

# International Management

# PLAN FOR THE DAY

Part 1: Discuss the different types of resources and the nature of firm capabilities

- Relate resources and capabilities to the value chain

Part 2: Barney's VRIO framework for analyzing resources and capabilities' potential for improving firm performance

Part 3: Domestic vs International capabilities

- To offshore or not offshore

# PART 1:

## RESOURCES AND CAPABILITIES AND THE VALUE CHAIN

# Resource-based View (RBV) of the Firm

## **Tangible and intangible resources/ assets**

Tangibility implies we can observe or quantify (measure/ count)

Intangibility implies that the resource/ asset is not observable and difficult if not impossible to quantify

## **Capabilities**

These are the things the firm is able to do as a result of combining resources (and capabilities) together to perform a specific task

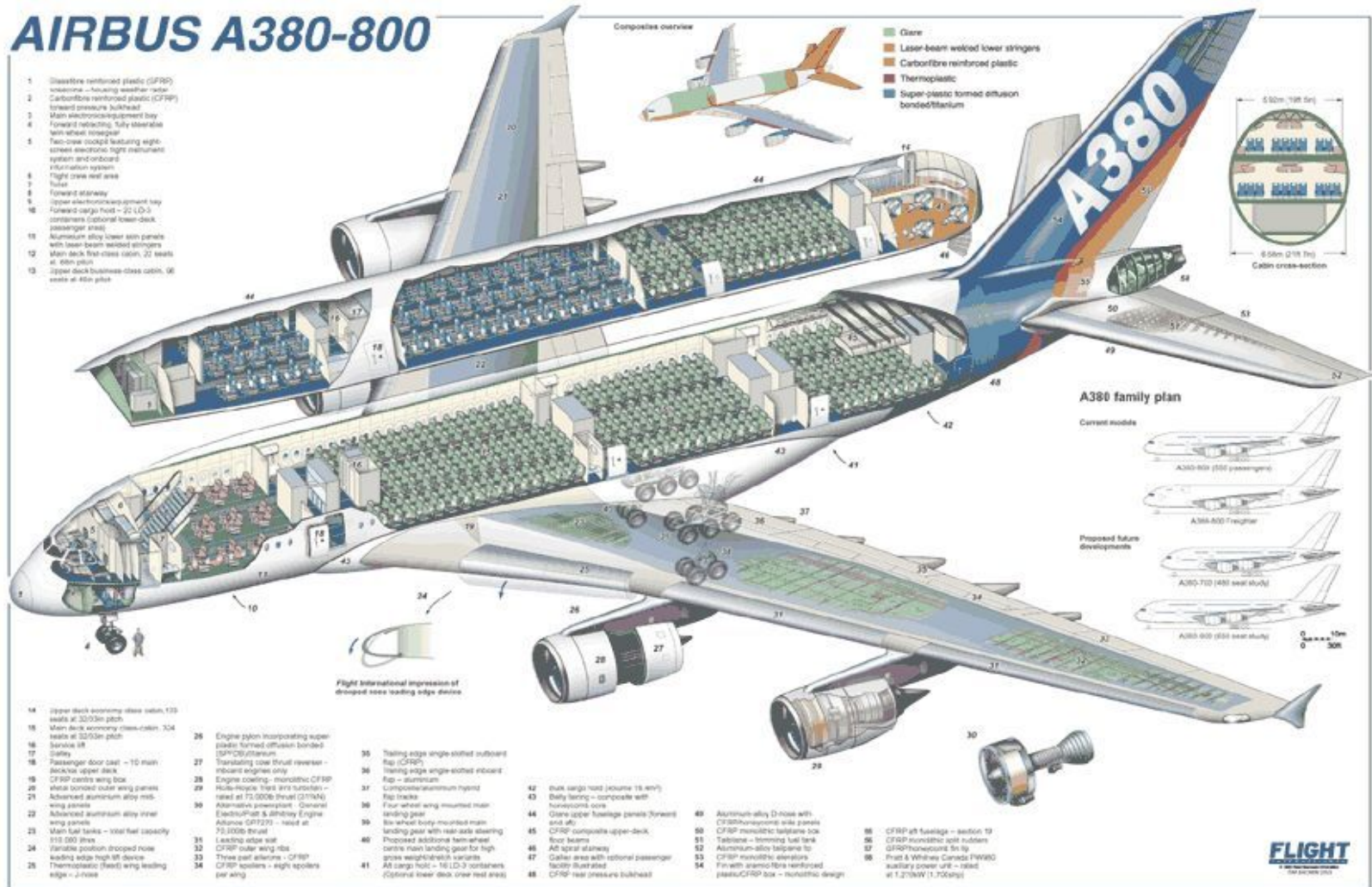
How useful is it to try and separate resources and capabilities from one another, when they interact to such a great degree?

