882. So, what happened? They were the giant in chemical/(photographic) imaging but when the digital technology came - digital imaging its not that they did not try - they did. They tried for that but they failed. What happened?

That you must be knowing that Eastman Kodak started - the first digital imaging camera and/or digital camera; they produced it. But they were blinded by their (photographic)/chemical imaging because business was so enormous, it was billions of dollars. So, they ignored that (digital imaging). Even though they started digital imaging in 1990s.

And from 1990s they investment several billions dollar for capturing that digital imaging technology and market, developing that digital technology but they could not succeed and went to bankruptcy. They could not succeed because they did not have that internal resources and capabilities to gain competitive advantage. So, it could not do it.

So, similarly, Olivity typewriter, it is an Italian manufacturing company of typewriters andother products. As the typewriters were going extinct, they did foray in the electronics market, they did go for the development of the personal computers, printers and all. And they invested huge amount in that, but they failed.

Because, they did not have that internal resources and the capabilities to sustain that competitive advantage. So, the analysts also tell that had Olivity typewriter instead of going for those electronics and the PCs, had they concentrated on electrical and precision engineering equipment etc., which were similar to their technical know-how, they could have survived.

Similarly, analysts say, if the Eastman Kodak instead of going to the digital imaging , if they went for their chemicalbased technology, say, speciality chemicals or pharmaceuticals or health care, they could have survived, they could have done better.

Anyway, these are on hindsight people are talking about it. So, the moot point is (here) the resources - internal resources and capabilities - based on that strategy is far more stable and you can take competitive advantage based on that. That is one part of (this) resource-based view.

Now, next we talked about heterogeneous, immobile resources, it says, that for resource-based view, for getting competitive or sustainable competitive advantage, the resources must have VIRO compatibility. What is VIRO? VIRO is, your resources must be Valuable Rare, Inimmitable and Organized - it must be organized to capture those capabilities. That is, VIRO; having VIRO features (then only you) will get that sustainable competitive advantage.

Next, we will talk about the VIRO characteristics (of this resource-based view of firm). If your resources are heterogeneous and immobile, you may get competitive advantage but that is not enough to keep your competitive advantage in a sustainable manner. To get a sustainable competitive advantage, your resources must have the features of VIRO characteristics. So, in the next slide we will talk about these VIRO characteristics, what is this VIRO resources?

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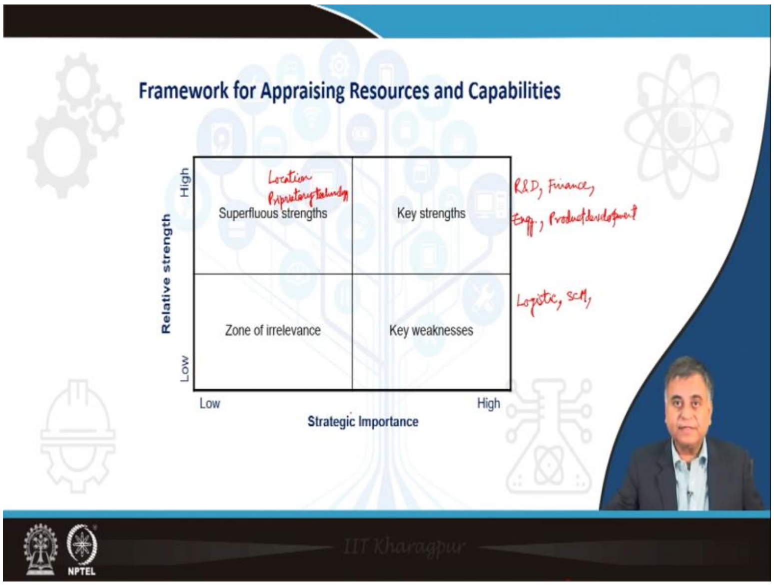

Now, before that VIRO resources, we will talk about these resources. This is a framework for apprising resources and capabilities of an organization. How do you apply the organization's resource and capabilities? So, this is just a framework, you can divide it in two, like the strategic importance of the resource and the relative strength the organizations is having for that resource.

