Global Business 3e
Chapter 4
Leveraging Resources and Capabilities

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

4-1 define resources and capabilities.

4-2 explain how value is created from a firm’s resources and capabilities.

4-3 articulate the difference between keeping an activity in-house and outsourcing it.

4-4 understand how to use a VRIO framework.

4-5 participate in two leading debates concerning leveraging resources and capabilities.

4-6 draw implications for action.

UNDERSTANDING RESOURCES AND CAPABILITIES

Resource-based view
Certain resources and capabilities specific to one company are not shared by competitors.

SWOT analysis
A tool for determining a firm's strengths (S), weaknesses (W), opportunities (O), and threats (T).

UNDERSTANDING RESOURCES AND CAPABILITIES

Resources (or capabilities)
The tangible and intangible assets a firm uses to choose and implement its strategies.

Tangible resources and capabilities
Assets that are observable and easily quantified.

Intangible resources and capabilities
Assets that are hard to observe and difficult (if not impossible) to quantify.

Table 4.1 **Examples of Resources and Capabilities**

Tangible resources and capabilities	Examples
Financial	Ability to generate internal funds Ability to raise external capital
Physical	Location of plants, offices, and equipment Access to raw materials and distribution channels
Technological	Possession of patents, trademarks, copyrights, and trade secrets
Organizational	Formal planning, command, and control systems Integrated management information systems
Intangible resources and capabilities	**Examples**
Human	Managerial talents Organizational culture
Innovation	Research and development capabilities Capacities for organizational innovation and change
Reputational	Perceptions of product quality, durability, and reliability Reputation as a good employer Reputation as a socially responsible corporate citizen

Sources: Adapted from (1) J. Barney, 1991, Firm resources and sustained competitive advantage, *Journal of Management*, 17: 101; (2) R. Hall, 1992, The strategic analysis of intangible resources, *Strategic Management Journal*, 13: 135–144.

RESOURCES, CAPABILITIES, AND THE VALUE CHAIN

Value chain

Series of activities used in the production of goods and services that make a product or service more valuable

? What do you think are the most important activities in the value chain in the production and sale of a common product, such as a cup or coffee?

