

Business Strategy

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Course & Class Information

Course: Business Strategy

Program: Master's in Business Administration (MBA)

Credits: 6 ECTS

Mode: Onsite / Blended

Class 4: Internal Environment & Strategic Capabilities

Instructor: Dr. Leul Girma

Main Teaching & Learning Materials

Books

- Johnson et al., (2017): *Exploring Strategy*
- Grant, (2022): *Contemporary Strategy Analysis*
- Porter, (1985) : *Competitive Strategy*

Academic journal articles

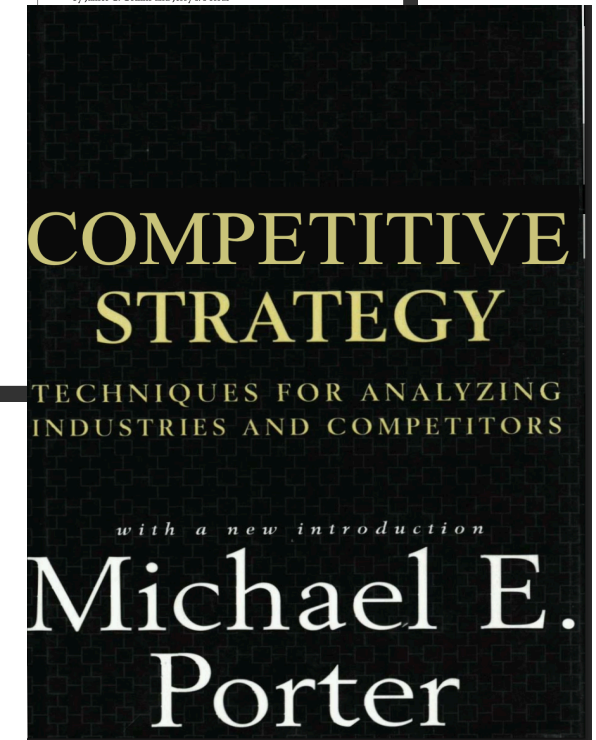
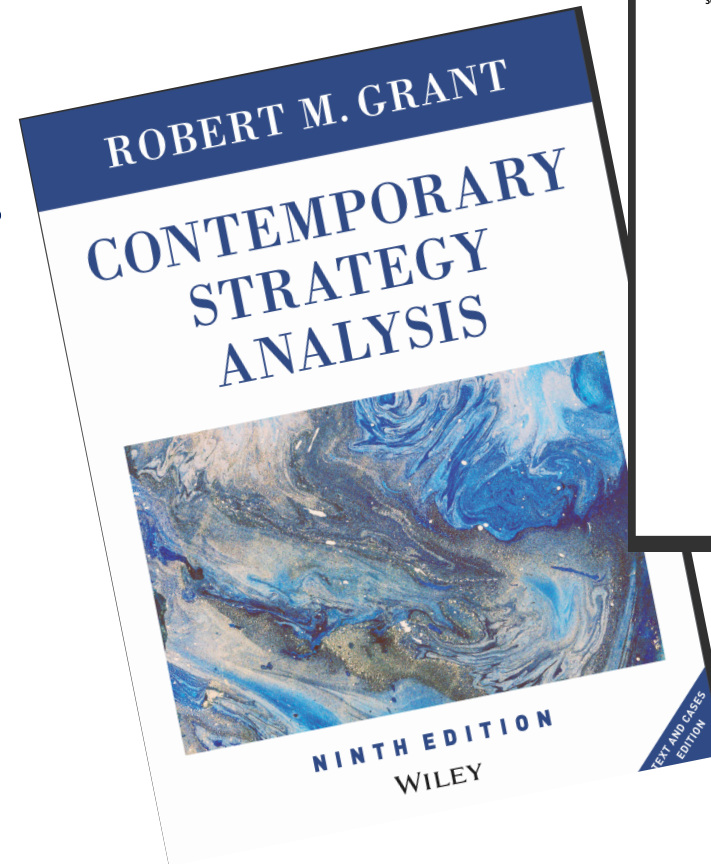
- Harvard Business School case studies

Digital resources

- Company annual reports
- Industry and market databases

Tools

- Microsoft Excel or equivalent
- Presentation software



Objective and Learning Outcomes

Objective:

To develop the **ability to systematically analyze the internal environment of the firm** and **evaluate how** resources and capabilities **create sustainable competitive advantage**.

