

## **AEM 2601: Reading Questions 05 – Best Answers**

### **1. One implication of the resource-based perspective?**

By aligning their strategies to their resources and capabilities, firms emphasize their differences rather than their similarities.

### **2. Does the resource-based view focus on the internal or external analysis of the firm?**

- The resource-based view focuses on the internal analysis of the firm. It involves the evaluation of whether the resources are succeeding in establishing and maintaining a competitive advantage. However, before doing so, it is important for firms with a resource-based view to identify what kinds of resources it has. The three main types of resources owned by a firm are tangible, intangible and human resources. Tangible resources are those that are the easiest to identify and value, which include financial resources and physical assets. Intangible assets are sometimes considered to be more valuable than tangible resources. Most companies however undervalue or neglect to include these in their balance sheets. Intangible resources include intellectual properties like trademarks, patents, copyrights and trade secrets, as well as a firm's relationships. Human resources include skills and productive effort offered by organizations' employees. The stability of employment relationships allow human resources to be considered to be an important part of the firm.
- The resource-based view focuses on the internal analysis of the firm. The external environment is increasingly risky and ever-changing. Therefore, internal resources and capabilities are a more secure foundation for strategy. As the resource-based view seeks to align a company's strategies to their resources and capabilities, the company must first analyze the internal environment. This analysis will lead the company to learn how to match their resources and capabilities to such internal opportunities.
- The resource-based view of strategy focuses on an Internal analysis of the firm. External analyses explore how a firm explore can capitalize on external factors to make profit. Resource-based analysis, on the other hand, provides an insight into the competencies and weaknesses of a company. From this, a company can best position itself differently from other firms.

**3. Describe a couple of characteristics used to appraise the strategic importance of a resource or capability.**

- There are three main characteristics used to appraise the strategic importance of a resource or capability: establishing competitive advantage, sustaining this advantage, and appropriating its returns. In order to first establish a competitive advantage, the firm must employ a relevant resource or capability that creates consumer value; additionally, this resource must be scarce such that competitive advantage arises. Then, to avoid the erosion of competitive advantage, firms must sustain the advantage by having a resource that is durable, not easily transferable, and difficult to replicate. Finally, ownership is not always clear-cut, so it is important that the returns to competitive returns are appropriated to the correct parties; this is especially important when certain groups have superior bargaining power in determining the allocation of returns.
- When appraising whether a resource or capability can sustain a company's competitive advantage, we can use these characteristics: 1. Durability: The more durable a resource, the greater its ability to support a competitive advantage over the long term. 2. Transferability: Competitive advantage is undermined by competitive imitation. If resources and capabilities are transferable between firms, i.e., if they can be bought and sold, then any competitive advantage that is based upon them will be eroded. 3. Replicability: If the competitors cannot buy the resources or capabilities, the competitive advantage will be largely undermined if competitors can replicate and build the resource and capabilities quickly.
- 1. How quickly the resource depreciates- Being aware of how quickly a resource will depreciate is important to appraising strategic importance. If a resource depreciates slowly overtime, it has high value and can maintain a competitive advantage over a longer amount of time. 2. How imitable the resource is- if a resource is easily imitated by competitors, there is a lack of long term profitability and stability. While most all resources are ultimately able to imitated, there must be a strategy to prevent it which require the resource to have a physical uniqueness, path dependency (process that is difficult to copy and accelerate), and/or casual ambiguity (complex web of organization). 3. how replaceable the resources are- if

there are many substitutes for a resource, it decreases the strategic importance of that resource. In order to appraise the strategic importance, it must be determined how easily a resource can be substituted by a competitor (i.e. finding a sub resource that allows a competitor to cut costs and make your product cheaper).

- The first characteristic is scarcity - the rarer a resource or capability is, the better the odds are that it will serve as a strong basis for a comparative advantage. For example, in oil and gas exploration, directional drilling is a widely used practice - therefore, it is a necessary use, but not enough to gain a comparative advantage. Another characteristic is relevance - resources must be relevant to the key factors that create value for customers. For example, as technology has become increasingly popular, automated machines and online transactions have replaced human customer service. Finally, one more characteristic is durability - the more durable a resource, the longer it can sustain a comparative advantage. For example, Coca-Cola, because of its unique characteristics and taste, has held a comparative advantage in the market for over a century.