

Firm Resources: Competitiveness & Growth (Mike Peng & Klaus Meyer, International Business)

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Special Topics in Internationalization

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- 1. Introduction**
2. Identifying Resources & Capabilities
3. Appraising Resources: The VRIO Framework
4. Applying Resource Analysis: Benchmarking
5. Implications for Practice

Opening Case: SAP



■ General Information

❖ How SAP Grew

- **When:** Founded by 5 former IBM engineers in Mannheim in June 1972.
- **Where:** HQ located in Walldorf, Germany.
- **Size:** 55,765 employees (2011)
- **Turnover:** 1 billion (1993) => 31.2 billion (2023)

❖ What SAP Sells

- **Enterprise Resource Planning (ERP)**
 - ✓ ... provides electronic information systems that integrate data from (1) **manufacturing efficiency**, (2) **inventories** & (3) **sales & customer feedback**.

✓ ERP software is like the **brain** of a company to gather information & convey it to decision-makers in **real time**.





■ Why SAP is Successful? (Part 1)

❖ Internationalization of R&D Operations

- 8 centers around the globe.
- **Silicon Valley:** An ideas factory to stay in touch with the latest trends.
- **India:** The development of specific components.
- **Walldorf:** The hub for development & marketing activities.

➔ ✓ The internationalization helped SAP to tap into **human capital** in the world.

❖ Organizational Flexibility

- **New generations** of technology.
- **New ways** of organizing software & its delivery.
- The **ERP** landscape toward software-based & web services-based activities.
- Special emphasis on **speed of innovation**.

➔ ✓ SAP is flexible in **adapting** their business model to **unpredictable, fast global software industry**.



■ Why SAP is Successful? (Part 2)

❖ Better Customer Services

- The **skills** of SAP's software engineers.
- The **practical knowledge** of SAP's consultants.
- SAP's network of **specialized business partners** helping to implement its software.


➔ ✓ Capabilities in **reliable customer support** enables SAP to retain the trust of its loyal customer base.

❖ Quality & Reliability of Engineering

- Producing **reliable, high-quality software**.
- Capabilities in operation 'come alive' in the processes by which **SAP's employees & partners interact** to create a unique service.

➔ ✓ Attaching the importance to **quality** is a key to success.



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Identifying Resources & Capabilities



■ The Resource-Based View of the Firm

- ❖ ... attaches importance to the logic that a firm's competitive advantage lies in its **internal organization** (Barney, 1986).
- ❖ ... originated in **Penrose's** (1959) "*Theory of the Growth of the Firm*", offers crucial insights into corporate strategy.
- ❖ ... is that different internal resources in different firms shape their own capabilities that become **competitive advantages**.
- ❖ Collis & Montgomery (1995) develop five analytical indicators:
 - **Inimitability**: Is the resource hard to copy?
 - **Durability**: How quickly does the resource depreciate?
 - **Appropriability**: Who captures the value that the resource creates?
 - **Substitutability**: Can a unique resource be trumped by a different resource?
 - **Competitive superiority**: Whose resources are really better?

Identifying Resources & Capabilities



■ The Distinction Between Resources & Capabilities

RESOURCES



- > The **tangible & intangible assets** as well as **human resources** that a firm uses to choose & implement its strategies.
- > **Tangible assets:** Financial & physical assets.
- > **Intangible assets:** Technical & reputational assets.
- > **Human resources** (or human capital): Individual employees' skills, talents & knowledge through experiential learning & their capacity for collaboration & communication.

