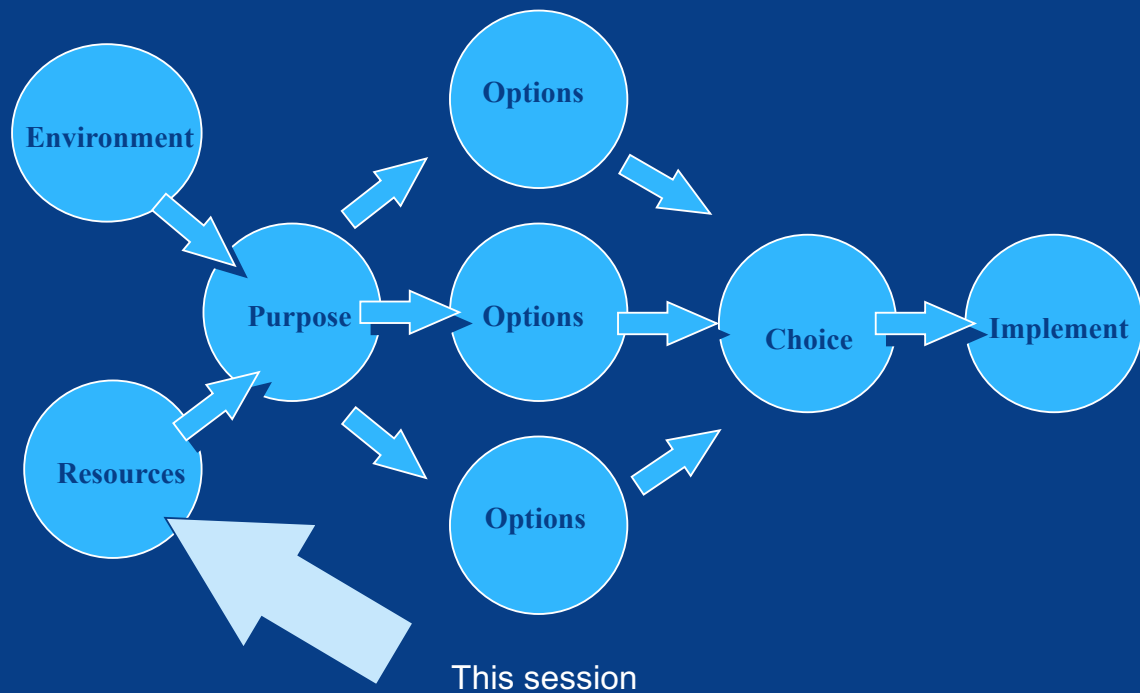


Chapter 4

Analysing resources and capabilities

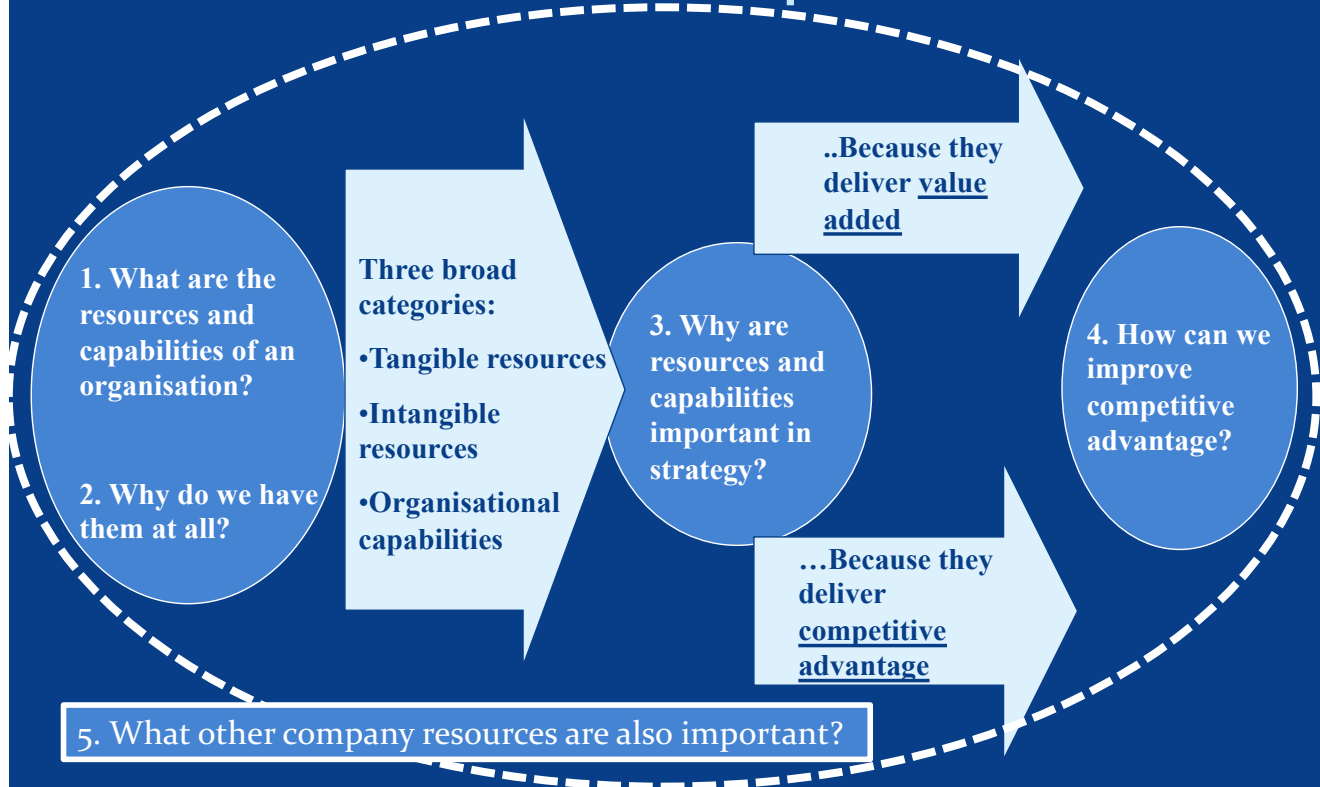
**How do we analyse an
organisation's strategic
resources and capabilities?**

Analysing an organisation's resources and capabilities



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Five key questions related to strategic resources and capabilities



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Why are strategic resources and capabilities important? - 1

- Underpinning economic assumption: organisations wish to generate above-average returns
- During the 1980s and 1990s, strategy took a fundamental shift from the **market-based** approach of Prof Porter and others towards a greater emphasis on the **competitive resources** of an individual company
- The new approach was called the ***Resource-based View (RBV)*** of the organisation

