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

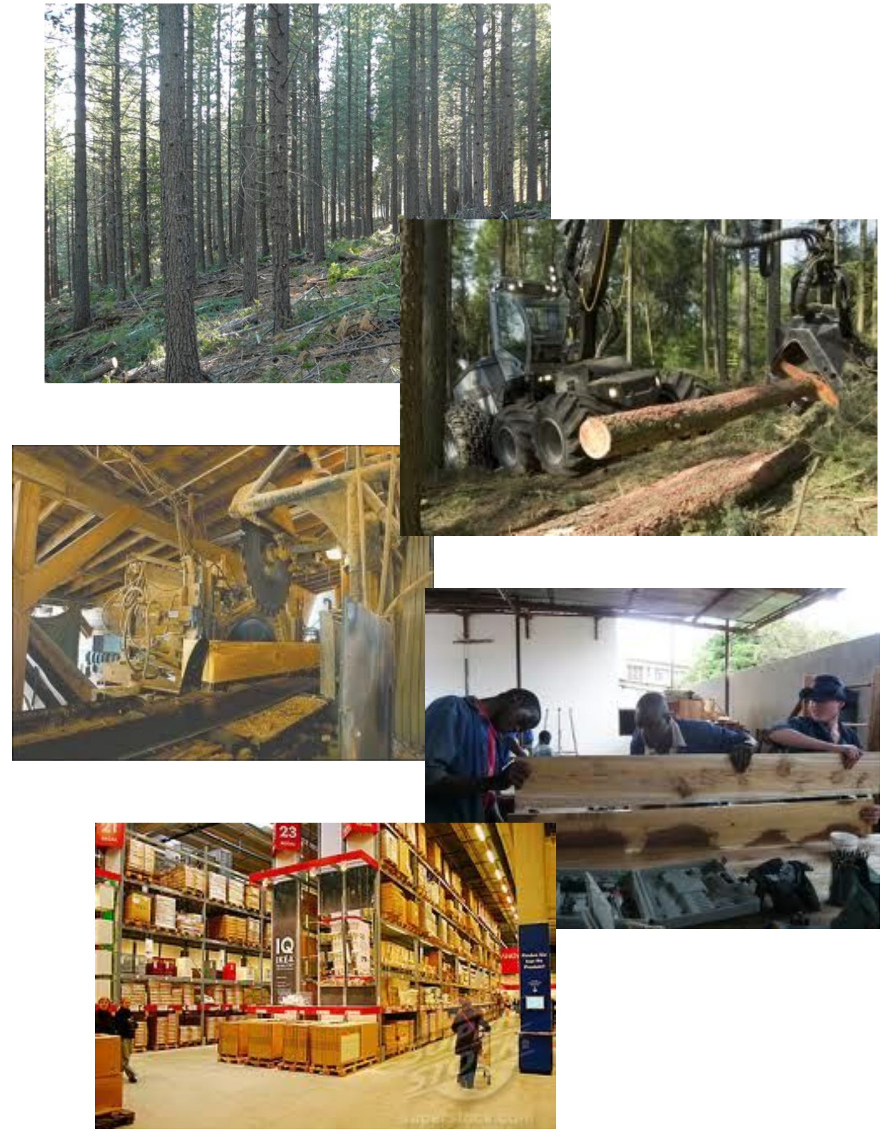
Capabilities

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

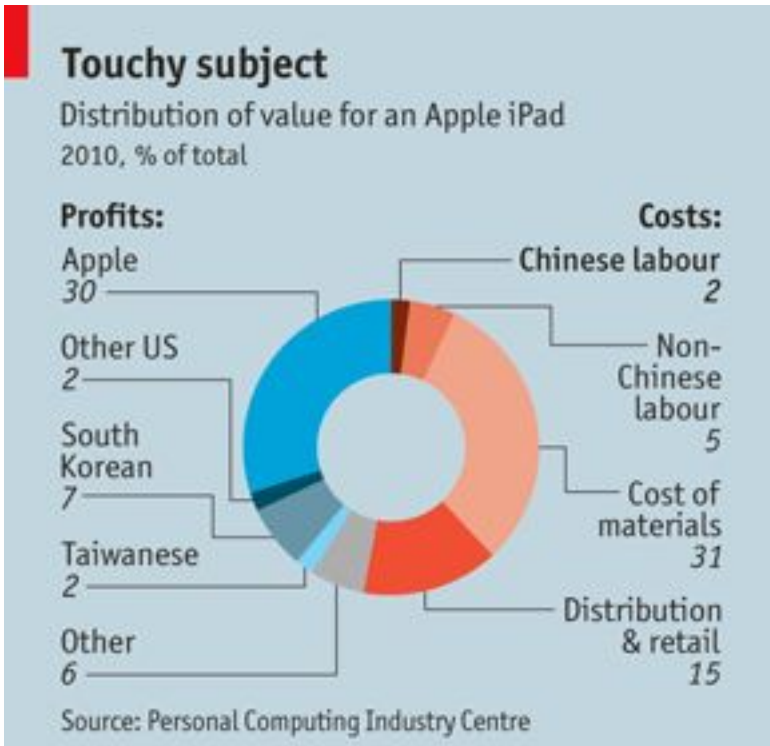
- **Value chain** = the vertical activities that create value
  - Upstream (sourcing/ manufacturing) to down stream (selling)
  - Primary and secondary areas of activity in the value chain

