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Creating a Competitive Advantage by Building Resource Capability

The Case of Outback Steakhouse Korea

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The case of Outback Steakhouse Korea provides almost a textbook example of a five-point framework for competitive advantage. The framework suggests that companies must manage and blend resources in the following five categories: (1) financial resources, (2) physical resources, (3) human resources, (4) organizational knowledge and learning, and (5) general organizational resources (including brand names and relationships with stakeholders). Outback Korea has deftly combined resources in these five categories for considerable advantage and must continue to do so.

Keywords: Restaurant franchising; restaurant management; Outback Steakhouse Korea; competitive advantage; strategic management; competitive advantage; capabilities

The accompanying case study chronicles the rise of Outback Steakhouse Korea, which has become the fastest growing of all the Outback franchisees. The authors analyze the management and policies that have allowed the Korean organization to develop and expand distinctive competencies in particular areas that are difficult for competitors to replicate. As explained in the case study, Outback Korea's capacity to perform better than others comes from continuously developing existing resources and creating new resources as needed. In this commentary, I explain the mechanisms by which Outback Korea has developed its competitive advantage.

Economist Edith Penrose was one of the early scholars to observe the way firms obtain superior performance using what she called a bundle of productive resources (Penrose 1959). By studying the results when organizations harnessed those resources, she concluded that effective management of capabilities allows an organization to outperform its rivals. When a firm earns a persistently higher level of profit than other firms competing within the same market, it is thought to possess a competitive advantage, based on its application of special competencies (Grant forthcoming). In the case study of Outback Steakhouse in Korea, we see an organization that has clearly developed a competitive advantage.

Having a competitive advantage usually means that the firm can perform a service, manufacture a product, or offer a bundle of benefits that competitors cannot match (Porter 1996). While it is extremely difficult to sustain a competitive advantage, especially in the hotel or restaurant industry, firms work to create advantages through differential development of resources and capabilities. Superior resources or capabilities are those that have value in the market, are possessed by only a small number of firms, and are not easy to substitute. If a particular resource is also costly or impossible to imitate, then the competitive advantage may be sustainable (see sidebar). Successful companies, like Outback Steakhouse in Korea, pay careful attention to developing and applying their resources and capabilities to build sustainable competitive advantage.

It is important to note that a single resource does not create a competitive advantage, even when that resource confers an advantage in the marketplace. Instead, multiple resources must be assembled in novel ways to create a firm's capabilities. This is the strategic role of an effective manager, whose job is acquiring, developing, managing, and discarding resources. According to this view, firms can gain competitive advantage through possessing superior resources in the following five categories: (1) financial resources, including all of the monetary resources from which a firm can draw; (2) physical resources, such as land, buildings, equipment, locations, and access to raw materials; (3) human resources, which pertains to the skills, background, and training of managers and employees, as well as the way they are organized; (4) organizational knowledge and learning; and (5) general organizational resources, including the firm's reputation, brand names, patents, contracts, and relationships with external stakeholders (Barney and Arikan 2001; Barney

Six Questions for Determining a Sustainable Competitive Advantage

The ability of resources or capabilities to lead to a sustainable competitive advantage depends on the answers to the following six questions:

1. Does the resource or capability have value in the market?
2. Is the resource or capability unique?
3. Is there a readily available substitute for the resource or capability?

↓

Resource or capability has potential to lead to a competitive advantage:

↓

4. Do organizational systems exist that allow the realization of potential?
5. Is the organization aware of and realizing the advantages?

↓

Actual source of competitive advantage:

6. Is the resource or capability difficult or costly to imitate?

↓

The competitive advantage is sustainable.

Source: Harrison and Enz (2005).

