

Resources and capabilities

RESOURCES AND CAPABILITIES - EXAM LEVEL

Sources: Whittington et al. (2023) chapter 4 and Eisenhardt and Martin (2000), first five pages.
Exam format: Dutch-language with English terms. Keep to the word limit and use the terms literally.

Resource-based view, resources and capabilities

Definition. The resource-based view (RBV) states that the competitive advantage and superior performance of an organisation are explained by its distinctive resources and capabilities. Organisations are heterogeneous and it is hard for one to obtain or imitate the resources and capabilities of another.

Components.

- **Resources:** what we have (nouns). Physical (machines, buildings, patents, systems), financial (balance sheet, cash flow, financiers) and human (managers, employees, partners, suppliers, customers). Access counts too: a strong supplier network that you do not own but can reach.
- **Capabilities** (also: competences): what we do well (verbs). The way resources are deployed and combined: efficiency, flexibility, raising money and managing cash flow, building knowledge and innovating.

When to apply. When the question is why two companies in the same environment perform differently. Analogy from the book: resources are ingredients, capabilities is the cooking.

Pitfalls. Resources are often equated with money; the term is broader. The line between resource and capability is sometimes debatable (the lecturer admits this). Justify your classification briefly: "a network we are part of is a resource, the ability to build and maintain such a network a capability".

Link. Capabilities make Porter's generic strategies possible (module 2): cost leadership or differentiation requires distinctive resources and capabilities.

Threshold and distinctive

Definition. Threshold resources and capabilities are needed to be allowed to compete in a market (qualifiers, "to compete at all"). They lead to **parity**. Distinctive resources and capabilities are the winners: they are valuable to customers and hard to imitate, and form the source of competitive advantage.

Examples. Threshold: administration and financial management in the Dutch small business sector (a price that is too low or fixed costs that are too high sends many small businesses bankrupt). Distinctive: Apple's design and insight into consumer behaviour; AWS at Amazon.

Pitfalls.

- The threshold level shifts: demands of buyers on suppliers rise (IT and logistics). What was distinctive yesterday can be threshold today.
- Outside-in: "unique" only exists relative to a context. Always ask: unique for which customers, which market, which competitors? As with the Five Forces you must define industry boundaries sharply.

VRIO

Definition. Four criteria to test whether a resource or capability yields a sustained competitive advantage. Each criterion is necessary; together they are sufficient. The effect is additive.

Valuable?	Rare?	Inimitable?	Supported?	Implication	Performance
No	-	-	-	competitive disadvantage	below normal
Yes	No	-	-	competitive parity	normal
Yes	Yes	No	-	temporary competitive advantage	above normal
Yes	Yes	Yes	Yes	sustained competitive advantage	above normal

Components.

1. **Valuable:** delivers value to customers and exploits opportunities or neutralises threats, without costs eating up that value. An expensive item on the balance sheet is not automatically valuable. A capability that is unique but not valued by customers is not either.
2. **Rarity:** only one or a few organisations have it (patent, brand, unique location, unique team). Be careful: rarity does not last by itself.
3. **Inimitability:** competitors cannot imitate, obtain or substitute it, or only at high cost (see below).
4. **Organisational support:** structure, processes and systems let the organisation actually exploit the potential. Example from the lecture: an excellent design process does not help if sales and marketing do not bring the new products to market effectively; then organisational support is at "no".

When to apply. Per resource or capability, not per company as a whole. When in doubt choose a smaller part (product design instead of "production"). Begin at the step where the answer becomes "no" and read off the outcome.

Pitfalls. Forgetting to stop at the first "no"; confusing temporary with sustained; forgetting support (many students stop after inimitability).

Sources of inimitability

- **Complexity:** internal linkages (interrelated activities, such as IKEA and Ryanair) and external interconnectedness (dependence on customers or partners, such as Apple and app developers). Capabilities are usually more complex than resources.

- **Causal ambiguity: characteristic ambiguity** (we do not know what to imitate; it is in culture or tacit knowledge) and **linkage ambiguity** (we do not know which activities are connected in which configuration).
- **Culture and history:** taken-for-granted activities and **path dependency**. Only those who have been through the same history can equal it.

Exam fact. Tangible resources can usually be bought or imitated, but exceptions exist (a historic shop building, a geographic location). Capabilities are usually harder to imitate than resources. In the formative test both statements were correct.

Dynamic capabilities

Definition (book, Teece). The ability of an organisation to renew and recreate its resources and capabilities for the needs of a changing environment ("to renew and recreate resources and capabilities").

Why. Resources and capabilities that brought success can be imitated, become commonplace or become redundant. In fast environments competitive advantage is **transient**. Then a portfolio with a pipeline of new initiatives is needed, and dynamic capabilities fill that pipeline.

Components.