So, it may be, strategic the importance may be low, high. Similarly, relative strength may be low and high. So, if your strategic importance is high, relative strength is high, these are your key strengths, (these are key strengths). And if your strategic importance is high but relative strength is low, these are called key weaknesses of the organization.

And if your strategic importance is low but relative strength is high, it is called superfluous strength of the organizations and this is the low-low, low strategic importance, low relative strength. It is called zone of irrelevance. For example, key strength of an organizations can be say, (let me come), key strength of an organizations can be anything like say, R&D may be the key strength or the finance may be the key strength or it may be engineering, may be product development, may be the key strength. So, you can identify the key strength of the organization.

Key weaknesses - key weaknesses often in organizations may be the logistic, may be the supply chain management. So, you identify what are the key weaknesses. Superfluous strength it may be the location, location may be a superfluous, then the proprietary technology, this may be the superfluous strength. So, this way, you can identify your resource capabilities and the resource strengths, weaknesses and all. This is a very good way of doing things. Now, we will be coming to the resource-based view.

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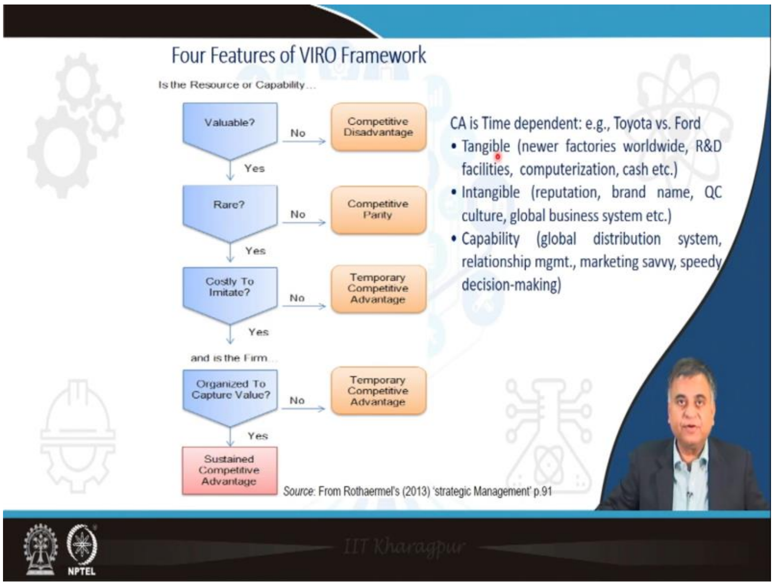

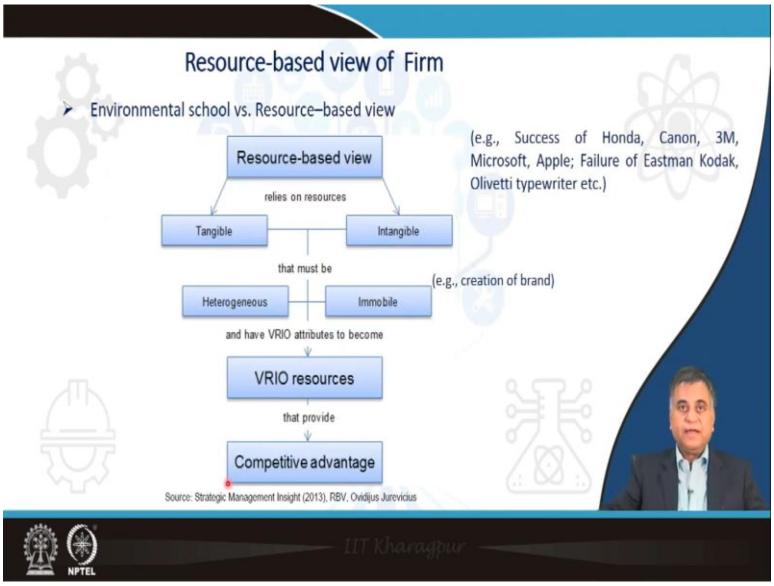

Resource based view we are doing it. What are the four features of this VIRO framework? What is this VIRO framework? That your resources must be valuable, (must be valuable) that if you have a valuable resource, then only you will get competitive advantage, otherwise these will not be having any competitive advantage, it will have competitive disadvantage. It will have only competitive disadvantage.

