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Business

Discuss the similarities and differences between the resourced based view of strategy and the industrial organisation (I/O) based view of strategy The similarities and differences between the two views of strategy, resource-based view (RBV) and industrial organization (I/O) view will be critically discussed. According to Hanson, et al.

(2011), the RBV model specifies a firm's strategy internally to earn above-average returns based on its unique resources and capabilities. Resources such as capital equipments, individuals' skills, patents and finances are formed into a capability and is managed dynamically to achieve competitive advantages over its rivals. The I/O model specifies a firm's strategy based on external environment with the characteristics of general, industry and competitor environments (Hanson, et al. , 2011). This model allows the firms in an industry to compete on their performance regarding to the threat of new entrants, rivalry among competing firms threat of substitute products, bargaining power of suppliers and bargaining power of buyers.

The RBV focuses on internal factors while the I/O model focuses on external factors to achieve above-average returns. The resource-based model assures the firm to acquire various resources and utilize them to achieve unique capability. To gain potential advantages over the competitors, the firm needs to choose valuable, rare, costly to imitate and non-substitutable resources and capability (Broderick, Hooley ; Moller, 1988). However, resources such as human skills and creativity can be imitated and substituted as time passes. Therefore, they must be integrated and managed with potential capability in order to create customer value which can maintain good customer relationships.

On the other hand, the I/O model suggests the firm to produce the standard products and services at lower cost than the competitors or the differentiated ones for which the customers are willing to pay at a premium price (Hanson, 2011). Both RBV and I/O models need the firm to be observant in collecting the information regarding the customer wants and to differentiate its product. For RBV model, since similar resources are flowing in the industry, the firm needs to assure they have capability to create value and competitive strategies to win over the rivals. The firms need to know what the customers really want so they can do the strategic planning on how to integrate the resources differently, meet customer wants and create value. The I/O applied firms can reduce threats of new entrants by differentiating their products. More customers are attracted by unique products in the industry and the firm can maintain its loyal customers by offering differentiated products.

Therefore, the I/O model also needs faster information flow about the customers wants. For the management of for-profit organizations, both internal and external views are important to sustain competitive advantage over time. Broderick, et al. (1988) categorized the resources broadly into tangible and intangible resources. Tangible resources include financial resources, organizational, physical and technological resources while intangible resources include human, innovation and reputation resources.

According to Hanson, et al. 2011), the value of tangible resources is difficult to leverage and are constrained, but intangible attributes of tangible assets can be developed over time and build competitive advantages. Aircraft is a tangible asset and an aircraft cannot be used on different routes at the same time. However, the attributes such as quality control process and unique manufacturing process can be developed to create the advantages. Since intangible assets are less visible and more difficult for competitors to imitate, firms can more rely on intangible assets such as highly valued brand name, creativity and knowledge.

As an example, according to the Anton Troianovskif (2011), Applefans had waited outside the New York City store for 17 days just to become the first iPhone 4S user. Obviously Apple brand name is quite strong and it meets four criteria, valuable, rare, non-substitutable and non-imitable and therefore, Apple can sustain competitive advantage. Therefore, intangible assets such as knowledge and high reputation are more reliable and preferable in competing with rivals. For-profit organizations should integrate their resources and capability to become core competency which meets the four criteria of sustaining competitive advantages (Barney, 1994).

Otherwise, they might face market failure or lose market share. To analyse the industry environment, there are also Porter's five forces of competition, the threats of new entrants, the power of supplier, the power of buyers, product substitutes and the intensity of rivalry among competitors (Hanson, et al. , 2011). In the mobile industry, there is a high barrier to entry since it is very costly and risky and needs advanced technology and competitive strategies to enter into the market and compete. Apple produces iPhone with high technology which is highly difficult to imitate and follow and has the large market share. Moreover, the start-up cost is also high and therefore, new firms cannot enter the market easily to compete with Apple.

Due to its reputation and few numbers of suppliers in the industry, Apple achieves high bargaining power of supplier and obviously buyers have low bargaining power. Moreover, since Apple products are very unique and differentiated from other products such asNokiaand Sony, the Apple Company does not need to worry about product substitutions. The external analysis shows that Apple has product differentiation with advanced technology and therefore, it is achieving competitive advantage in the market. Therefore, for-profit organizations should also focus on external factors such as product differentiation and technological advance.