- **Sensing:** continuously scanning and exploring opportunities in markets and technology (R&D, market research). A market-pull approach, listening to users, is mainly sensing.
- **Seizing:** addressing opportunities with new products, processes and activities.
- **Reconfiguring:** renewing and rearranging capabilities and investments to be able to work at scale.
- Example from the book: Microsoft, from PC software to cloud (Azure). Also: Nokia could sense and seize, but not reconfigure further.

Eisenhardt and Martin. They call the literature conceptually vague and **tautological**: success is explained by good dynamic capabilities, and these are derived from the success. Their answer: dynamic capabilities are specific, identifiable **routines**, such as product development (Toyota), acquisition routines (Cisco), strategic decision-making and alliance processes. They are learning processes that add new resources. Definition: "the firm's processes that use resources to match and even create market change".

When to apply. For questions about change, innovation, acquisitions and alliances. Making and integrating acquisitions, alliance formation and corporate venturing are examples of dynamic capabilities, but also typical corporate strategy topics (modules 4 and 5).

Pitfalls (exam!).

- Describing dynamic capabilities as "skills that change": too tautological, does not touch the core.
- Only listing sensing, seizing and reconfiguring without explaining what they are. According to the lecturer they are actually outcomes; fine, but abstract. Deepen with a concrete routine.

- Labelling a one-off adjustment as a dynamic capability. The test: is it a skill, specific to the organisation and repeatedly deployable, or a one-off trick?
- Naming the example as “the skill to do xyz”, so with a name.
- Dynamic capabilities are no guarantee: ordinary capabilities can become rigidities.

SWOT and TOWS matrix

Definition. SWOT summarises the strengths and weaknesses from the analysis of resources and capabilities together with the opportunities and threats from the environmental analysis. It is a confrontation of internal and external.

Purpose. Not a long list, but generating strategic options. The **TOWS matrix** links combinations (strengths x opportunities, and so on) to options. This makes SWOT the moment of transition from analysis to strategic choice: generic strategy, growth, internationalisation, M&A or alliance.

Pitfalls.

- *Listing:* lists that are too long. Prioritise, look relative to competitors, and draw concrete conclusions.
- A summary, not a replacement: without underlying analysis (PESTEL, Five Forces, VRIO) SWOT relies on prejudice and vagueness.
- SWOT provides no input for a PESTEL; it is the other way round (formative test).
- Strengths and weaknesses can partly be influenced, opportunities and threats much less.

Link. The same logic is in the BCG matrix: a confrontation of internal (market share) and external (market growth) that directly yields advice (module 4).

Application: Amazon versus Walmart

Use the step plan: (1) threshold and distinctive, (2) VRIO per chosen item, (3) advice.

- **Amazon:** AWS and the network effects of the Marketplace as resources; fine-grained distribution network, Prime Hubs and cloud expertise; the capability to find, acquire and integrate small companies with knowledge and technology.
- **Walmart:** scale (more than 4000 stores), concentration and buying power, systems for inventory tracking and loading; capability in purchasing and distribution.
- **Inimitability** here: complexity (ecosystem), causal ambiguity (how do they exploit all their systems?), path dependency (different history, different reputation with consumers). The lecturer: saying that something is “never” imitable is too strong; “extremely difficult” is better.
- **Advice:** build on your own distinctive capabilities, choose where you do and do not engage in rivalry (Amazon internationally against, for example, Alibaba, not physically against Walmart on its home market), and remember that the case is about retail while AWS is a completely different business (the limit of the case).

Value chain, activity systems and benchmarking

Value chain (section 4.4.2, Porter). The organisation as a set of activities. Primary activities: inbound logistics, operations, outbound logistics, marketing and sales, and service. Support activities (among them procurement and technology development) improve their effectiveness or efficiency. An organisation rarely does everything itself and is therefore part of a **value system**: the inter-organisational links needed to create a product or service. Nuance: the lecturer skipped the value chain in Lecture 3, but it is book material (also in the key takeaways); know at least the basics.

Activity systems. Linked activities that together deliver customer value. Such a system is hard to imitate because of complexity and interlinkages (IKEA, Ryanair), even if a competitor has the map of the system.

Benchmarking. The book names benchmarking, next to VRIO, the value chain and activity systems, as a tool for diagnosing resources and capabilities: compare your own resources and capabilities with those of other organisations.

Connection with other modules

- Module 1: SWOT is the core moment in the rational analytic view of strategy (analysis to choice).
- Module 2: generic strategies need distinctive resources and capabilities; Five Forces requires sharp industry boundaries, just like the outside-in view in VRIO.
- Module 4: acquisitions, corporate venturing and alliances are dynamic capabilities; parenting advantage requires capabilities of the corporate centre.
- Module 5: entry modes (buy, ally, DIY) depend on soft capabilities.