# Resources, Capabilities and the Value Chain

- **Value chain** = the vertical activities that create value
  - Upstream (sourcing/manufacturing) to down stream (selling)
  - Primary and secondary areas of activity in the value chain



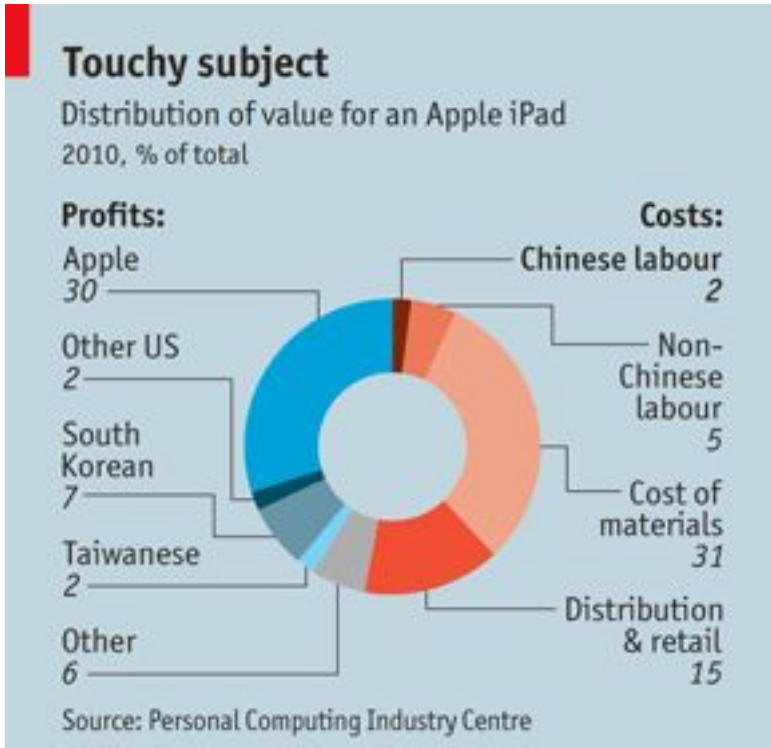
# The Airbus A380 Value Chain?