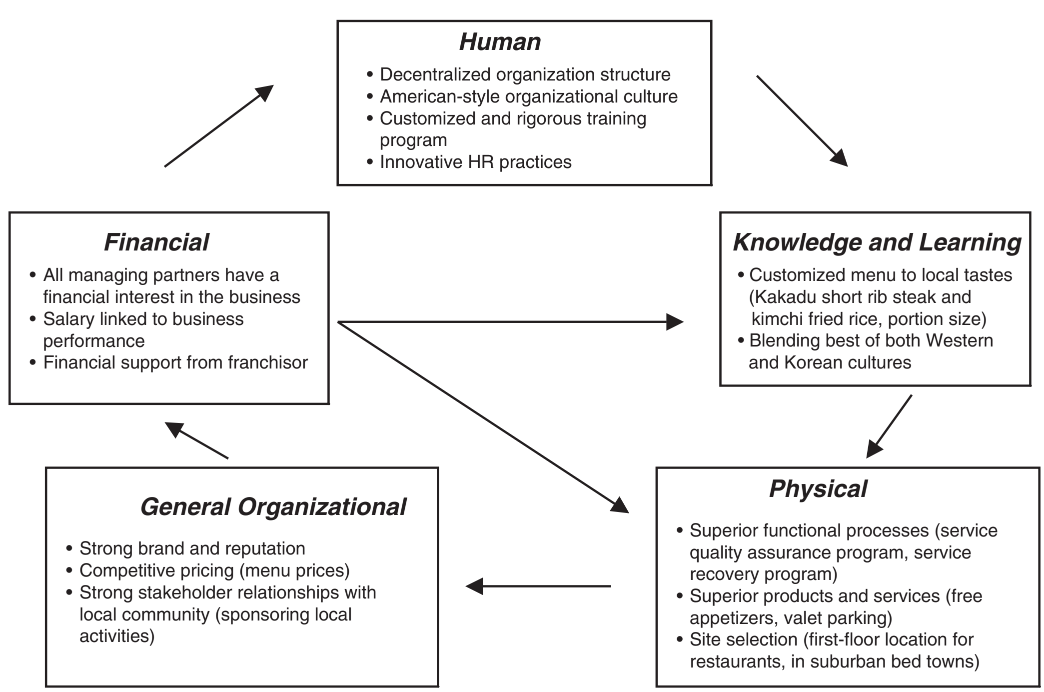
1991; Barney 1997; Harrison et al. 1991; Mahoney and Pandian 1992; Wernerfelt 1984). With those categories in mind, let us examine how Outback Steakhouse in Korea has built its distinctive resources and capabilities.

Outback Steakhouse as a Bundle of Resources

Although I discuss the five resource areas separately as they apply to the case of Outback Steakhouse Korea, the reality is that they are all tied together, as shown in Exhibit 1. The arrows in the exhibit suggest the strong interconnection between the various resources. To illustrate, beginning with strong financial resources, the restaurant chain can hire the most promising managers and employees and offer them the best of training. A strong financial position can also lead to investments in superior functional processes, such as Outback's service-quality-assurance and service-recovery programs. In addition, if an organization uses strong financial resources to hire the most talented people and train them well, those employees are more likely to learn better and innovate. This innovation and learning will result in better operational processes, which reinforces investments in superior physical assets. The result should be outstanding products and services, which lead to a strong brand, an excellent organizational reputation, and excellent relationships with stakeholders.

Financial. Firms that are in a strong financial position can respond authoritatively to new opportunities, weather environmental threats, and withstand pressure from stakeholders, as compared to competitors who suffer financial constraints. Outback Steakhouse Korea's financial

Exhibit 1:
Bundle of Resources at Outback Steakhouse Korea



strength was based on the $13 million investment from its franchisor and the initial capital investment from managing partners. While financial resources rarely qualify as unique and usually are not difficult to imitate, they can still serve as a source of competitive advantage. Solid financing of the kind that Outback Korea enjoyed certainly constitutes the precondition for firms to weave together resources in the other four categories.

Physical. The physical assets and processes are the resources people usually observe before all the others. Outback Korea's carefully developed site selection strategy, built on leasing less expensive first-floor locations in suburban (bed town) areas, was critical to its resource use. The location strategy not only reduces costs but also allows the chain to locate near target customers. Equally as important as location for a service organization are the ways a firm uses its physical resources to generate customer value. The service tests devised to measure service performance, serving times, and sanitation practices are just one example of how Outback Steakhouse Korea has developed organizational processes as a source of competitive strength. Like financial resources, physical resources, which are tangible because they can be seen, touched, or quantified (Hitt, Ireland, and Hoskisson 1995), tend to be reproducible and relatively easy to imitate. On the other hand, some of the most important resources and capabilities are intangible, such as the brand, employee trust, knowledge, and reputation of the firm. These intangible resources are either impossible to replicate or can only be reproduced with great difficulty.