CAPABILITIES



- > ... are firm-specific abilities to use resources to achieve organizational objectives.
- > ... are harder to observe & more difficult to quantify.
- > No firm is likely to generate competitive advantage by relying on primary resources !
- > ... refer to abilities to connect different stages of **the value chain**.
- > **Five major function capabilities (Please see the next slide!)**

Identifying Resources & Capabilities



■ Examples of Functional Capabilities

1	Corporate Functions	<ul style="list-style-type: none">> Ability to attract & manage financial resources.....> Exxon Mobil> Strategic innovation> Google> Strategic management of multiple businesses.....> GE, P&G
2	Research & Development	<ul style="list-style-type: none">> Design capabilities.....> Samsung> Innovative new product development.....> Apple, Sony> Fast-cycle new product development.....> Zara, Canon
3	Operations	<ul style="list-style-type: none">> Flexibility & speed of response.....> Zara> Continuous quality improvement in manufacturing.....> Toyota> Efficiency in volume manufacturing.....> Hon Hai
4	Marketing	<ul style="list-style-type: none">> Brand management.....> P&G> Reputation for quality.....> BMW> Responsiveness to market trends.....> L'Oreal
5	Sales & Distribution	<ul style="list-style-type: none">> Efficiency of order processing & distribution.....> Dell, Amazon> Effective distribution management> Walmart> Quality & effectiveness of customer service.....> SAP



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■ How to Know How Useful a Firm's Resources are?

❖ The **VRIO framework** focuses on the value creation (**V**), rarity (**R**), inimitability (**I**) & organization (**O**) aspects of resources.

❖ Value creation

- The evolution of IBM: **Tabulating machines** (1930s) → **mainframes** (1960s & 1970s) → **PC** (1980s) → **software** (1990s)
- As competition for hardware was heating up, IBM's core capabilities in hardware not only added little value but also increasingly became core rigidities that stood in the way of the firm **moving into new areas**.
- As a result, IBM **sold its PC division to China's Lenovo** in 2004.

❖ Rarity

- Consider the case of **SAP software** (*i.e.*, ERP): Businesses have to compete on how to use the software most effectively.
- Indian IT company **Wipro**: 'IP (Intellectual Property) blocks' – developing & keeping the technology in-house.

Appraising Resources: The VRIO Framework



■ How to Know How Useful a Firm's Resources are?

❖ Inimitability

- Value resources will disappear quickly if competitors can imitate them.
- It is relatively easy to imitate many *tangible* resources (e.g., plants)
- However, it is a lot more challenging and often imitate *intangible* capabilities (e.g., tacit knowledge, superior motivation & managerial talents).
- **QUESTION:** Why is it difficult to imitate? **ANSWER:** **Social complexity**
 - ✓ Resources & capabilities **are socially embedded in people & organizations.**



- ✓ Why do Italian fashion houses stay ahead in the world of fashion for decades?
- ✓ Is it the networks of small firms in Northern Italy?
- ✓ Is it the experience of designers growing up in a fashion-oriented culture? What about training?



✓ Developing **hard-to-imitate resources** leads firms to be competitive !



■ How to Know How Useful a Firm's Resources are?

❖ Organization

- Even value creating, rare & hard-to-imitate resources may not make a firm competitive if the firm is not **properly organized**.
- **Appropriability** refers to the ability of the firm to exploit or appropriate the values of resources & capabilities.
- **How to appropriate** the values for itself?
 - ✓ Company's **formal reporting structure**;
 - ✓ **Informal means** to **encourage employees**;
 - ✓ Budgeting & reporting activities to monitor each other through **monetary incentives**;
 - ✓ Both **formal & informal means** to make sure that **managers' decisions along with a firm's strategy**; &
 - ✓ Effective **strategic planning process**.



■ Lego's Secret

Identify Lego's core competency & evaluate the quality of their resources in an extension of the VRIO framework.

BEATRICE CAPITANIO,
ESTER NIKHASANAJ
JULIA ANDRASZAK




■ Rolls-Royce - Evolving Capabilities

Evaluate what makes **Rolls-Royce** so competitive.