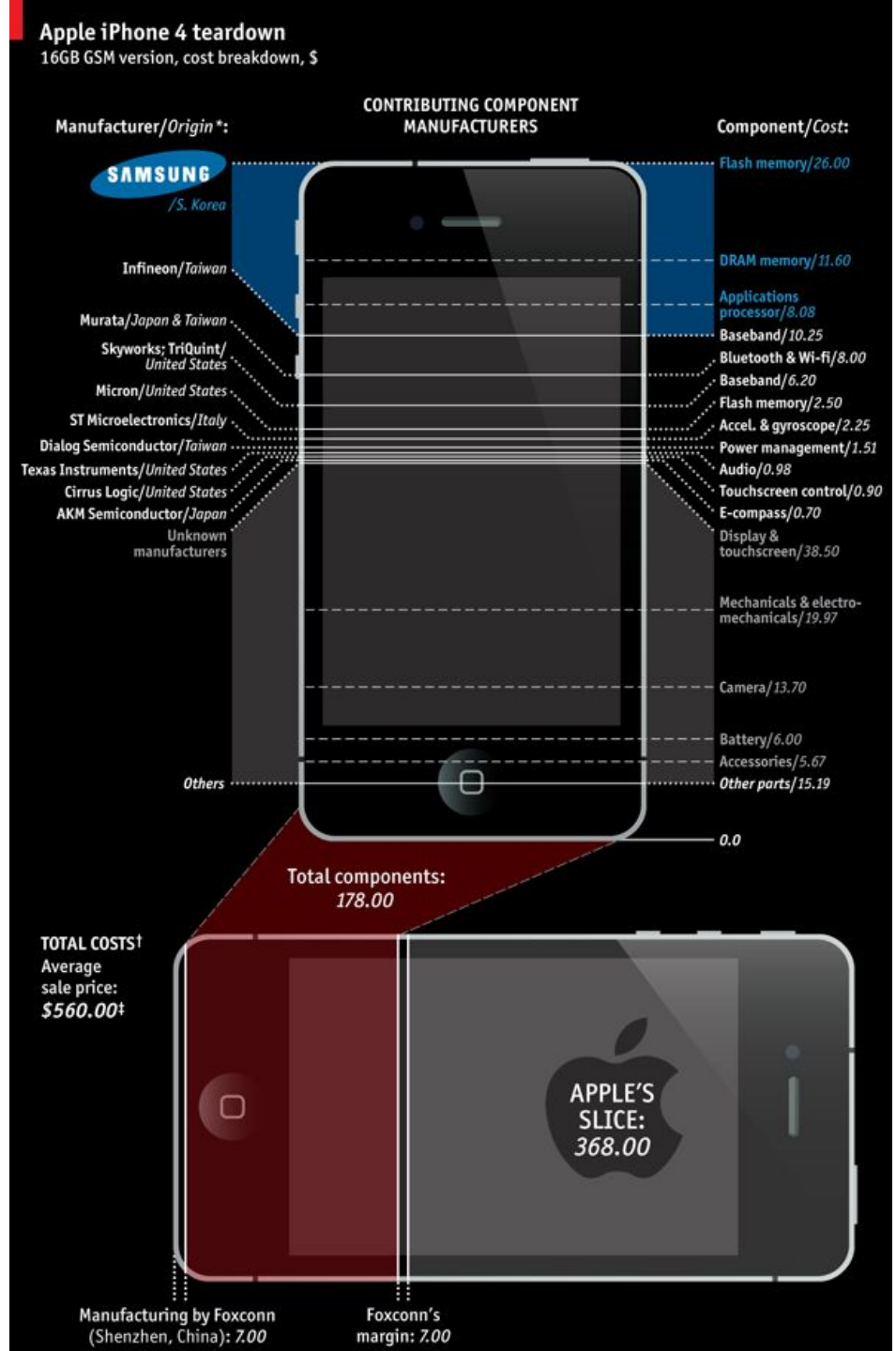
Source: <http://www.flightglobal.com/airspace/media/cutawayposters/airbus-a380-microcutaway-14474.aspx>



# Outsourcing and the Apple iPhone?



Sources: <http://www.economist.com/node/21525685>  
<http://www.economist.com/node/21543174>