RESOURCES, CAPABILITIES, AND THE VALUE CHAIN

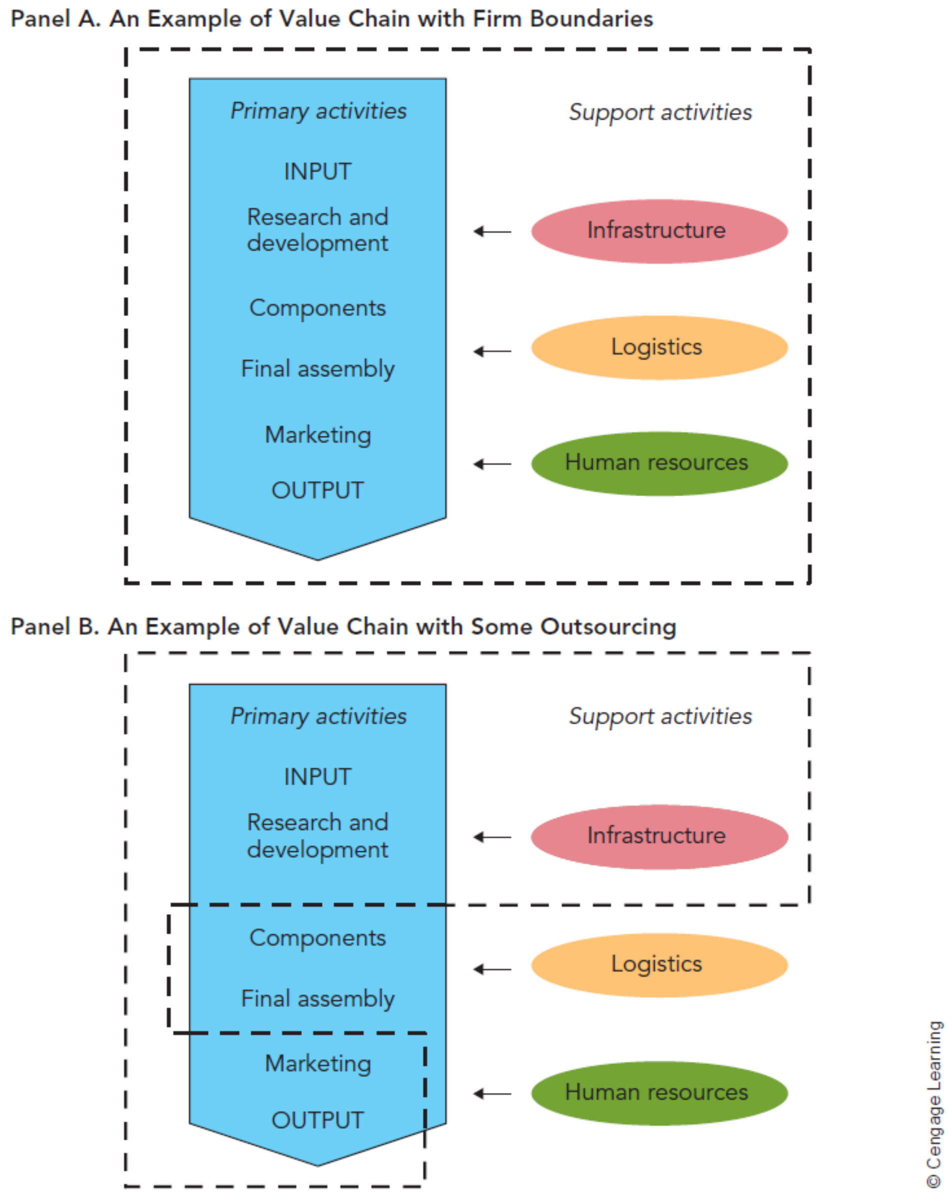
Benchmarking

Examining whether a firm has resources and capabilities to perform a particular activity in a manner superior to competitors

Commoditization

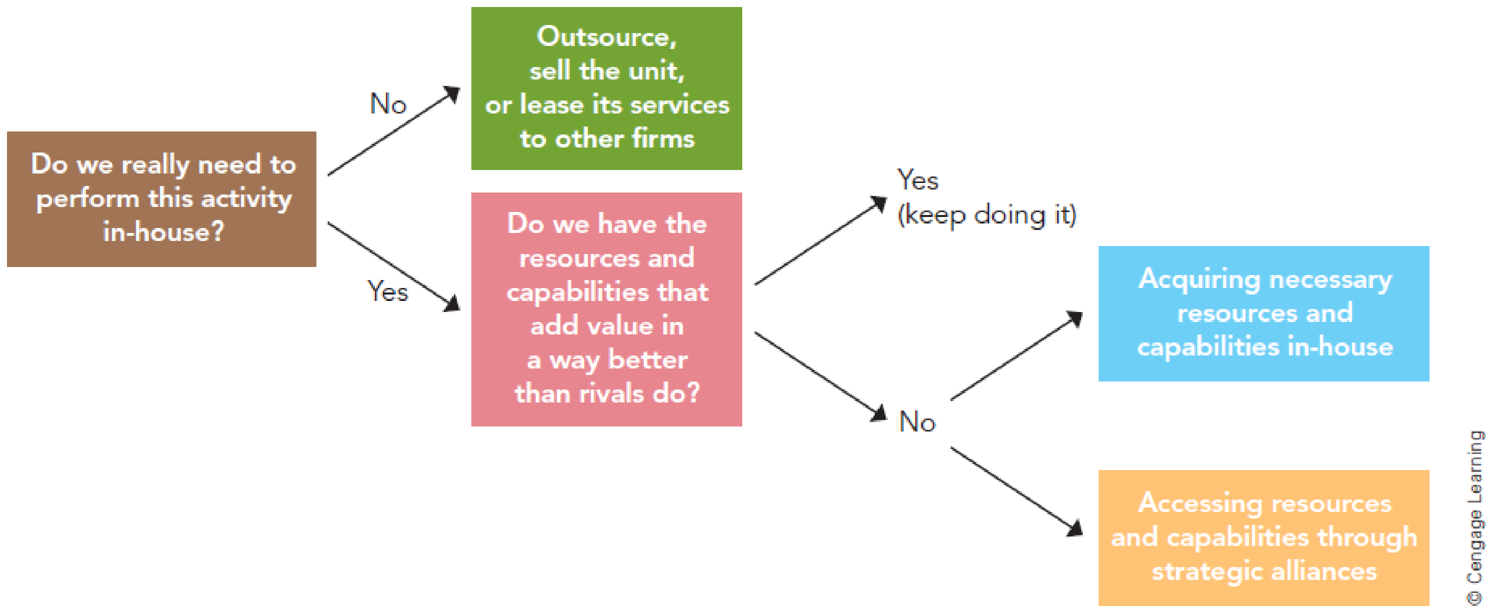
Process of market competition through which unique products that command high prices and high margins gradually lose their ability to do so, thus becoming commodities

Figure 4.1 **The Value Chain**



Note: Dotted lines represent firm boundaries.