JAMES ARRAN GALLAGHER
GREGORIO MORELLI
LUCA RUBERTO



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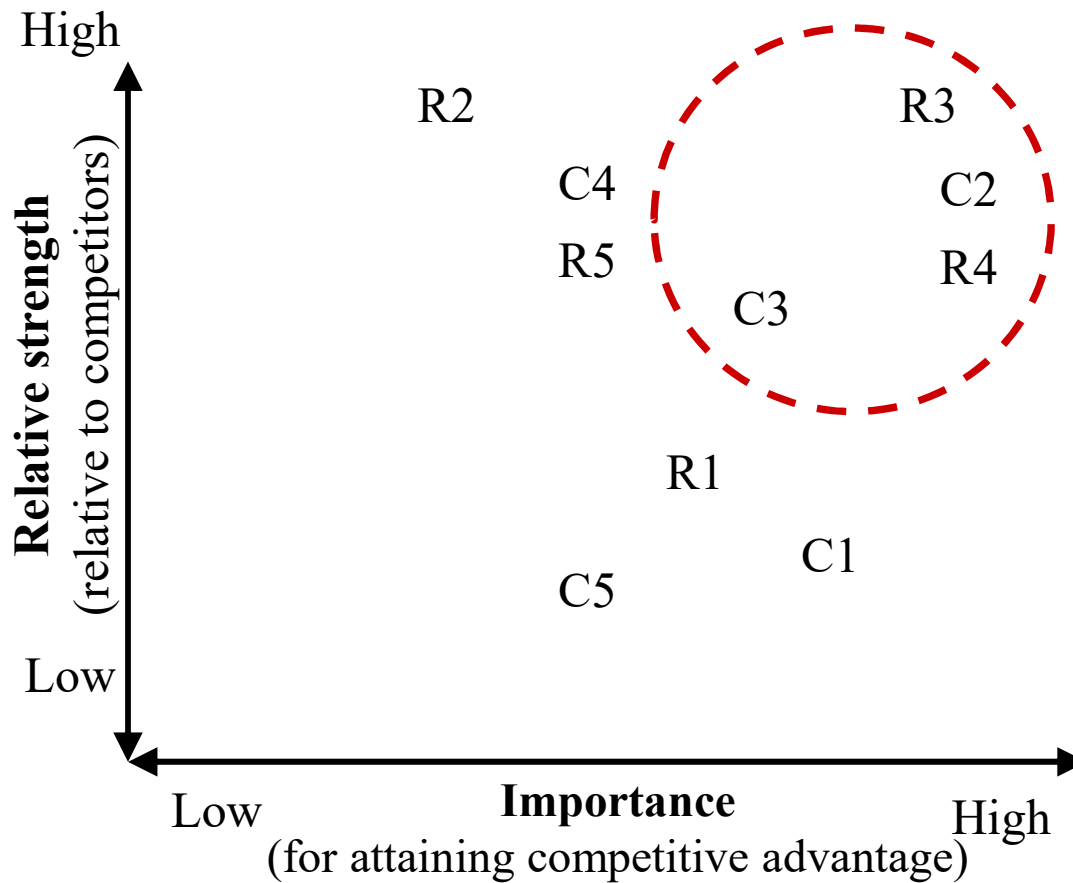
Applying Resource Analysis: Benchmarking



■ What is Benchmarking? →

✓ '... is a key tool for analyzing resources compared against competitors'.