# What does Apple Keep In-House?



Apple Campus 2 Project

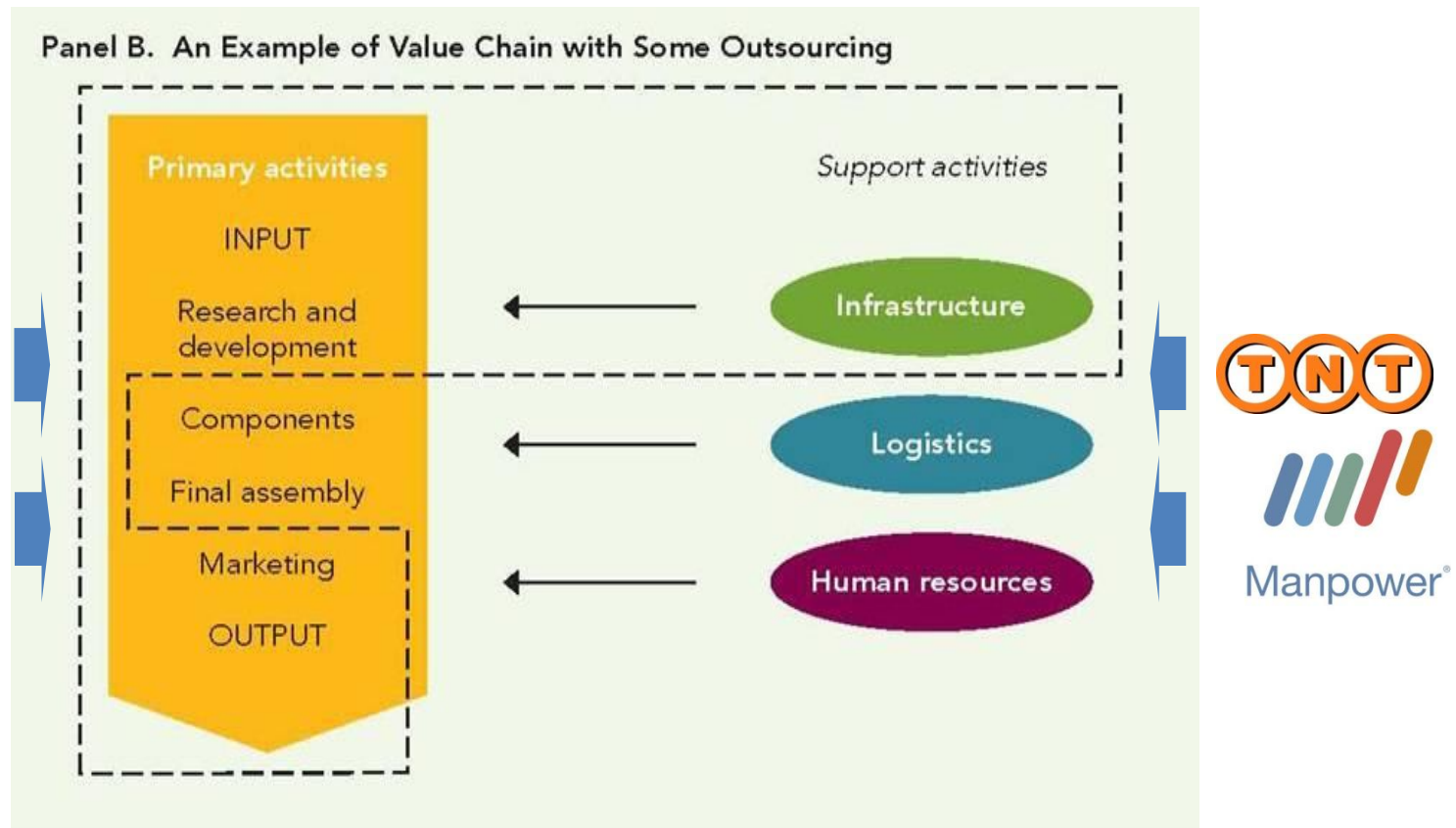


Amsterdam Apple Store



# Example of a Value Chain with Outsourcing

- From the example companies that are included, which could be described as onshore and which offshore?



Note: Dashed lines represent firm boundaries.