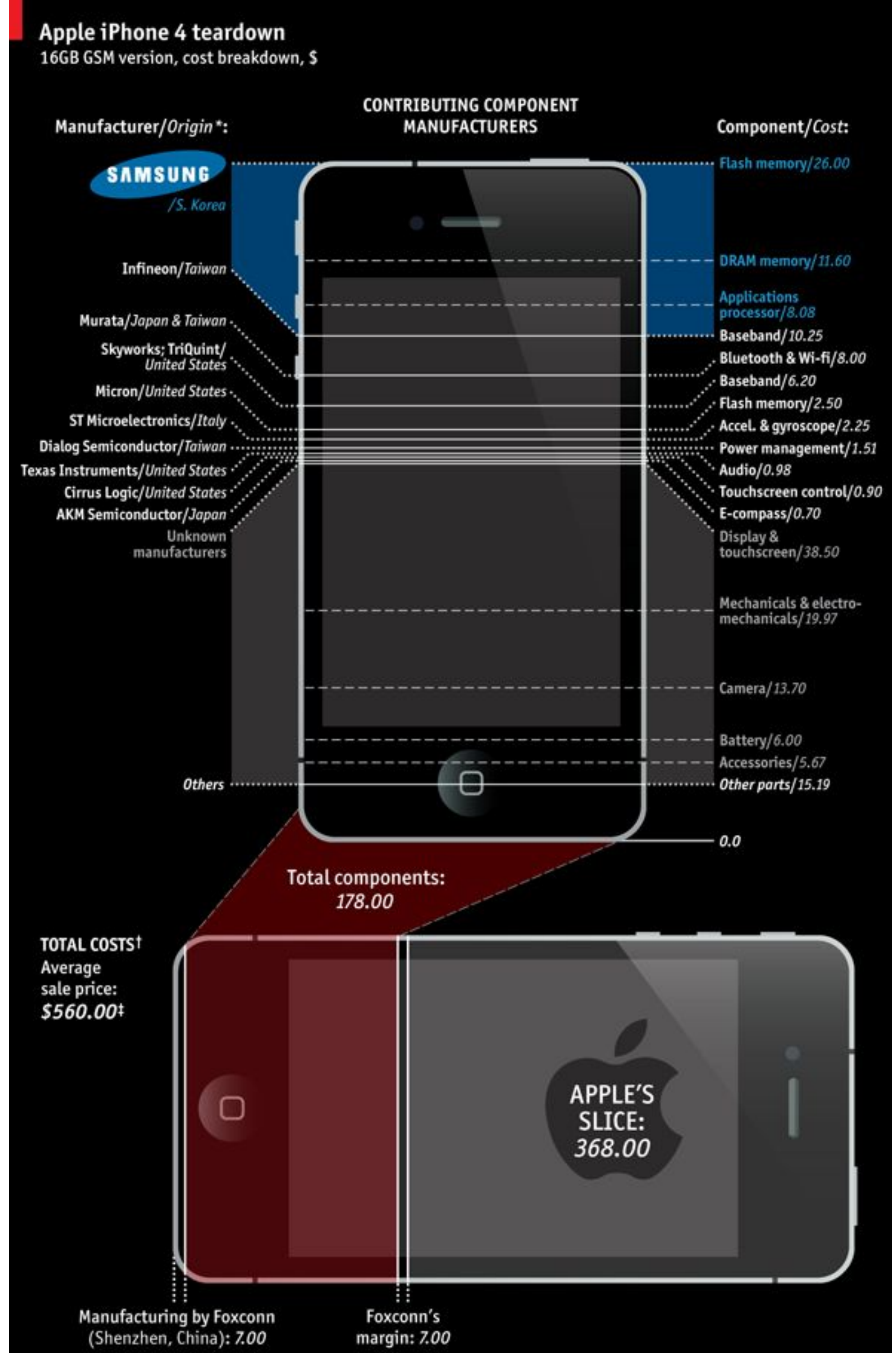


The Airbus A380 Value Chain?

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

