

COMM 210

Contemporary Business Thinking

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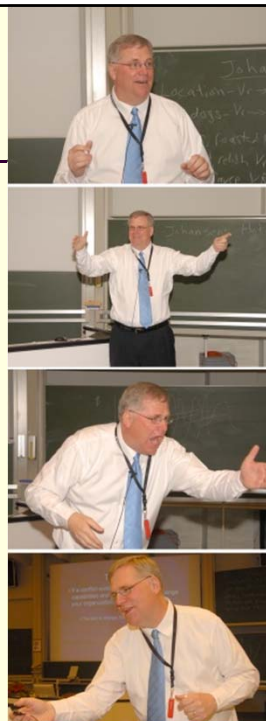
Lecture 4 – Strategy, Resources and Capabilities

Objectives For Today

- Barney: understand how companies develop and maintain competitive advantage
- Be able to find examples of resources and capabilities that are valuable, rare, hard to imitate and organized to be exploited
- Practice in essay-writing: Finding and presenting your own evidence for a claim
- Team project: Sources of evidence

Jay Barney

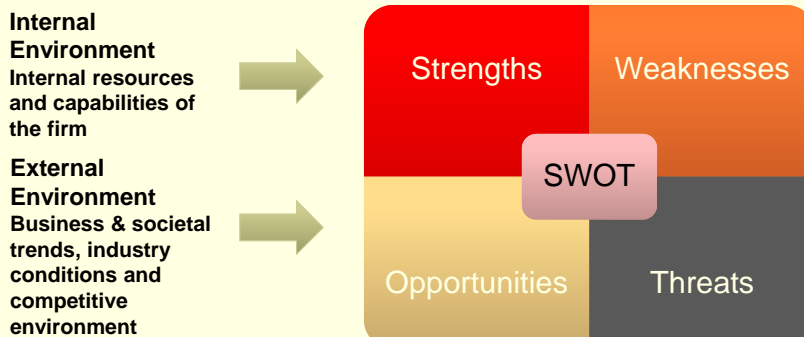
- Jay Barney is one of the most influential contributor within the field of strategy today, and is a professor at Fisher College of Business at Ohio State University.



The SWOT Framework



- SWOT Analysis is the traditional tool for strategic analysis. *It is not Barney's theory*
- SWOT framework has two components: Internal and External Environment analysis



Barney's Article

- Barney's article (Looking inside for competitive advantage) provides a tool to assess the organization internal resources and capabilities

Barney's Major Claims

- A firm will have a sustained competitive advantages if its resources and capabilities are valuable, rare, inimitable and organized in a way that allows to exploit potential opportunities.
- A firm will be successful if it has resources with the right attributes and characteristics

Barney's Major Claims

- The most careful and complete analysis of firms' competitive environments cannot, by itself, explain their success
- Strategists also need to analyze the competitive implications of firms' internal strengths and weaknesses

The Firm's Resources and Capabilities

- Financial, physical, human, organizational assets used by the firm to develop, manufacture and deliver products and services to its customers.
- **Financial:** debt, equity, retained earnings, etc...
- **Physical:** machines, manufacturing facilities, buildings.
- **Human:** experience, knowledge, judgment, wisdom, etc...
- **Organizational:** history, relationships, trust, culture, formal reporting structure, patents, etc....

Four important questions about resources and capabilities

- **The Question of Value:** Does a firm's resources and capabilities enable it to exploit an opportunity, and/or neutralize a threat?
- **The Question of Rareness:** How many competing firms already possess these valuable resources and capabilities?
- **The Question of Imitability:** Do firms without a resource or capability face a cost disadvantage in obtaining it compared to firms that already possess it?
- **The Question of Organization:** Is a firm organized to exploit the full competitive potential of its resources and capabilities?

The Question of Imitability

- The importance of **history**: Valuable and rare resources acquired or developed through unique historical circumstances can be a source of sustained competitive advantage
- The importance of **numerous small decisions**: A firm's competitive advantage seems to depend on numerous "small decisions" (rather than big ones) through which a firm's resources and capabilities are developed and exploited in developing, nurturing and exploiting resources
- The importance of socially complex resources: Reputation, trust, friendship teamwork and culture, while not patentable are much more difficult to imitate

Applying the VRIO Framework Value and Rarity

Applying the VRIO Framework—the value and rarity of a firm's resources		
If a firm's resources are:		The firm can expect:
Not valuable	→	Competitive Disadvantage
Valuable, but not rare	→	Competitive parity (equality)
Valuable and rare	→	Competitive advantage (At least temporarily)

Applying the VRIO Framework Value, Rarity and Inimitable

Applying the VRIO Framework, integrating the notion of Inimitability		
If a firm's resources are:		The firm can expect:
Valuable, rare, but <i>not</i> costly to imitate	→	Temporary competitive advantage
Valuable, rare, and costly to imitate	→	Sustained competitive advantage (if organized properly)

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Applying the VRIO Framework Value, Rarity, Inimitable, Organized Properly

Summary of VRIO, Competitive Implications, and Economic Implications

Valuable?	Rare?	Costly to Imitate?	Organized Properly?	Competitive Implications	Economic Implications
No	No	No	No	Disadvantage	Below
Yes	No	No	No	Parity	
Yes	Yes	No	No	Temporary Advantage	Above (at least for some amount of time)
Yes	Yes	Yes	Yes	Sustained Advantage	Above

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ESSAY WRITING

Land-grabbers or Farmings Future

- Assess whether or not the joint venture between some farmers and Pangea will provide a competitive advantage (temporary or permanent) to those farmers over the ones who do not join the partnership.
- In teams of 4 or 5, you have 15 minutes to do the assessment.
- How would you do that?