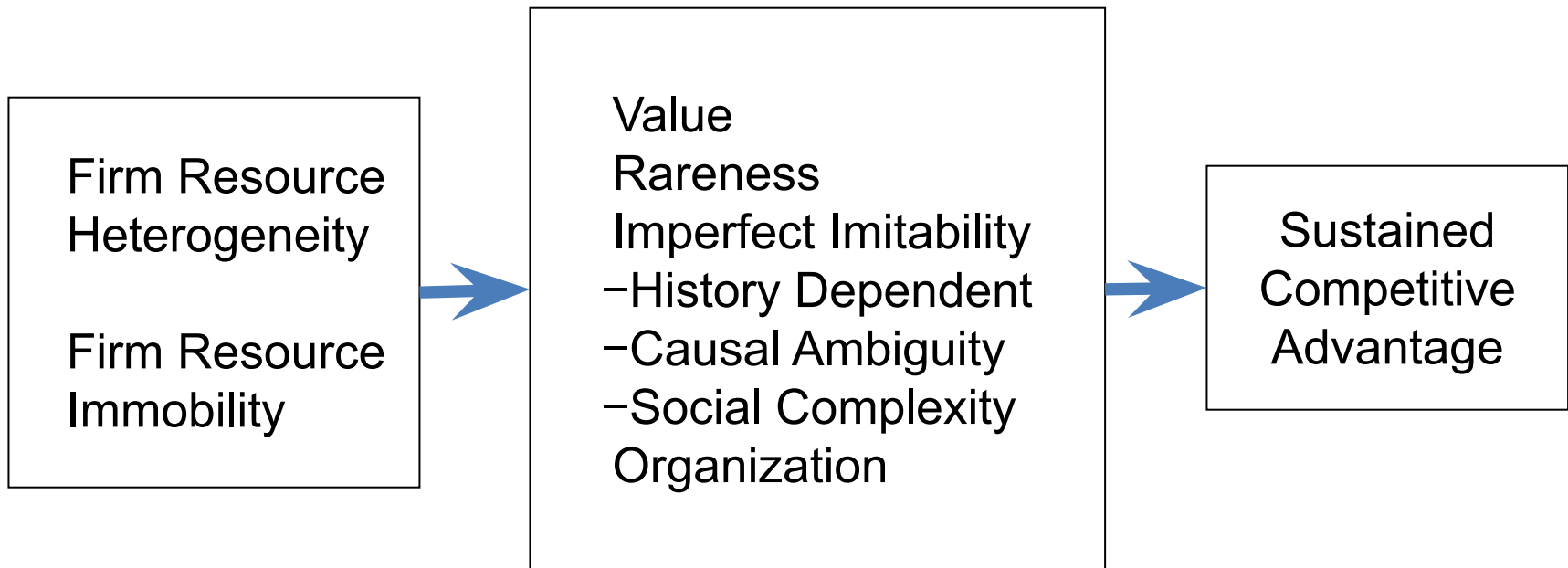
# In-house, Onshoring and Offshoring

Re-shoring?		Geographic Location	
		Home	International
Organizational Location	External	Inshoring (Onshore Outsourcing)	Offshore Outsourcing
	Internal	In-house (Internal Onshore)	Captive Offshoring

# PART 2:

Jay Barney's VRIO Framework

# VRIO and (Sustained) Competitive Advantage



**Source:** Barney J.B. (1995) Looking Inside for Competitive Advantage. *Academy of Management Executive*, 9(4): 49-61.  
Barney, Jay. 1991. Firm Resources and Sustained Competitive Advantage. *Journal of Management* 17(1): 99-120.



# Core Assumptions of the VRIO Framework

- These are the two foundation assumptions for the resource-based view of the firm and strategic management
  - Firm Resource Heterogeneity
  - Firm Resource Immobility

# Resource Attributes for Achieving Sustained Competitive Advantage

- Not all resources will give a firm a SCA
- A resource must have four attributes to provide a SCA
  - It must be **v**aluable
  - It must be **r**are
  - It must be imperfectly **i**mitable
  - The firm needs to be **o**rganized to exploit the resource

# When is a Resource Valuable?

- A resource is valuable only when it enables strategies that improve firm efficiency and effectiveness.
- “The traditional ‘strengths-weaknesses-opportunities-threats’ model of firm performance suggests that firms are able to improve their performance only when their strategies exploit opportunities or neutralize threats” (Barney, 1991; p.106).

# When is a Resource Rare?

- A resource (or bundle of resources) is rare when it is not possessed by many competing firms
- Can you think how conditions that would prevent many firms gaining access to a particular resource or resource bundle?

# When is a Resource Imperfectly Imitable?

- For a resource to give a firm a SCA it must however not only be valuable and rare, it must also be difficult to imitate or obtain
- Three sources of resource imperfect imitability are:
  - Historical dependence
  - Causally ambiguity
  - Social complexity