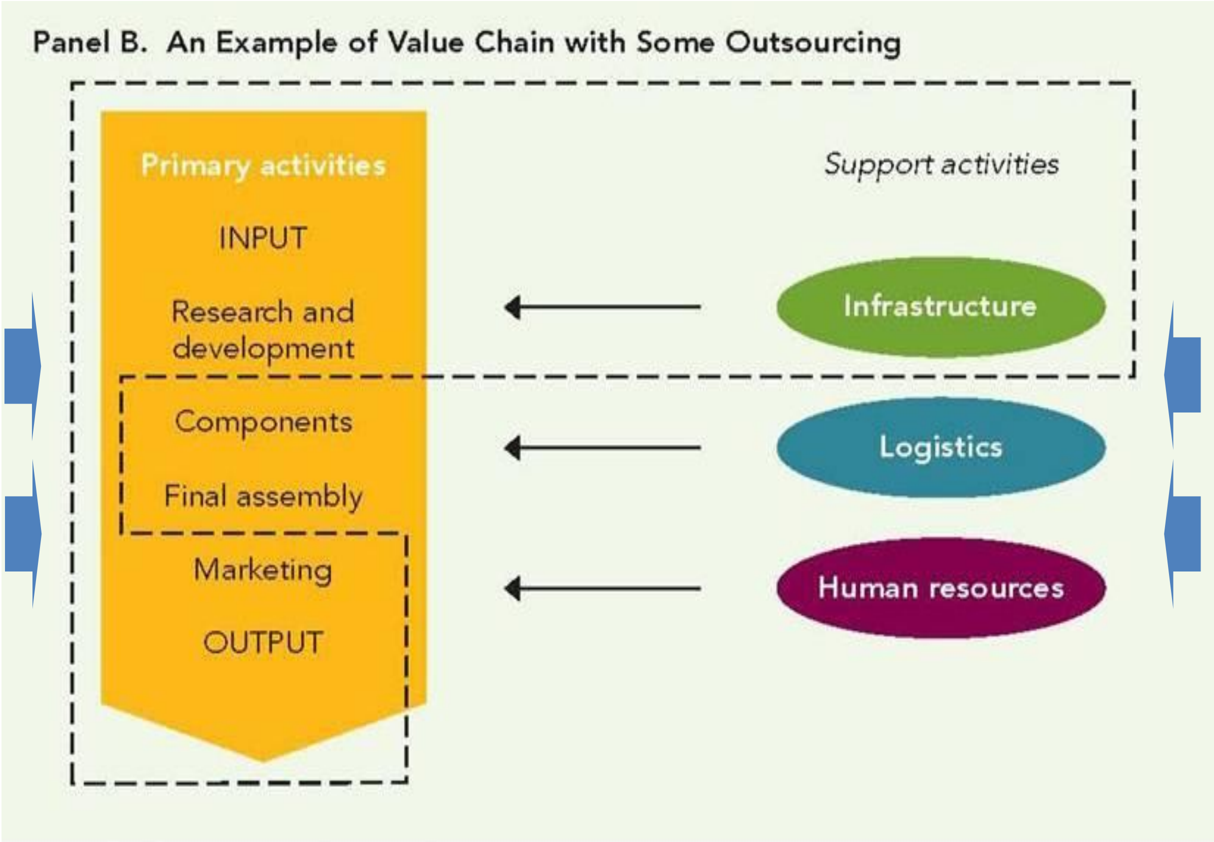
What does Apple Keep In-House?