So, how do you make your resource valuable? You make your resource valuable by say, by employing differentiation strategy. I will talk about this differentiation strategy in the next module. So, by another way of making your product valuable is decreasing the cost of production that means that will add value to your customers. Customers should perceive it the product as valuable to them. So, these are the ways you can make your product valuable but it is not enough. You have to make the resources rare. Resources got to be rare then only you get competitive advantage, otherwise (no competitive advantage).

So, how do you make it rare? Rare means like only one or few organizations may have those resources, not all. If many companies have the same resources, it gives you a competitive parity. So, it is a competitive parity. So, you do not get any advantage. So, make the resources rare and the resources should be costly to imitate. And it cannot be substituted easily - non-substitutable.

So, if you have this, then only you get some sustainable competitive advantage and otherwise you will get only temporary competitive advantage. So, to get sustainable competitive advantage your resources must be valuable, then it must be rare and it is costly to imitate.

And this is not enough. Furthermore, your organization must have the capability to capture all this, capture that valuable, rare, costly to imitate, and should be organized to develop all these, then only you can unleash the competitive advantage in a sustainable manner. So, all these will give you a sustainable competitive advantage.

So, what we saw from here? resource-based view we have seen - resources are two types, tangible and intangible. Resources must be heterogeneous and immobile. So, each company is having a bundle of resources, internal resources and capabilities - those always vary. These will not be the same. And to get the competitive advantage, the resource characteristics must have the VIRO features. So, these will give you the competitive advantage.

Now, competitive advantage again, this is not enough, competitive advantage is time dependent. It is, suppose you have a competitive advantage now, sustainable competitive advantage, but do not think that it is there for a long-term, because your competitors are also (breathing), following you, breathing on your neck.

So, they will soon catch up. So, it is time dependent. I will give you the examples of Toyota and Ford motors. This is a very beautiful example, say, Toyota and Ford. The stock analysts, they said that for 25 years, say, 1980s, 1990s, early 2000s Toyota was the market leader, by far and far away from other companies including Ford motors of USA.

And they were far ahead in tangible resources, intangible resources and also for the capabilities. In tangible resources say, Toyota used to have newer factories across the globe, wherever they went t for a new country, they developed there new factories, so new factories worldwide, they will set up their new R & D facilities, new computerized systems (whatever is availabl)e and they (Toyota) had enormous cash.

So, they had leverages to go for new technology, new (things) and all. It gives you lot of leverages. So, this was their tangible assets. Then intangible assets also -Toyota was far ahead of others including Ford. Because Toyota's reputation, brand name itself is a strong strength compared to other companies and they had a strong quality control culture in the organizations and that is enviable.

And they have a global business system, all are very strong, which leaves them way ahead of their competitors. Also, they have the capabilities. They are far ahead from others. They have global distribution systems. They have a good relationship management with many stakeholders like with suppliers, with franchisers, with the laborers.

So, they have a good relationships management. And also, they were marketing savvy and speedy. They were able to take speedy decision- making. All these are very conducive for taking competitive advantage. So, for 25 years, they were way ahead of Ford motors and other companies.

But what happened in 2009 - the financial crunch and in 2007, 2008 during that time and afterwards all the companies including automobiles companies in the world faced a financial crunch. Toyota also felt it, Ford also felt it and others also felt it. But during this period, Toyota was suffering from complacency. Because, for 25 years they are way ahead .

So, there were some serious issues of the quality control, quality issues, their distinctive competence that also deteriorated. They were leveraging those competencies and had an advantage but that also deteriorated. And Ford was actually sliding down in 2000s onwards heavily and they came to the nadir - bottom point.

So, they had to reinvent themselves out of necessity. So, theywere, in fact, having outdated plants, their equipment were not very state-of-the art equipment. So, they had to reinvent them, their workforce was bloated, organization as a whole was bloated, the decision-making is very slow. So, they had to, what they did? They did some drastic actions.

So, they shutdown those plants which were not profitable. They had sold-off equipment, which were dilapidated. So, they cutdown the workforce to get rid of those bloated workforce and they became much slimmer organizations, and they conceived and designed new car - new car those are compatible with the fuel-efficient, (those are fuel efficient) compatible to the topmost automobile makers and all.