As mentioned above, the RBV view focus on the firm's internal factors by looking at the resources and capacity and integrating them to the four criteria of sustaining the competitive advantages. Lockett, Andy, Thompson, Steve and Morgenstern (2009) said valuable resources can be used to explore the opportunities and rare resources means the limited supply which are unequally distributed through the firm. Non-substitutable resources are unique resources which cannot be replaced by others and non-imitable resources cannot be replicated easily by other firms. To maintain the competitive advantages, the firms should develop intangible assets which are more suitable to meet the four criteria. The for-profit organization should build high reputation in the market and try to competitive advantage over its rival.

The reputation is generated inside the firm over time due to its potential benefits to the customers and therefore, it cannot easily be imitated and also substituted. In other words, it is said to be rare and valuable. By doing the internal analysis, the firm will also realize its weakness such as the product faulty and have opportunity to cover its cost. For example, Apple provides services for evaluation and replacement of chargers to satisfy the customers if the chargers are not working (source: Apple portables: troubleshooting MagSafe adapters). The I/O model focus on external factors and enables firms understand their opportunities and threats in the industry (Caves, 1980). By studying the external factors, firms do strategic management to reduce the threat of new entrants and differentiate the product from their rivals.

Firms will also be able to consider who are their main customers and political, socio-cultural, technological and geographic factors (Hanson, et al. , 2011). A firm's operation depends partly on political factors such as government's rules and regulations so firms need to be aware of the proposed and existing rules. Moreover, geographic factor is also important because it can provide firms which location is profitable to launch the product. The important external factor which every firm should determine first is the target consumers Hanson, et al. 2011).

A firm target its main customer before it produces and therefore, it can adjust the price and quality suitable for those customers. A profit oriented firm will determine the target customers and their budgeted price on the product. Then, the firm might produce the product with lower cost using advanced technology and open the stores near their main customers exist. Kraaijenbrink, Spender and Groen (2010) said RBV implements the I/O model by focusing on the firm's internal factors. The resource-based model focus on the firm's internal environment while the I/O model focus on the firm's external environment and therefore, these two models implement each other by looking at firm's internal and external factors.

For a firm to sustain the competitive advantage over time, it should focus on both internal and external factors. The firm need to needs to make sure that its intangible resources and capabilities to be valuable, rare, non-substitutable and non-imitable in the market and also maintain high barriers to entry and product differentiation. If a firm fails to focus on the internal factors and cannot produce unique products, other firms will easily imitate the product and enter into the market with better strategic management to gain the market share. For example, Apple offers the customers to exchange with a new product if the product is spoilt due to reasonable problems within the warrantee period. This offer is the Apple's strategic management or capability to deploy the product, capital and human skills differently from the rivals. Not only that, the firm should also not fail to analyse the external factors.

Firms need to do research and development for new technology and position their product in suitable geographic location. For example, Apple is the leading in the mobile industry and it achieves competitive advantage over its rival since it can create customers' wants by introducing new products with advanced technology and maintain the continuous production of differentiated products over time. Therefore, customers are willing to pay Apple products at premium price. Without advanced technology, a firm cannot differentiate its product and keep its position in the market over time. Geographic location is also important because Apple cannot launch its products in some poor countries where high technology is not widely used as long as it is for-profit organization. In conclusion, both RBV and I/O models are important for a firm to achieve above-average returns in the competitive market.

RBV model highlights the internal strength and weakness such as strong brand name and products' faulty and I/O model indicate the external opportunities and threats of the firm. So the firm must be very observant to the changes inside and outside the firms and therefore, they can take advantages over its strengths and opportunities and implement the strategic planning to cover the weakness and protect the firm from the threats. Although the resource-based view and the industry organization view have different focus area, they both are important for a for-profit firm to achieve above-average returns. Reference: Attia, Samaa T & Hooley, Graham (2007): The role of resources in achieving target competitive positions, Journal of Strategic Marketing, 15: 2-3, 91-119 Barney, J. B.

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