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.

tsmc

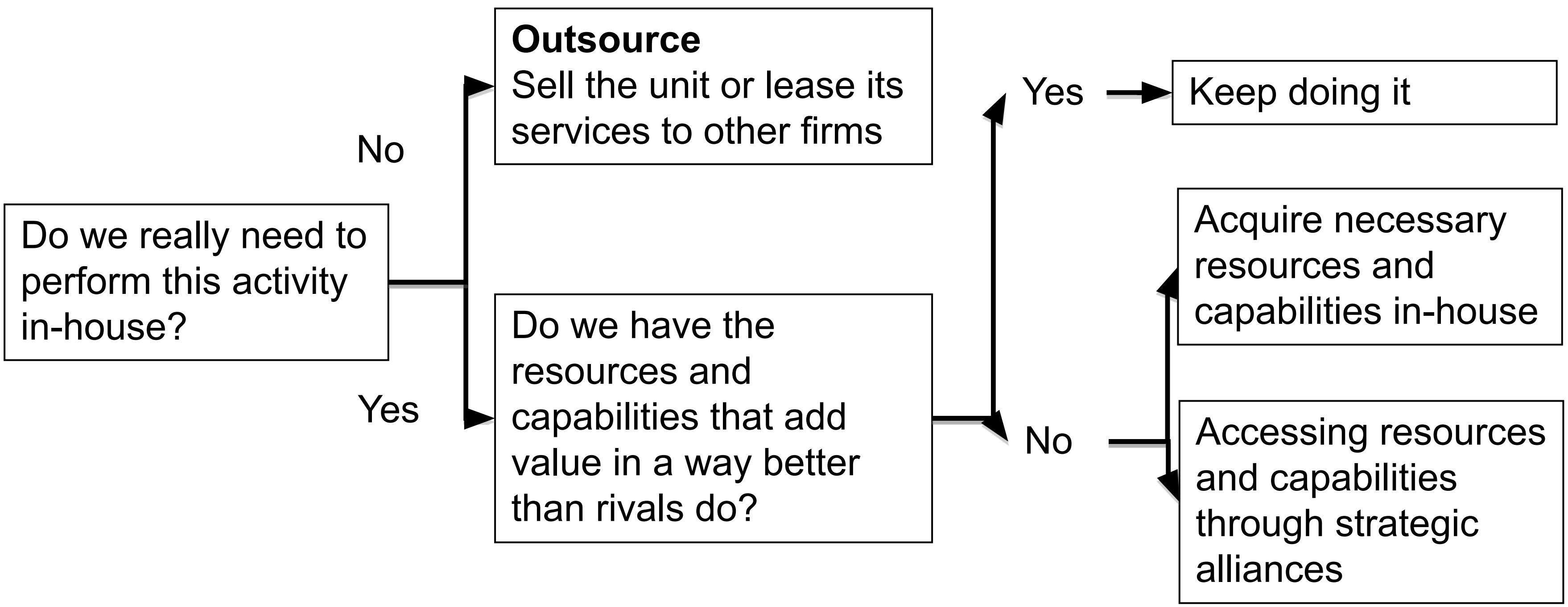
FOXCONN

TNT

Manpower

Outsourcing vs In-House Activities

O = turning over an organizational activity to an outside supplier that will perform the activity on behalf of the focal firm.