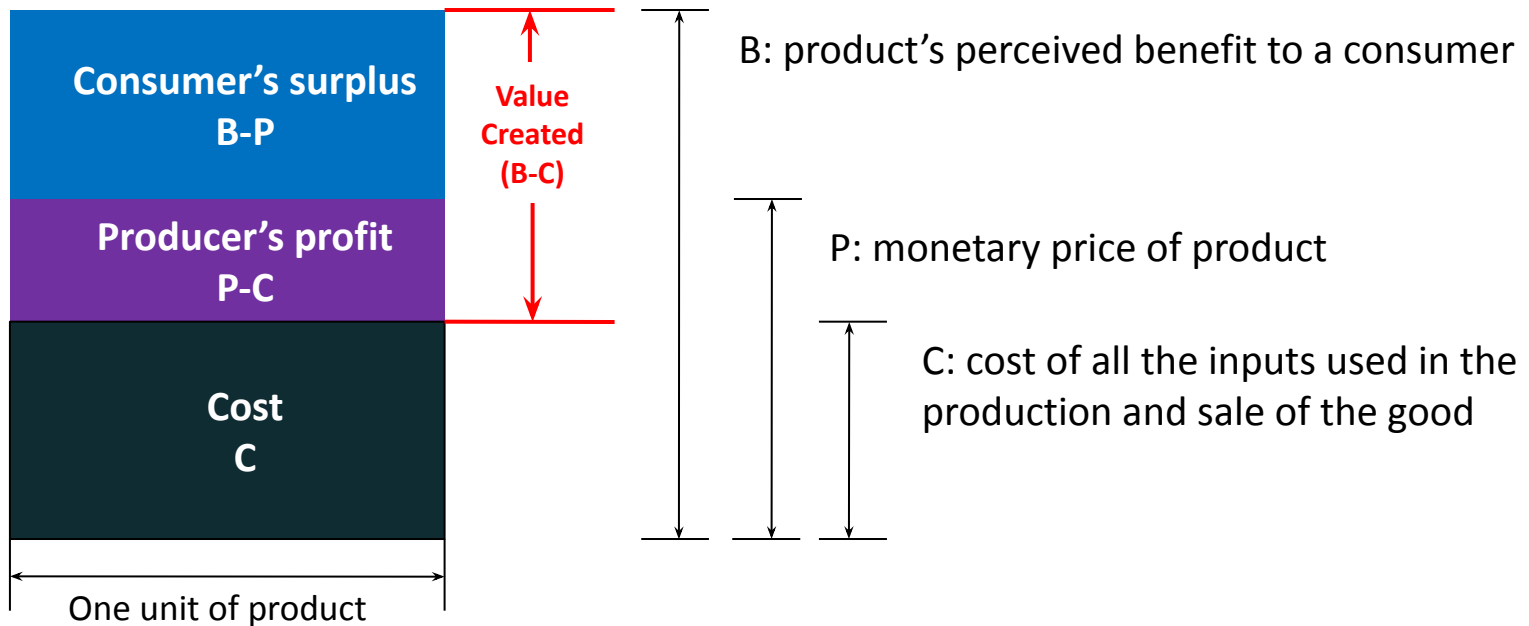


# When is a Firm Organized to Exploit a Resource?

- Organization of the firm is concerned with (amongst other things):
  - The development of new resource(s) / capabilities
  - The exploitation of current resource(s) / capabilities
- Exploration vs exploitation and the multinational enterprise?

# The Concept of Value Created

“Value-created is the difference between the value that resides in the product and the value of the inputs that are sacrificed to make that product”



# Describing Performance Outcomes

Comparison of value created (VC) with a given resource bundle to the expected value (EV) to be obtained (by the owners of these resources):

- Below-Normal Performance:  $VC < EV$
- Normal Performance:  $VC = EV$
- Above-Normal Performance:  $VC > EV$

This provides a relative conceptualization of how well a firm has performed with a given set of resources.

# PART 3:

## DEBATE 1: DOMESTIC VS INTERNATIONAL CAPABILITIES

# RBV of Multinational Management

- International diversification (Dess et al., 1995)
- Subsidiary capability development (Birkinshaw & Hood, 1998; Luo & Peng, 1999)
- International strategic human resource management (ISHRM) (Schuler, Dowling & Decieri, 1993; Beechlor and Napier, 1996)
- Exploitation vs Exploration?