So, they turnaround - they did it - a tremendous turnaround. And they found the glitches of the Toyota. Toyota in the meantime, (during those 2010-12 and so), they had to recall millions of cars across the globe because of quality issues, and Ford established themselves as a slimmer organization and they also made their dealer network slimmer and more strong and all.

So, it (Ford) came out much stronger and that some of the distinctive capabilities they had developed will be sustainable, which even Toyota will find hard to crack. So, this is what I meant that competitive advantage is time dependent. So, you have to continuously evolve, continuously develop your capabilities and internal resources. There is no room for complacency. So, this is the four features of VIRO framework.

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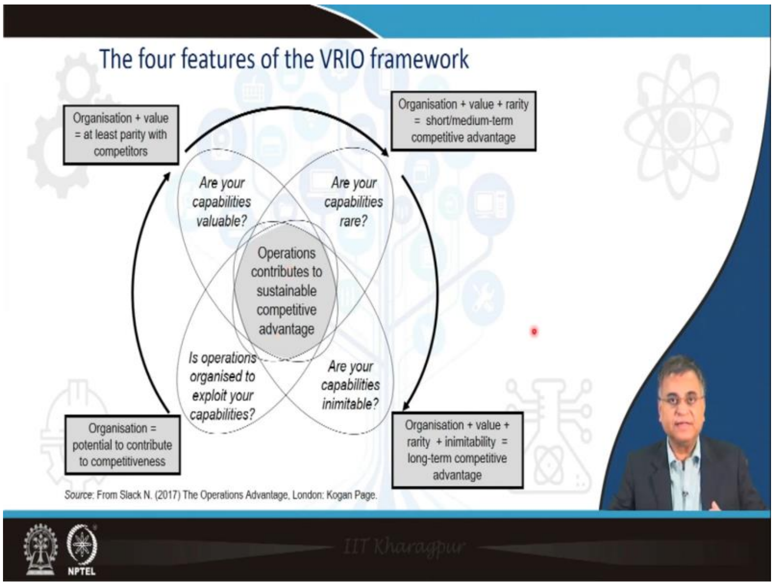

Now, this is the same as that of one earlier. This is another slide like the four features of the VIRO framework. Here, you will find the same thing what I was talking about - (VIRO has four features). Is operation organized to exploit your capabilities? That I talked about it. That means organizations equal to potential to contribute to competitiveness. Then you will ask, are your capabilities valuable?

So, that is your valuable - VIRO, organizations capability plus valuable. It gives you at least parity with your competitors. Then, are your capabilities rare? That means organization capability plus value plus rarity; it gives short- or medium-term competitive advantage. Then, are your capabilities inimitable?

That means organization capability plus value plus rarity plus immutability will give you long term competitive advantage. And all these four that VIRO features, if you have, it will give you - operations contributes to sustainable competitive advantage. The same things we are putting it in a different form. This will give you the sustainable competitive advantage.

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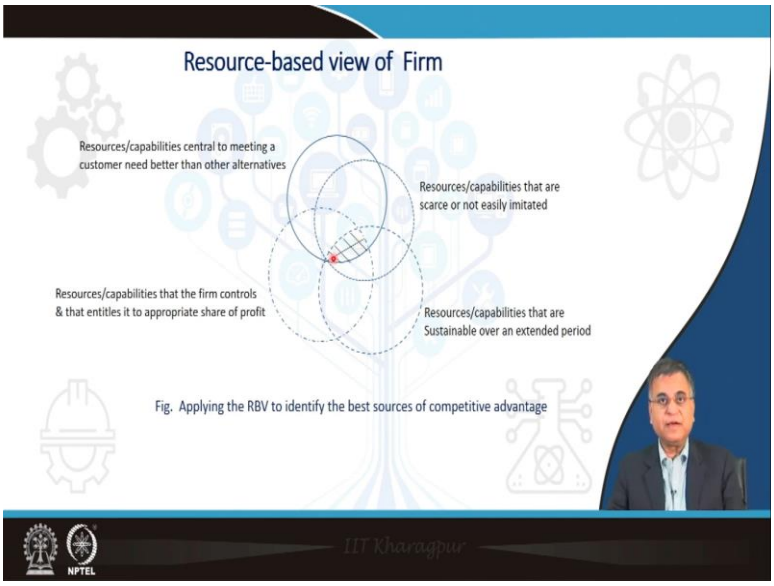