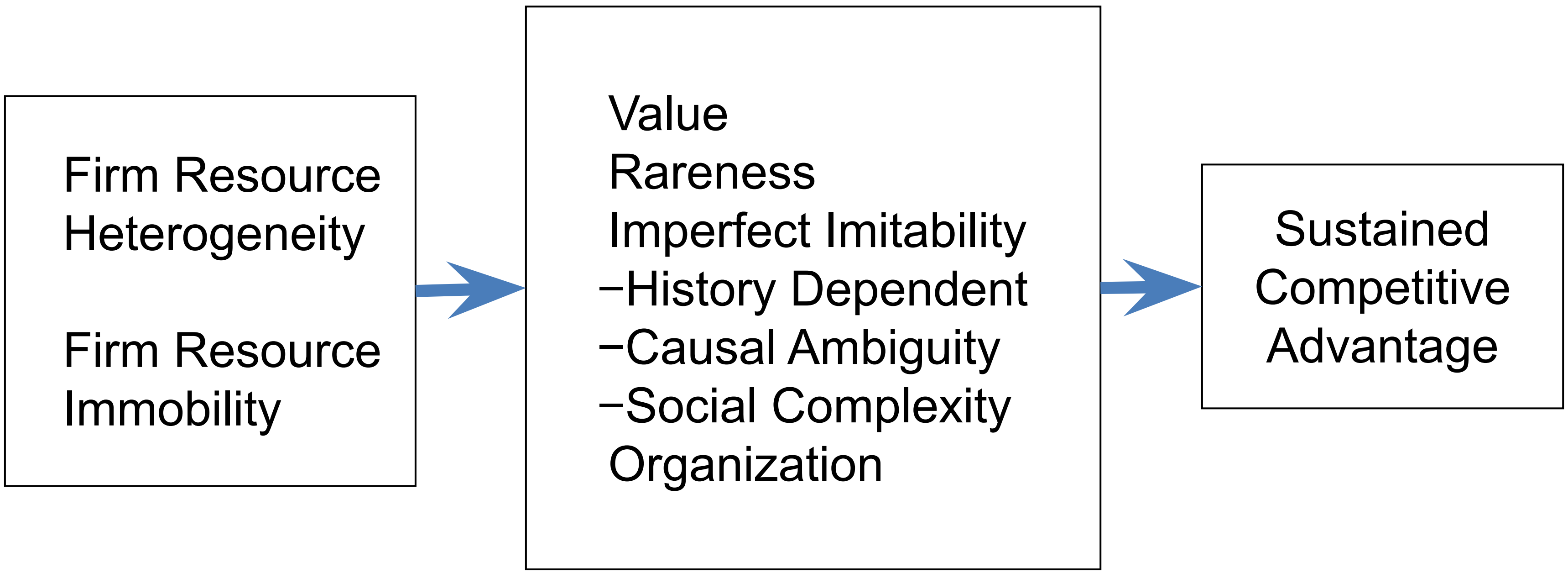
In-house, Onshoring and Offshoring

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

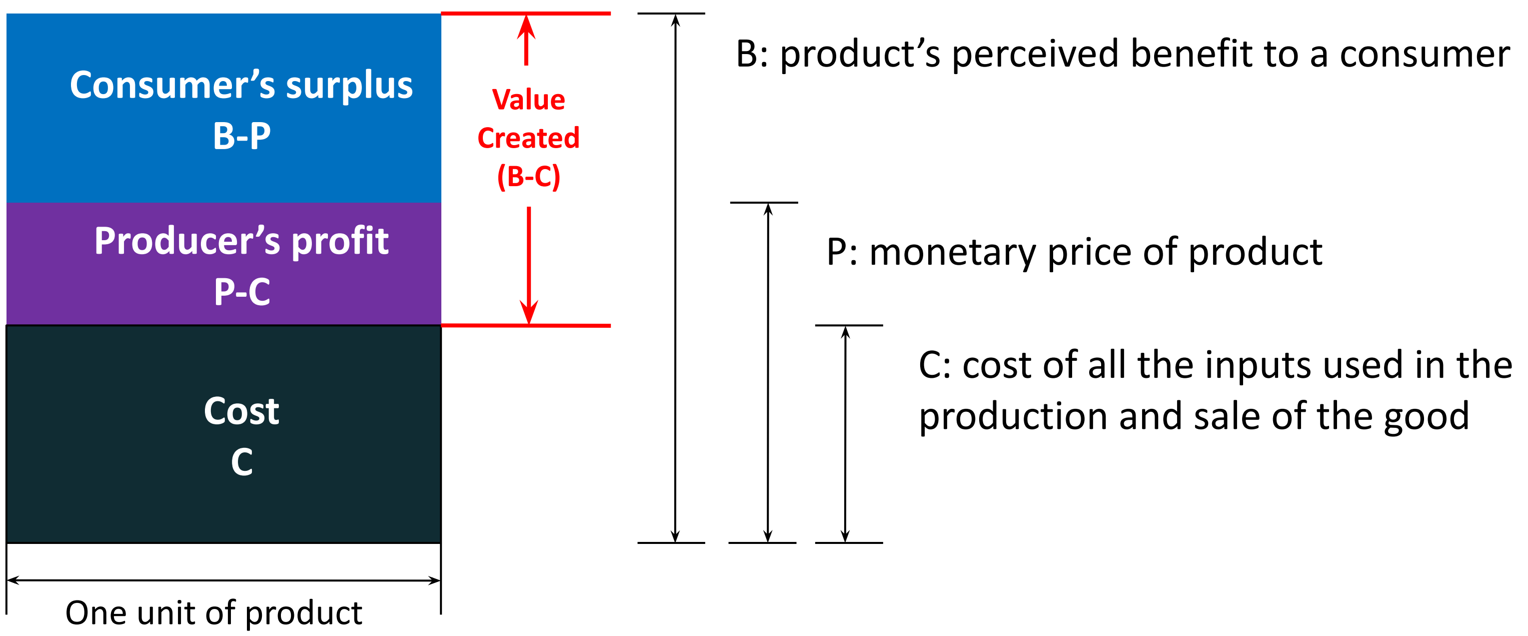
- Three sources of resource imperfect imitability are:
  - Historical dependence
  - Causally ambiguity
  - Social complexity