Figure 4.2 A Two-Stage Decision Model in Value Chain Analysis



RESOURCES, CAPABILITIES, AND THE VALUE CHAIN

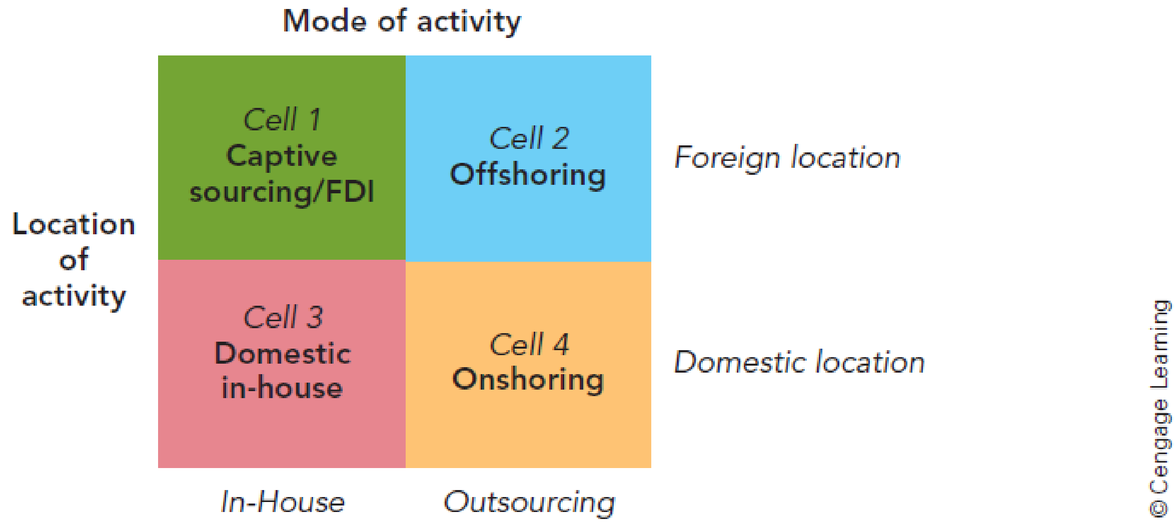
Outsourcing
Turning over an organizational activity to an outside supplier that will perform it on behalf of the focal firm.

Captive sourcing
Setting up subsidiaries abroad so that the work done is in-house but the location is foreign. Also known as foreign direct investment (FDI).

Offshoring
Oursourcing to an international or foreign firm.

Inshoring
Outsourcing to a domestic firm.

Figure 4.4 **Location, Location, Location**



Note: "Captive sourcing" is a new term, which is conceptually identical to "foreign direct investment" (FDI), a term widely used in global business. See Chapter 6 for details.

Table 4.2 **The VRIO Framework: Is a Resource or Capability . . .**

Valuable?	Rare?	Costly to imitate?	Exploited by organization?	Competitive implications	Firm performance
No	—	—	No	Competitive disadvantage	Below average
Yes	No	—	Yes	Competitive parity	Average
Yes	Yes	No	Yes	Temporary competitive advantage	Above average
Yes	Yes	Yes	Yes	Sustained competitive advantage	Persistently above average

Sources: Adapted from (1) J. Barney, 2002, *Gaining and Sustaining Competitive Advantage*, 2nd ed. (p. 173), Upper Saddle River, NJ: Prentice Hall; (2) R. Hoskisson, M. Hitt, & R.D. Ireland, 2004, *Competing for Advantage* (p. 118), Cincinnati: South-Western.

Table 4.3 **Benefit of $1 US Spending on Offshoring to India**

Benefit to the United States	$	Benefit to India	$
Savings accruing to US investors/ customers	0.58	Labor	0.10
Exports of US goods/services to providers in India	0.05	Profits retained in India	0.10
Profit transfer by US-owned operations in India back to the US	0.04	Suppliers	0.09
Net direct benefit retained in the United States	*0.67*	Central government taxes	0.03
Value from US labor reemployed	0.46	State government taxes	0.01
Net benefit to the United States	*1.13*	*Net benefit to India*	*0.33*

Source: Based on text in D. Farrell, 2005, Offshoring: Value creation through economic change, *Journal of Management Studies*, 42: 675–683. Farrell is director of the McKinsey Global Institute, and she refers to a McKinsey study.

ANALYZING RESOURCES AND CAPABILITIES WITH A VRIO FRAMEWORK

Resource-based view focusing on the value (V), rarity (R), imitability (I), and organizational (O) aspects of resources and capabilities

VALUE

- Value-Adding resources lead to competitive advantage

RARITY

- Valuable and rare resources provide competitive advantage
- Valuable and common resources at best lead to competitive parity

? When you think of a commonly known firm, what are some of the rare resources it possesses?