By the end of this class, YOU will be able to:

- Identify and classify organizational resources (tangible and intangible)
- Apply the Resource-Based View (RBV) to assess strategic assets
- Use the VRIO framework to evaluate competitive advantage
- Assess internal strengths and strategic capabilities to inform business strategy

Why can some companies sustain competitive advantage for decades?

The Internal Environment of the Firm

The internal environment refers to the **resources, capabilities, and competencies** within a firm that determine its **ability to implement strategy** and achieve **competitive advantage** (Grant, 2022; Johnson et al., 2020).

Firms operating in the **same industry** often **perform differently**. This difference is explained not only by **external conditions**, but by **internal strengths** and **strategic capabilities**.

Competitive advantage depends on developing and effectively managing **unique internal strengths**.

What Does Internal Analysis Examine?

Resources

The assets the firm **owns or controls**, including **financial, physical, technological, and intangible assets** such as **brand and knowledge**.

Capabilities

The firm's ability **to use its resources effectively** through **managerial expertise, operational efficiency, and innovation**.

Core Competencies

it's the **unique capabilities** that enable a firm to **create superior value** and **achieve competitive advantage**

Organizational Effectiveness

The **structure, systems, and leadership** that **enable** the firm to **implement and sustain strategy successfully**.

Strategic Implication of Resources

- **Not all resources contribute equally** to competitive advantage. Some resources are **strategically more valuable** because they are **difficult to obtain or imitate**.
- **Intangible resources** are often **more important for sustaining long-term competitive advantage** because they are **harder for competitors to copy**.



Apple's competitive advantage comes **primarily** from **intangible resources** such as its strong **brand** and **design capability**. These resources allow Apple to **differentiate its products** and **charge premium prices**. Competitors can **replicate physical resources** like **factories**, but they cannot easily imitate Apple's brand reputation and product design.

Strategic Implications of Capabilities

Capabilities are developed over time through experience, learning, and organizational processes. They reflect how efficiently and effectively a firm uses its resources.

While resources represent what a firm has, capabilities represent what a firm can do.



Toyota's competitive advantage comes from its **operational capability**, particularly the **Toyota Production System (TPS)**, which enables **high efficiency and quality**. This capability allows Toyota to **reduce costs, improve reliability, and respond quickly to market demand**. Competitors find it **difficult to replicate this capability** because it is based on **organizational processes, experience, and culture developed over many years**.

Strategic Implications of Core Competencies

They represent the firm's **strongest and most strategically important capabilities**, developed through the **integration of resources, skills, and organizational knowledge**.

Core competencies distinguish a firm from its competitors and enable it to perform key activities more effectively.



Spotify's core competency is its **data analytics capability**, which enables **personalized music recommendations for each user**. This competency improves **user experience**, **increases customer retention**, and strengthens Spotify's **competitive position**. Competitors find it difficult to **replicate this capability** because it is based on **large data sets and advanced algorithms** developed **over time**.

Organizational Effectiveness

Organizational effectiveness refers to the firm's ability to **structure, coordinate, and manage its resources and capabilities** to **successfully implement strategy** (Johnson et al., 2020; Grant, 2022).

Key elements of organizational effectiveness include:

Organizational structure → clear roles, responsibilities, and decision authority

Management systems → planning, control, and performance monitoring

Leadership → strategic direction and effective decision-making

Organizational culture → shared values and behaviors that support strategy

From Resources and Capabilities to Competitive Advantage

Resource-Based View (RBV)

The Resource-Based View (RBV) argues that a firm's **competitive advantage** is primarily **determined by its internal resources** and **capabilities** rather than **external industry conditions** (Barney, 1991; Grant, 2022)

RBV focuses on identifying the unique strengths that allow firms to **outperform competitors** and **achieve superior performance**.

RBV shifts the focus of strategy from **competing only in attractive industries** to **building and leveraging unique internal strengths**

VRIO Framework

The **VRIO framework** is a tool used to **evaluate whether a firm's** resources and capabilities can provide competitive advantage (Barney, 1991).