Benchmarking



Comments

> Resources

R1: Motivated workforce

R2: International board

R3: Network of partners & consultants

R4: Loyal customers base

R5: Reputation for reliability

> Capabilities

C1: Speed of product development

C2: Ability to provide customer support

C3: Ability to deliver reliable products

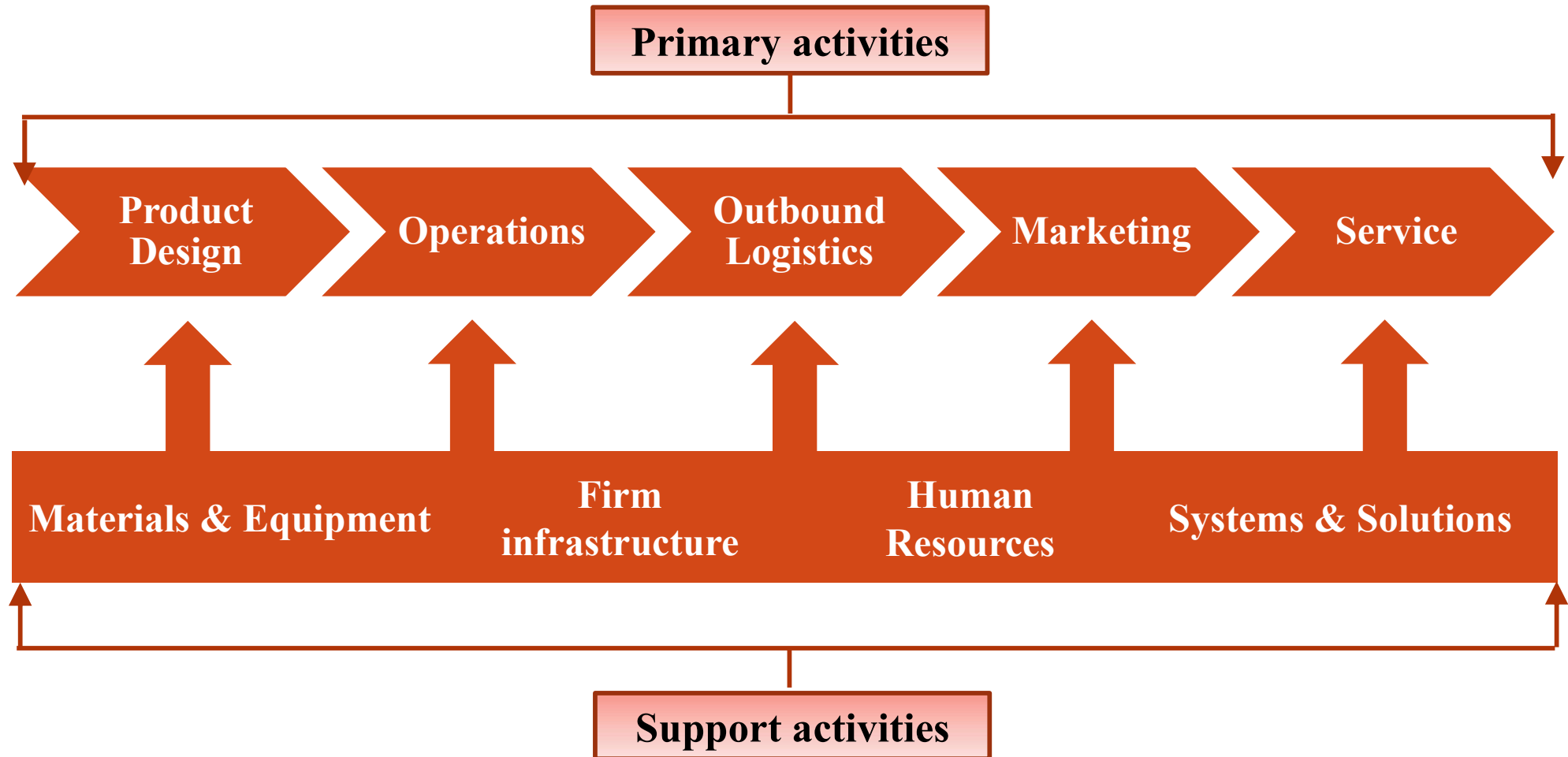
C4: Ability to integrate different customer needs