IMITABILITY

Valuable and rare resources offer competitive advantage when they are hard for competitors to imitate

Causal ambiguity

Difficulty of identifying the actual cause of a firm's successful performance

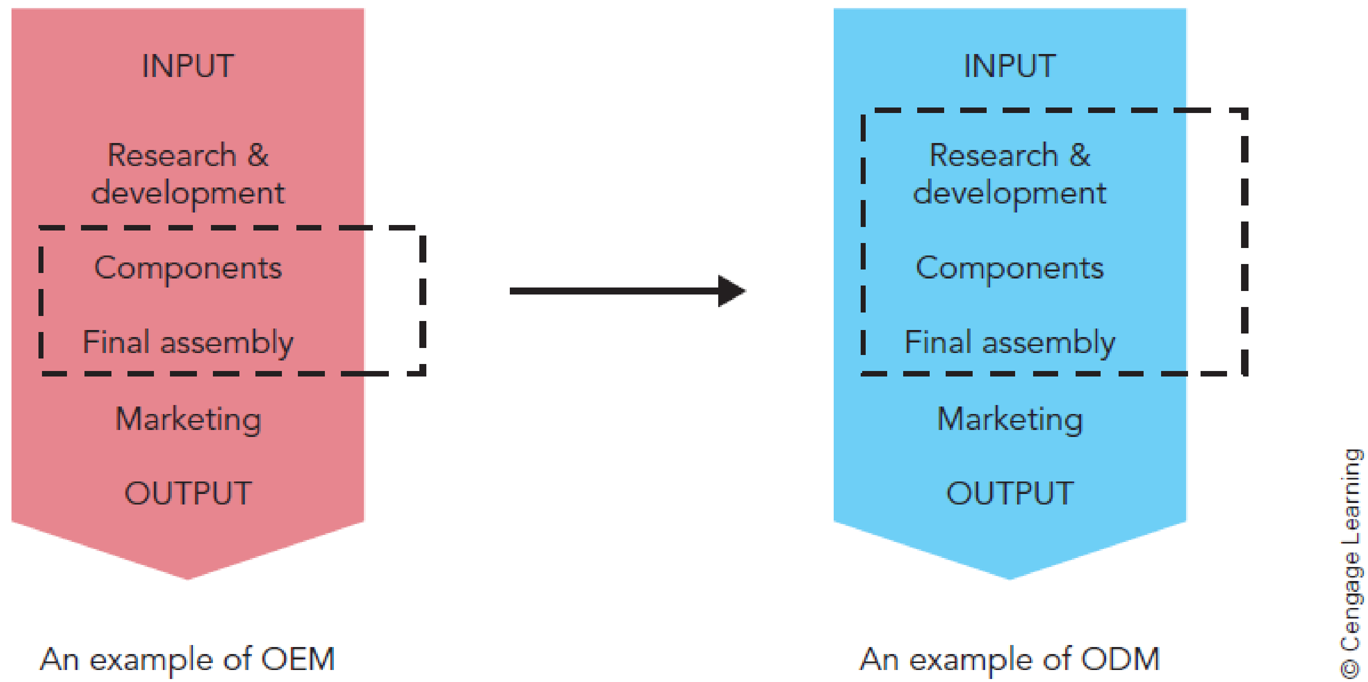
ORGANIZATION

Firms must be properly organized to take full advantage of the resources and capabilities they possess

Complementary assets
Combination of numerous resources and assets that enable a firm to gain a competitive advantage

Social complexity
Socially intricate and interdependent ways firms are typically organized

Figure 4.5 **From Original *Equipment* Manufacturer (OEM) to Original *Design* Manufacturer (ODM)**



Note: Dotted lines represent organizational boundaries. One further extension is to become an original *brand* manufacturer (OBM), which would incorporate brand ownership and management in the marketing area. For graphic simplicity, it is not shown here.

OFFSHORING OR NOT?

Original equipment manufacturer (OEM)

Firm that executes design blueprints provided by Western firms

Original design manufacturer (ODM)

Firm that executes manufacturing based on their own design blueprints

Original brand manufacturer (OBM)

Firm that executes manufacturing based on their own design blueprints and sells the product under their own brand name

Table 4.4 Implications for Action

- Managers need to build firm strengths based on the VRIO framework.
- Relentless imitation or benchmarking, while important, is not likely to be a successful strategy.
- Managers need to build up resources and capabilities for future competition.
- Students need to make themselves into "untouchables" whose job cannot be easily outsourced.