The framework evaluates resources based on **four key criteria**:

Value → Does the resource **create value for the firm?**

Rarity → Is the resource **rare among competitors?**

Imitability → Is the resource **difficult to imitate?**

Organization → Is the firm **organized to fully utilize the resource?**

Valuable

A resource is **valuable** if it enables the firm to improve efficiency, enhance **differentiation**, or **respond effectively** to market opportunities and threats (Barney, 1991; Grant, 2022).

Examples of **valuable** resources include:

- Advanced technology that improves efficiency
- Strong brand reputation that attracts customers
- Skilled employees who improve innovation and performance



Rarity

A resource is **rare if it is not widely possessed** by competitors (Barney, 1991; Grant, 2022).

Examples of **rare resources** include:

- A patented technology that competitors cannot use
- Exclusive access to critical raw materials
- Highly specialized expertise not available in other firms
- A unique brand identity that competitors cannot replicate



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Imitability

A resource is **difficult to imitate** if competitors cannot easily copy, acquire, or reproduce it (Barney, 1991; Grant, 2022).

If competitors can quickly imitate a valuable and rare resource, the competitive advantage will be temporary.

Examples of difficult-to-imitate resources include:

- Organizational culture that supports innovation and performance



- Strong brand reputation developed over many years



- Complex organizational processes that improve efficiency



- Accumulated experience and specialized organizational knowledge



Organization

Organization refers to the firm's **ability to structure, manage, and coordinate its resources and capabilities** effectively to support strategy (Barney, 1991; Grant, 2022).

Even valuable, rare, and difficult-to-imitate resources **cannot create competitive advantage if the firm is not organized to use them properly.**

Examples of organizational support include:

- Organizational structure that supports efficient operations
- Performance management and incentive systems
- Leadership that aligns resources with strategic goals



VRIO and Competitive Advantage

The VRIO framework helps determine whether a resource provides competitive advantage and whether that advantage can be sustained (Barney, 1991; Grant, 2022).

The competitive outcome depends on how many VRIO criteria the resource satisfies.

- Value only → Competitive disadvantage
- Value + Rarity → Temporary competitive advantage
- Value + Rarity + Imitability → Sustained competitive advantage potential
- Value + Rarity + Imitability + Organization → Sustained competitive advantage

Applying Internal Analysis in Practice

Case: Netflix's Strategic Capabilities

Netflix is one of the world's leading streaming companies, operating in over 190 countries. The company has built its competitive position through strong internal capabilities, particularly its data analytics and original content production.

Netflix uses advanced data analytics developed over many years to personalize recommendations and guide content decisions. This capability improves customer experience and supports strategic decision-making.

The company has invested heavily in original content, strengthening its global brand and reducing dependence on external studios. Netflix also operates a reliable technology platform that supports efficient global streaming.

However, major competitors such as Disney+, Amazon Prime Video, and Apple TV+ are investing heavily in technology and content.

Netflix's management must assess whether its internal resources and capabilities can sustain its competitive advantage

Case Instructions

1. Read the case carefully and highlight information related to Netflix's resources and capabilities.
2. Based on what you highlighted, analyze Netflix's internal environment using the Resource-Based View (RBV) and VRIO framework.
3. Identify Netflix's key resources and capabilities and evaluate their strategic importance.
4. Explain your reasoning clearly so you can justify your analysis during discussion.

Question

1. Using the Resource-Based View (RBV), identify Netflix's key resources and capabilities and explain how they contribute to its competitive position.
2. Using the VRIO framework, analyze Netflix's resources and capabilities and explain whether they provide competitive advantage.
3. Based on your VRIO analysis, which resources or capabilities provide sustained competitive advantage? Justify your answer.
4. Based on the internal analysis, do Netflix's resources and capabilities appear sufficient to sustain its competitive advantage in the future? Explain your reasoning

Recommended Sources for This Case

Netflix Official Website

<https://www.netflix.com>

Netflix Investor Relations

<https://ir.netflix.net>

Industry and Market Data

Statista: streaming industry trends, market share, and growth data

<https://www.statista.com>

Academic Sources

Grant, R. (2022). *Contemporary Strategy Analysis*. Wiley.

Johnson, G., Whittington, R., Scholes, K., Angwin, D., & Regnér, P. (2020). *Exploring Strategy*. Pearson.

Barney, J. (1991). Firm resources and sustained competitive advantage. *Journal of Management*.

Thank you



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