# RBV of Market Entry Decisions

<b>Transaction Cost Economics</b>	<b>Resource-based View</b>
TCE predicts entry modes because of failure in the external market (e.g., licensing) under an assumption of opportunism	RBV attributes such failure to a different underlying assumption, that is, the heterogeneity of firm resources (Capron, Dussauge & Mitchell, 1998)
TCE generally focuses on one-time entries based on a set of relatively static conditions	RBV highlights a dynamic, longitudinal process in which multiple entries take place each building on capabilities and learning from the previous entry experience (Chang, 1995; Chang & Rosenzweig, 2001; Kogut, 1997)
TCE focuses on their exploitation of firm specific advantages	RBV emphasizes both their exploitation and development (Madhok, 1997, p.49)

# RBV of Strategic Alliances

- Since the 1980s, both the corporate world and the academic fields of IB and strategy have experienced an “alliance revolution” (Dunning, 1995).
- While strategic alliances is a multi-faceted phenomenon, the RBV focuses on organizational learning.
- RBV advances a core proposition that capabilities to learn from partners may be a tacit resource underlying a firm’s competitive advantage (Hamel, 1991).
- For MNCs, the intensity and diversity of learning from local partners facilitate local knowledge acquisition and strengthen firm performance in host countries (Luo & Peng, 1999; Makino & Delios, 1996).
- For local firms, learning from MNC parents is likely to enhance survivability and performance (Fahy et al., 2000; Lyles & Salk, 1996).

# RBV of International Entrepreneurship

- Historically, IB research focuses on large MNCs, and entrepreneurship studies concentrate on small and medium-sized enterprises (SMEs) within a domestic context.
- How can some SMEs succeed abroad rapidly without going through different stages suggested by the “stage” model?
- The answer typically boils down to the superb tacit knowledge about global opportunities (Peng, Hill & Wang, 2000)

# RBV of Emerging Market Strategies

- Emerging markets represent a unique institutional environment
- Emerging market MNEs (EM-MNEs)
- Developing capabilities constitutes “one of the most important SOE strategies during the transitions” (Peng, 2000, p. 100)
- Privatized firms
- Entrepreneurial start-ups
- Conglomerates

# PART 3:

DEBATE 2: TO OFFSHORE OR NOT TO OFFSHORE



# Survey by Offshoring Research Network (ORN)

- Study tracking the adoption of offshoring administrative and technical functions every six months and over several years

Exhibit 2. Key Findings

<b>Bottom-Up</b>	Absence of top-down corporate strategies guiding implementation of offshoring practices at the bottom-up level. Random experiments, improvisation, bottom-up diffusion.
<b>Sequential</b>	Learning-by-doing processes. From a few specific and simple experimental implementations to more diversified and complex business processes.
<b>Complex</b>	Difficulty of overcoming internal resistance, managing remote teams, managing cultural fit, containing offshore employee turnover and specifying processes.
<b>Profitable</b>	Actual cost savings exceed expectations and targeted service levels are achieved ahead of plans. Most cost savings accounted for by labour arbitrage. No process redesign.
<b>Growing</b>	Offshoring is expected to grow in scale and scope, number of functions offshored, complexity of processes and diversity of locations.

**Source:** Lewin, A.Y. & Peeters, C. (2006) Offshoring Work: Business Hype or the Onset of Fundamental Transformation? *Long Range Planning* 39:221-239

# Survey by Offshoring Research Network

## Selected Findings

Table 1. Strategic Drivers of Offshoring

Strategic Drivers	% of respondents citing driver as important
Taking out cost	93%
Competitive pressure	69%
Improving service levels	56%
Accessing qualified personnel	55%
Changing rules of the game	41%
Industry practice	37%
Business process redesign	35%
Access to new markets	33%
Enhancing system redundancy	27%

*% of respondents who answered 4 or 5, on 5 points Likert scale, to proposed strategic drivers of offshoring.*

**Source:** Lewin, A.Y. & Peeters, C. (2006) Offshoring Work: Business Hype or the Onset of Fundamental Transformation? *Long Range Planning* 39:221-239

# Survey by Offshoring Research Network

## Selected Findings

Table 2. Perceived Risks of Offshoring

Risks Perceived	% of respondents citing risk as important
Poor service quality	61%
Lack of cultural fit	54%
Loss of control	51%
Lack of client acceptance	49%
Lack of data security	46%
Weakening employee morale	45%
Employee turnover in offshore service center	44%
Operational inefficiency	41%
Infrastructure instability in host country	40%
Intellectual property loss	39%
Political instability in host country	39%
Political backlash	35%
Disaster recovery	26%