Land-grabbers or Farmings Future How to Proceed?

- Identify the Resources and capabilities of farmers who are part of the joint venture
- Assess those resources (using the VRIO framework) to find whether they are valuable, rare, hard to imitate and if the joint venture has the organization in place to exploit these resources
- Depending on your findings assess, whether the farmers who joined the joint venture do have, or not, a competitive advantage over the ones who did not join.
- If they have a competitive advantage, what type is it?

Essay writing: Analysis approach

Assess whether or not the joint venture between farmers and Pangea will provide a **competitive** advantage (temporary or permanent) to farmers who join the organization vs those who do not join the organization

Approach:

1. Brainstorm a rough draft
2. Plan the structure of your essay
3. Write your essay
4. Correct, evaluate and modify

Step 1: Brainstorm a rough draft

- Identify the resources and capabilities of farmers who are part of the joint venture
- Assess those resources to find whether they are valuable, rare, hard to imitate and if the joint venture has the organization in place to exploit these resources
- Depending on your findings, assess whether the farmers who joined the joint venture have, or do not have, a competitive advantage over those who did not join. If they do have a competitive advantage, what type would it be?
- Draw a conclusion which fully answers the original question (i.e., make your **claim**)

Step 1: Brainstorming (continued)

Working in pairs

1. Refine your claim

- Compare your claims
- Help one another to clarify each other's claim

2. Find evidence

- Use Land-grabber's article as well as Barney's article to find **evidence** to support your claim

Step 2: Make a plan for your essay

You may use point form to plan for the

- Structure (claim, intro, paragraphs – number and content- , conclusion)
- Claim (clear, short, in right spot)
- Evidence (should meet 6 qualities of good evidence)
- Mention the theories and theorists' names
 - (e.g.: In Chandler's theory of organizational success.... According to Barney...
 - Why? How does mentioning the theorist(s) improve your essay?

Step 3: Write your essay

- Decide which aspects of your evidence are strongest.
- Write a 2 page essay to present your argument
 - Use a clean sheet and write your name; I will collect the essays
 - Leave a three-inch margin on the left-hand side on the page

Step 4: Evaluate, correct and modify your essay

- With a **different coloured pen**, underline your claim
- Write your comments in the margin
 - About the claim
 - About your evidence with reference to the **6 qualities of good evidence**
 - About the use of Barney's concepts
 - About the structure of your essay
 - Which aspect of you essay is the strongest?
 - How can you improve your essay?

Insightful self-critique is as important as the original essay itself!

Evaluate the Supporting Evidence

Criteria to test the quality of the evidence in a text:

- **Sufficiency**
- **Precision**
- **Accuracy**
- **Authority**
- **Representativeness**
- **Clarity of expression**

Planning future essays

- Thinking ahead...
 - When planning essay exam answers, don't forget to make a clear claim!
 - Your evidence should be Sufficient, Accurate, Authoritative, Clearly expressed, Precise & Representative.
 - **Authority** will come primarily from the classic management theories.

OPEN WIDE

Open Wide: Secondary Sources

This assignment was to help you understand the importance of secondary sources as evidence to support the claim.

Finding Sources of Evidence

- What is the claim of the author of Open Wide and where is it presented?
- What appear to have been the author's sources of evidence?
 - What texts did she read?
 - How many people did she talk to? Who are they? What questions might she have asked them in her interview?
 - What expert views were built in?
 - What statistics were presented; where might they have come from?
 - Where else might the author have found relevant information? Can you think of other sources she might have included?
 - Is the claim clear and well-supported? What else might have been done to increase clarity?

Team Project: Finding Sources of Evidence

- Get together with your team members and discuss the sources on which you will draw in your own developing project
- What types of evidence have you already collected?
- What additional sources have been suggested to you by our discussion?
- Make notes about your discussion that will be useful for your progress report due at class in Week 5 (next week!)

Preparation for Next Week

- Submit the group names for team project
- Readings for next class
 - Textbook (Dyer), **Evidence** (chapter 3)
 - **Greiner: Evolution and revolution as organizations grow**
 - **Aarts: Built for Growth**
 - Team project guidelines posted on **Moodle**
 - Tips for working in teams posted on **Moodle**
- Don't forget to check your mailbox and our class folder on **Moodle**