C5: Entrepreneurial drive to develop new products

Applying Resource Analysis: Benchmarking



■ The Firm as Value Chain



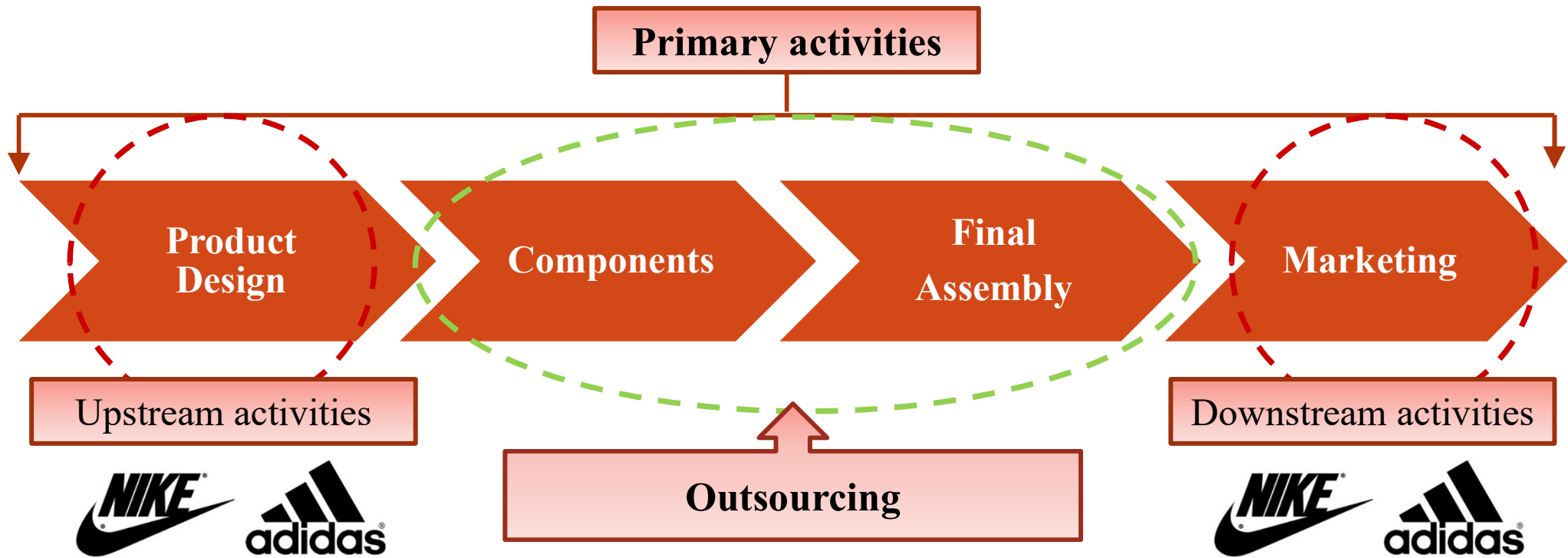
Applying Resource Analysis: Benchmarking



■ How to Overcome a Strategic Weakness?

❖ Application: Outsourcing

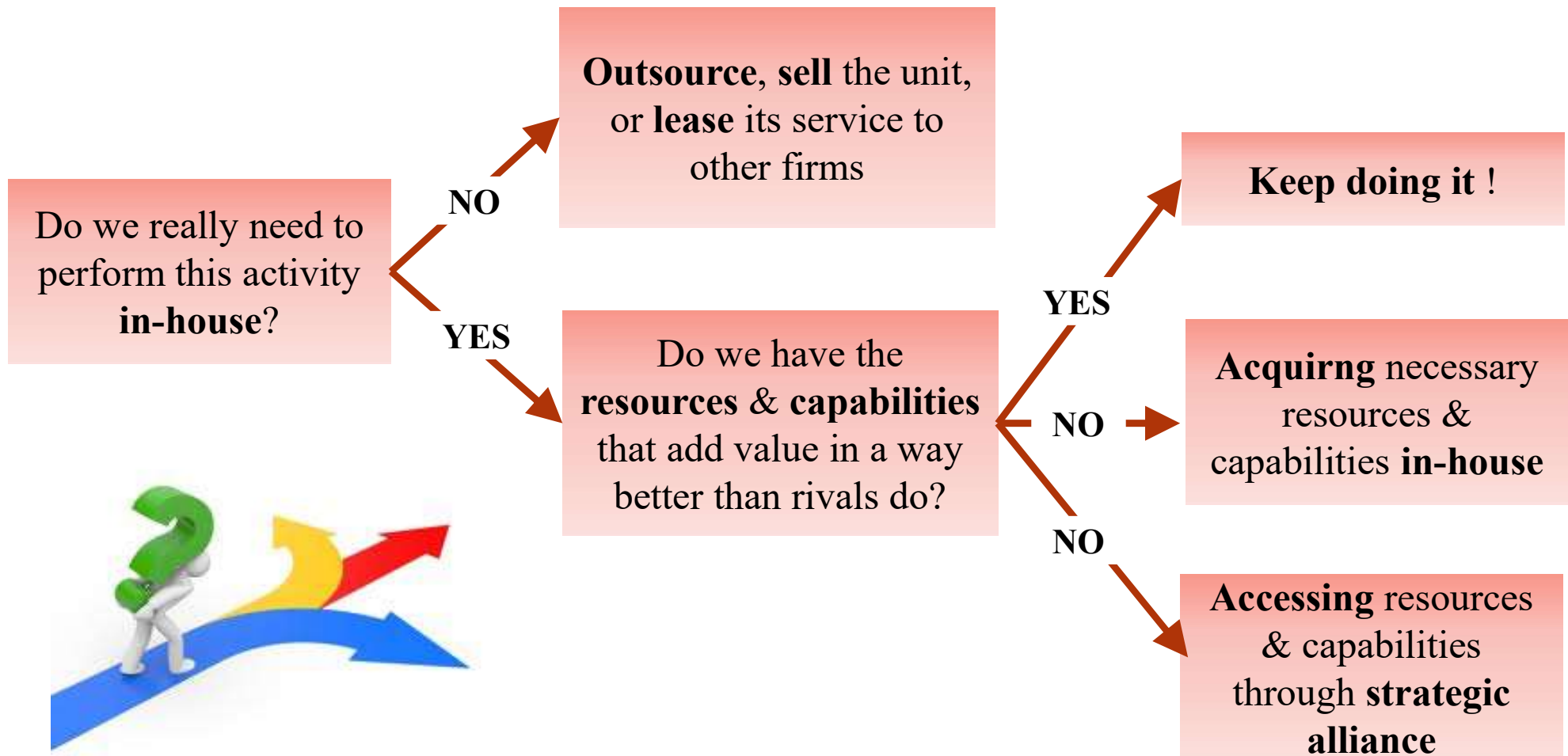
- ... is defined as shifting over an organizational activity to **an outside supplier** that will perform it on behalf of the focal firm.