*% of respondents who answered 4 or 5, on 5 points Likert scale, to proposed risks of offshoring.*

# Survey by Offshoring Research Network

## Selected Findings

Table 3. Functions Offshored – Current Landscape and Expected Evolution

Functions	% of companies that offshore the function	% of implementations in the total sample	Expected growth rate in # implementations (next 18 to 36 months)
IT	66%	20%	52%
Finance/Accounting	60%	19%	43%
Contact Centres	54%	17%	48%
Engineering Services	44%	14%	55%
Research	32%	10%	81%
Human Resources	24%	7%	75%
Procurement	24%	7%	42%
Other	18%	6%	na

**Source:** Lewin, A.Y. & Peeters, C. (2006) Offshoring Work: Business Hype or the Onset of Fundamental Transformation? *Long Range Planning* 39:221-239

# Survey by Offshoring Research Network

## Selected Findings

Table 4. Locations of Offshoring

Locations	% of existing implementations	% of new implementations (next 18 to 36 months)
India	69%	66%
China	7%	7%
Other Asia	7%	16%
Latin America	6%	1%
The Philippines	4%	3%
Canada/Mexico	4%	1%
Eastern Europe	3%	6%

**Source:** Lewin, A.Y. & Peeters, C. (2006) Offshoring Work: Business Hype or the Onset of Fundamental Transformation? *Long Range Planning* 39:221-239

# Survey by Offshoring Research Network Selected Findings

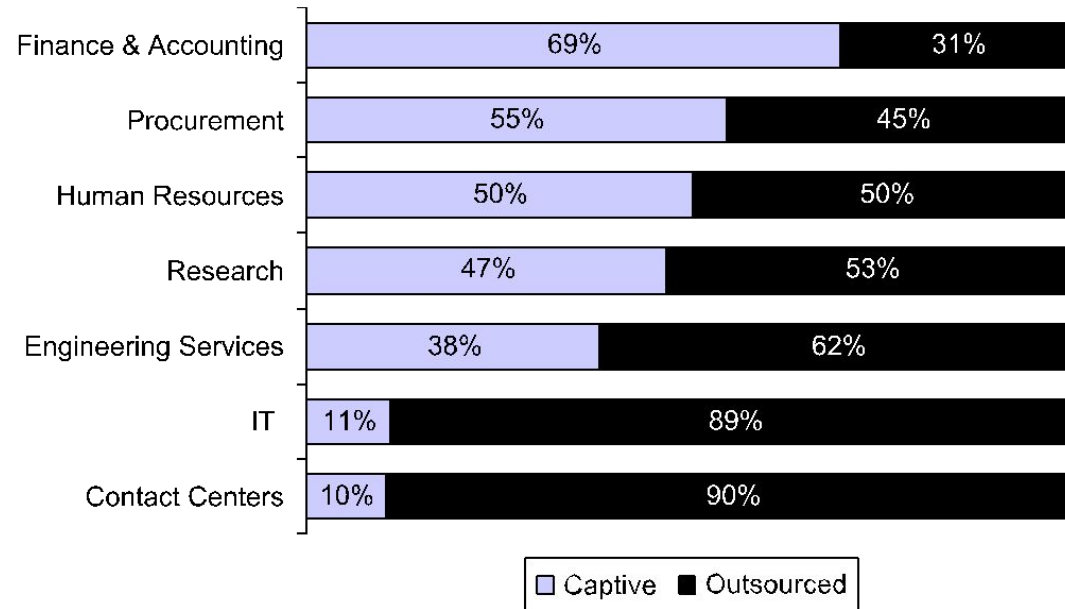


Figure 3. Percentage of Captive and Outsourced Implementations per Function

**Source:** Lewin, A.Y. & Peeters, C. (2006) Offshoring Work: Business Hype or the Onset of Fundamental Transformation? *Long Range Planning* 39:221-239

**QUESTIONS?**