Now, coming to this (slide), the resource capabilities use - this four circles are different capabilities, resource capabilities that are scarce and not easy to imitate, resource capabilities that are sustainable over extended period, resource capability that the firm controls that entities share of profit. So, resource capabilities to meeting customers need. So, if you draw this, this is the area - this is the area one can identify the best resource advantage one can take, this area - this common area of four intersection will give you the best sources of competitive advantage.

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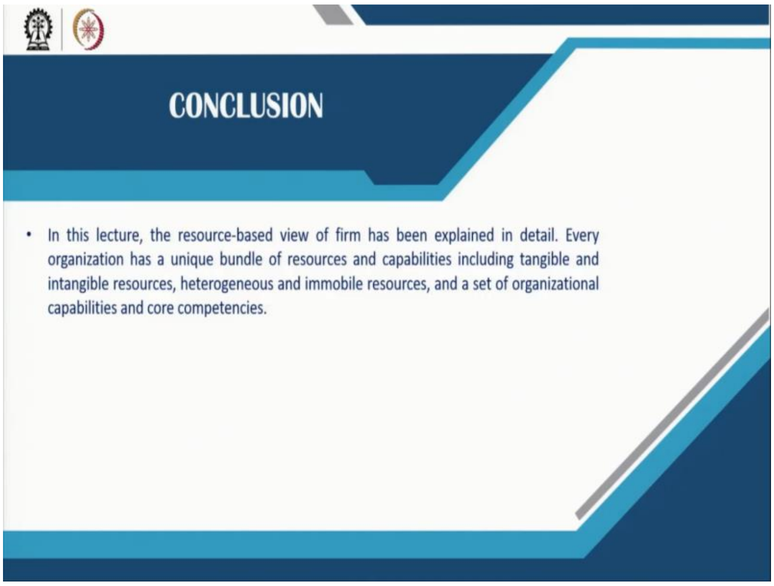

So, what we have discussed today that we conclude. We have learnt the resource-based view of firm and we have also come to know that every organization has a unique bundle of resources and capabilities. That includes tangible and intangible resources, heterogeneous and immobile resources, and a set of organizational capabilities and core competencies. We have further discussed about the importance of VIRO attributes which are valuable, inimitable, rare, and organized to capture these (capability). This would give an organization sustainable competitive advantage.

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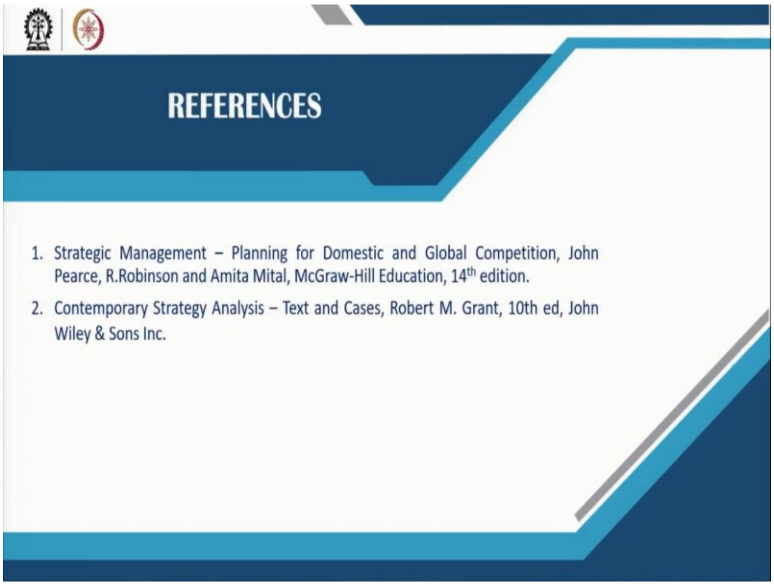

These are some of the references you can go through and enrich yourself. Thank you very much for attending.