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

Transaction Cost Economics	Resource-based View
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

Bottom-Up	Absence of top-down corporate strategies guiding implementation of offshoring practices at the bottom-up level. Random experiments, improvisation, bottom-up diffusion.
Sequential	Learning-by-doing processes. From a few specific and simple experimental implementations to more diversified and complex business processes.
Complex	Difficulty of overcoming internal resistance, managing remote teams, managing cultural fit, containing offshore employee turnover and specifying processes.
Profitable	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.
Growing	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.

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 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

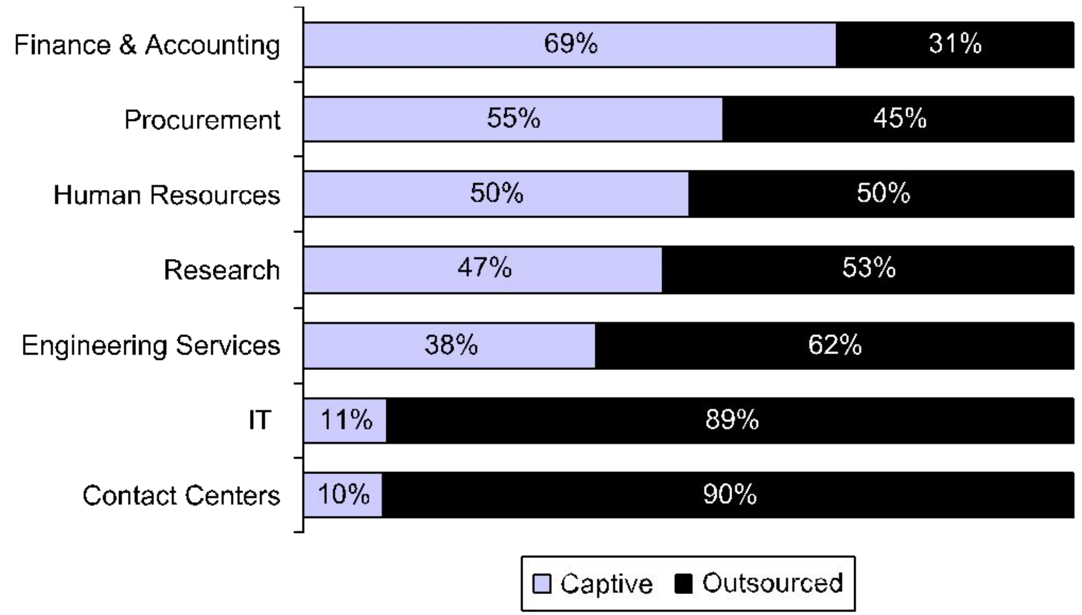


Figure 3. Percentage of Captive and Outsourced Implementations per Function

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

QUESTIONS?