Introduction: Analyzing the Internal Environment

Analyzing the internal environment. We will use the Resource Based View of the Firm propounded and popularized by Jay Barney for analysing the Firm's Internal Environment.[1] The resource-based view of the firm considers each organization's resources to be unique and the heterogeneity among organizations with regard to their possession of these resources as being the underlying basis for the firm's differential performance or competitive advantage.

This is in contrast to what we had seen in Module 2 wherein industrial organization-based approaches towards understanding firm profitability differences ever that the structure and conduct of firms in the industry determines the performance of firms in the industry. Therefore, as opposed to the external factors, such as the structural attributes of the industry determining firm performance, the resource-based view of the firm is internally focused on determining how the underlying resources of the firm are determinants of the firm's performance and competitive advantage.

Despite these contrasting perspectives, the resource-based view of the firm can be considered to be a complementary perspective to the industrial organization approaches. A way to appreciate this is to consider the SWOT framework, which was introduced to you in Module 1. While OT that is opportunities and threats aligned with industrial organization-based approaches and are externally oriented, the SW that is the strengths and weaknesses aligned with the resource-based view of the firm and is internally oriented.

In addition, the analysis of the profitability levels of firms within a particular industry reveal that there is a greater amount of variation in the firm's profitability within industries than across industries. Firms, which seemed to have a similar positioning in a particular industry, an aspect which would be fully discussed later in the course in Module 4 also appear to differ substantially in their profitability levels.

Given these observations and internal analysis of the firm, along with the external environment in which the firm is embedded in is of paramount importance. These two perspectives can therefore be very usefully combined to provide a holistic and a comprehensive view of understanding firm performance and competitive advantage differentials among firms.

This module is structured in the following manner. We turn to the key building blocks for understanding the resource-based view of the firm, followed by the description of the resource-based view of the firm framework and finally, we end the module with an illustration of the workings of the framework with the help of a key resource in a firm.

[1] Jay B. Barney, Gaining and Sustaining Competitive Advantage (Third Edition), PHI Learning Private Limited. Refer to pages 138 to 150.

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