Knowledge and Learning. The other side of the coin from physical assets are intangibles, such as human resources, knowledge, and learning. Knowledge can be used by several parties simultaneously and does not really wear out, even though it can lose its value rapidly when new knowledge is created. So if physical assets depreciate or lose value gradually over time in some instances, knowledge can depreciate or lose its value abruptly. By contrast, of course, physical assets have specific limitations and must depreciate over time. It is also worth noting a key difference, which is that setting a price on a physical asset is relatively easy, but it is difficult to measure and put a value on knowledge transfer.

Outback Korea seems to face no danger of outdated knowledge, given its constant work to adapt and invent menu items, such as the Kakadu short rib steak and Kimchi fried rice. Accommodating Koreans' tastes in a U.S.-style franchise operation takes innovative thinking and experimentation. In addition to creating successful top selling products, the company has built an efficient service operation—indicating a firm with both product- and process-development skills. The critical decision that allowed this innovation to take place was when Outback Korea elected to step away from the traditional hierarchical organizational culture common in Korea. The company then could translate its existing knowledge into new processes and programs. I discuss this further in the next category, human resources and organizational structure.

Human resources. Notwithstanding the creativity involved in developing new processes, Outback Korea's human resources is clearly its most valuable asset. Unlike most of the other resource categories, which can eventually be duplicated, a staff of highly qualified employees sets a company apart and is the basis of long-term competitiveness. Research has shown that sophisticated human resources planning, recruitment, and selection strategies are associated with higher labor productivity, especially in capital-intensive organizations (Koch and McGrath 1996).

So it is with Outback Korea. Its innovative human resources policies, such as promoting from within, strict screening and selection, generous benefits, and flexible scheduling, all help the chain increase employee effectiveness.

Together with its employees, Outback Korea's organizational structure and culture provide the company with a significant advantage. The company's decentralized structure helped speed up the decision-making process for site selection, enhancing supplier relationships, minimizing costs, and facilitating training. In a world where business models are quickly understood by competitors, a flexible structure is a key to success in many companies (Bulkeley 1994; Vesey 1991), as it is with Outback. Defined as the shared values of its members, organizational culture often reflects the values of management, combined with the human resources management practices that create the working conditions and the experiences of employees. In this firm, a keen awareness of Korean cultural values was blended with an American style of communication. Giving everyone the "right to express their ideas and suggestions," while rare among Korean companies, was a notable feature of Outback Steakhouse Korea.

General. The last category of resources are general organizational resources such as brand, reputation, and strong stakeholder relationships. Firm-specific and difficult to imitate, the brand usually captures the identity of a restaurant and constitutes a key value-creating resource (Ponsonby-McCabe 2006). Throughout the case of Outback Steakhouse Korea, we learn of the value of the brand and the importance of a cooperative relationship between the U.S. franchisor and the Korean franchisee in building that brand. That relationship, based on trust and loyalty, immeasurably strengthened Outback's hand in Korea. Along the way, the two organizations learned from each other, a hallmark of strong relationships. Other strong stakeholder relationships, such as those with the local community through event sponsorship, allowed Outback to enhanced its reputation—again, a facet of the brand that is hard for competitors to imitate.

As implied in the above discussion, intangible assets are harder to quantify than physical assets, and intangibles are also the most difficult resources and capabilities to imitate. One reason that such duplication is difficult is that competitors are often unable to determine exactly how the source of capability was created. Other restaurant chains will be able to locate capital sources, for instance, or they could imitate the Kakadu short rib steak, but the service processes; the decentralized structure; the hiring, development, and training practices; and the blend of American and Korean culture will be more difficult to imitate. Consequently, intangible resources and capabilities are often the ones most likely to lead to competitive advantage.

The Future

To maintain its success, Outback Steakhouse Korea will need to continue to pay attention to all five resource categories or risk losing some its competitive advantage. A solid investment strategy should focus on developing human resources, locating superior sites, and maintaining excellent operating processes. Not to downplay the importance of financial resources and tangible resources, but it seems clear that the company's differentiation rests most heavily on such intangibles as human resources and operational processes. Human resources need to be managed effectively so that learning and innovation are the result. If human resource development is neglected or misguided, learning and innovation will cease and the organization will eventually lose its market position.

Instead, Outback Korea must continue its policies of creating knowledge and developing innovative activities, so that it can produce better processes and new products. If this does not happen, the value of a company's brand could erode, and its reputation could suffer. Finally, stakeholder relationships should be carefully guarded and developed to produce strong financial results. To develop sustainable competitive advantage the full bundle of interdependent resources cannot be neglected.

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