Applying Resource Analysis: Benchmarking



■ A '2'-Stage Decision Model in Value Chain Analysis



Applying Resource Analysis: Benchmarking



■ Application: Offshoring

		Location of Activity	
		At home	Abroad
Mode of Activity	Internal	Domestic In-house	Captive Offshoring
	External	Domestic Outsourcing	Offshore Outsourcing

KEY WORDS

- > **Offshoring:** Moving an activity to a location abroad
- > **Offshore outsourcing:** Outsourcing to another firm doing the activity abroad
- > **Domestic outsourcing:** Outsourcing to a firm in the same country
- > **Captive offshoring:** Setting up subsidiaries abroad



■ Long-Term Consequences of Offshoring

❖ Offshore Outsourcing

- The offshoring of increasingly high-end services
- Digitalization of service work led Indian firms to get engaged in all sorts of **business process outsourcing**.
- Indian firms' revenues:

€3 billion (1998) => **€500 billion** (by 2030)

❖ Original Equipment Manufacturer (OEM)

- Offshoring service providers are gradually moving up the value chain.
- Many Asian firms which used to be **original equipment manufacturers (OEMs)** are becoming **original design manufacturers (ODMs)** by executing design blueprints provided by Western firms.



Applying Resource Analysis: Benchmarking



■ From OEM to ODM

OEM



ODM

FOXCONN



FLEXTRONICS

BenQ





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Implications for Practice



■ Managers

- ❖ Need to understand their resources based on the **VRIO framework** to optimize their resource exploitation.
- ❖ Need continuously create **new resources**, in part by **benchmarking** against the best, & in part by developing entirely new capabilities that go beyond the competitors' state-of-art.

■ Students

- ❖ Are advised to be active, become informed, get involved & be prepared because it is not only **their** debates on globalization & offshoring; it is **yours** as well.
- ❖ Need to be serious about the advice of the resource-based view of the *individuals* (*i.e.*, **personal capabilities** to **prepare career**).

The End of Today's Lecture



ご清聴有難う御座いました。

Thank you so much!

Vielen Dank für Ihre Aufmerksamkeit!

Grazie mille !

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