

Lesson Plan: Week 3 - The Internal Organization: Resources, Capabilities, Core Competencies, and Competitive Advantages

Target Duration: Approx. 3-4 Hours

Session Overview

This session explores how firms analyze their internal organization to leverage resources, capabilities, and core competencies for competitive advantage. Building on session 2's external focus, it emphasizes matching internal strengths with external opportunities to achieve strategic competitiveness. Topics include value creation, resource types, core competency criteria, value chain analysis, outsourcing, and the risks of core rigidities.

Learning Objectives

1. Explain why firms must study their internal organization.
2. Define value and its importance.
3. Differentiate tangible and intangible resources.
4. Define capabilities and their development.
5. Describe the four criteria for core competencies.
6. Explain value chain analysis for identifying value-creating activities.
7. Define outsourcing and its strategic use.
8. Discuss the importance of identifying strengths and weaknesses.
9. Highlight the risks of core rigidities.

Lesson Plan Outline

Previous Week Recap: Group discussion

- Why is it important for a firm to study and understand the external environment?
- What are the differences between the general environment and the industry environment? Why are these differences important?
- What is the external environmental analysis process (four parts)? What does the firm want to learn when using this process?
- What are the seven segments of the general environment? Explain the differences among them.
- How do the five forces of competition in an industry affect its profitability potential? Explain.

1. Introduction and Importance of Internal Analysis (10-15 minutes)

Objective: Establish why internal analysis is critical.

- Competitive advantage is temporary; firms must exploit current strengths while building new ones (e.g., Big Pharma's AI shift, Opening Case).
- Internal analysis identifies resources and capabilities to match external opportunities (Figure 3.1).
- Global mindset is key in today's economy.

Activity:

- Quick Think (5 min): Ask students to name a firm and one internal strength they think drives its success (e.g., Apple's innovation). Share with class.

2. Creating Value and Analysis Challenges (15-20 minutes)

Objective: Define value and its strategic role.

- Value: Product attributes customers pay for, exceeding competitors' offerings.
- Firms create value via core competencies, driving above-average returns.
- Challenges: Uncertainty, complexity, and intraorganizational conflicts (Figure 3.2).

Activity:

- Value Debate (10 min): In pairs, discuss: "Is value more about low cost or differentiation?" Present one argument to the class.

3. Resources, Capabilities, and Core Competencies (25-30 minutes)

Objective: Differentiate resources and explain capabilities' role in core competencies.

- Resources:
 - Tangible (e.g., equipment, finances; Table 3.1).
 - Intangible (e.g., knowledge, reputation; Table 3.2) – more critical for advantage.
- Capabilities: Integration of resources to perform tasks, developed via knowledge-sharing (e.g., Microsoft's human capital).
- Core Competencies: Resources/capabilities giving competitive edge (Table 3.3).

Activity:

- Resource Hunt (10 min): Groups list 2 tangible and 2 intangible resources for a firm (e.g., Nike). Identify one capability they form. Share findings.

4. Building Core Competencies (25-30 minutes)

Objective: Apply the four criteria for sustainable advantage.

- Four Criteria (Table 3.4):
 - Valuable: Exploits opportunities/neutralizes threats.
 - Rare: Few competitors possess it.
 - Costly to Imitate: Historical, ambiguous, or socially complex.
 - Non-substitutable: No equivalents exist.
- Outcomes vary by criteria met (Table 3.5).

Activity:

- Criteria Check (10 min): Groups pick a firm (e.g., Superdry). Assess one capability against the four criteria. Present results.

5. Value Chain Analysis (25-30 minutes)

Objective: Use value chain to identify value-creating activities.

- Value Chain: Primary (e.g., operations, marketing) and support (e.g., HR, IT) activities (Figures 3.3-3.5).
- Goal: Perform better than competitors or do what they can't.
- Requires judgment due to ambiguous data.

Activity:

- Chain Link (10 min): Groups select an industry (e.g., retail). Map one primary and one support activity for a firm, explaining how they add value. Discuss as a class.

6. Outsourcing and Strategic Decisions (20-25 minutes)

Objective: Explore outsourcing's role and strengths/weaknesses assessment.

- Outsourcing: Buying activities from specialists when internal competencies are weak (e.g., call centers, Strategic Focus).
- Benefits: Flexibility, risk mitigation, focus on core competencies.
- Strengths/Weaknesses: Core competencies are strengths; outdated ones risk becoming rigidities.

Activity:

- Outsource or Not (10 min): In pairs, pick a firm activity (e.g., IT). Argue for or against outsourcing it, citing one benefit or risk. Share with class.

7. Case Study: Superdry (10-15 minutes)

Overview: Superdry's brand targets teens/20s but faces issues from rapid expansion. New strategies include older demographics and global markets.

- Teaching Note: Ask: How can Superdry's brand remain a core competency? Link to criteria and value chain.

Activity:

- Turnaround Plan (5 min): Groups suggest one action to strengthen Superdry's brand. Present briefly.

8. Wrap-Up and Review (10-15 minutes)

Summary: Recap resources, capabilities, core competencies, value chain, outsourcing, and rigidities.

- Q&A: Clarify doubts.

- Answer Review Quiz 3: Available on Moodle

Case Studies

1. Big Pharma's AI Shift – Leveraging AI for Competitive Advantage

- **Context in Lesson:** Example of firms exploiting current strengths while building new ones.
- **Summary:** Discusses how a major healthcare firm integrated AI to enhance its competitive edge.

2. Microsoft's Human Capital – Developing Capabilities and Core Competencies

- **Context in Lesson:** Example of integrating resources to perform tasks and developing capabilities.
- **Summary:** Explores Microsoft's approach to balancing innovation with structured processes to develop core competencies.

3. Outsourcing – Strategic Use and Considerations

- **Context in Lesson:** Exploring outsourcing's role and strategic decisions.
- **Summary:** Examines how companies can strategically outsource functions to focus on core competencies.