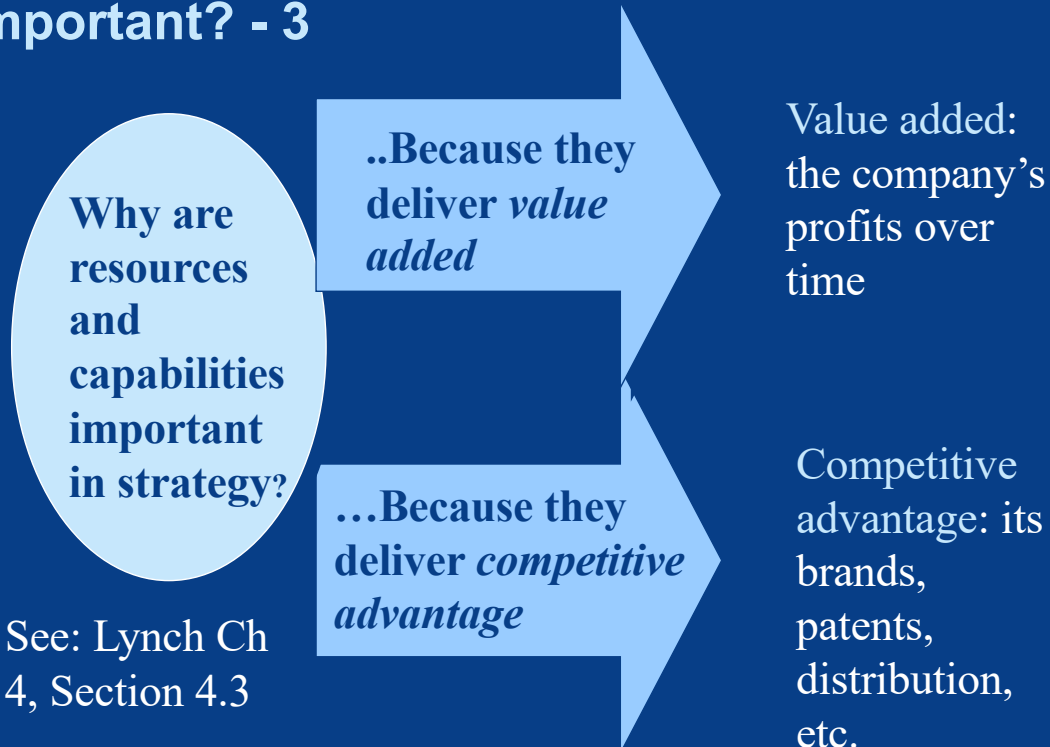
See: Lynch Ch 4, Sections 4.1 and 4.5

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Why are strategic resources and capabilities important? - 2

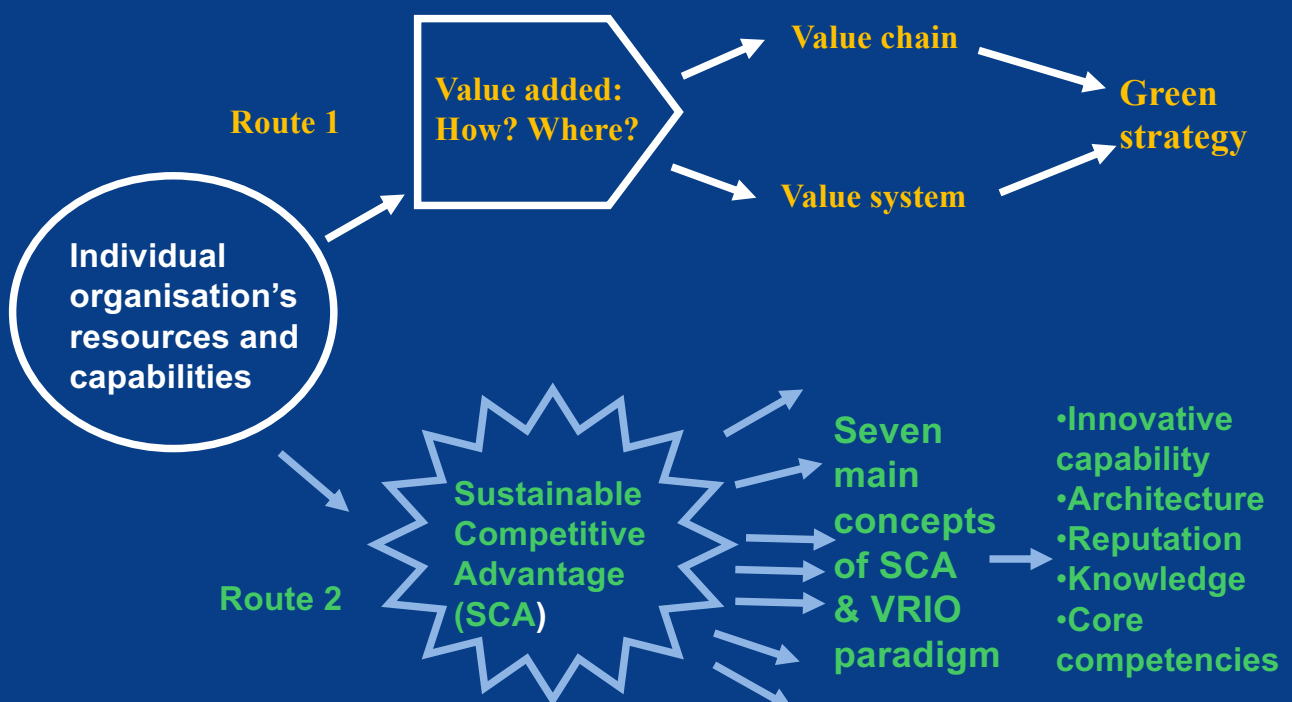
- Make-or-buy decision: why does an organisation possess resources?
- Over last 30 years, many organisations have come to re-appraise the boundaries of their resources
- What they *make* (or deliver as a service) is only part of what they *own*, e.g. they may own valuable resources like patents or brands
- Resources owned by an organisation are likely to be the primary source of its ***value added*** and ***sustainable competitive advantage (SCA)***

Why are strategic resources and capabilities important? - 3



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Why are strategic resources and capabilities important? - 4



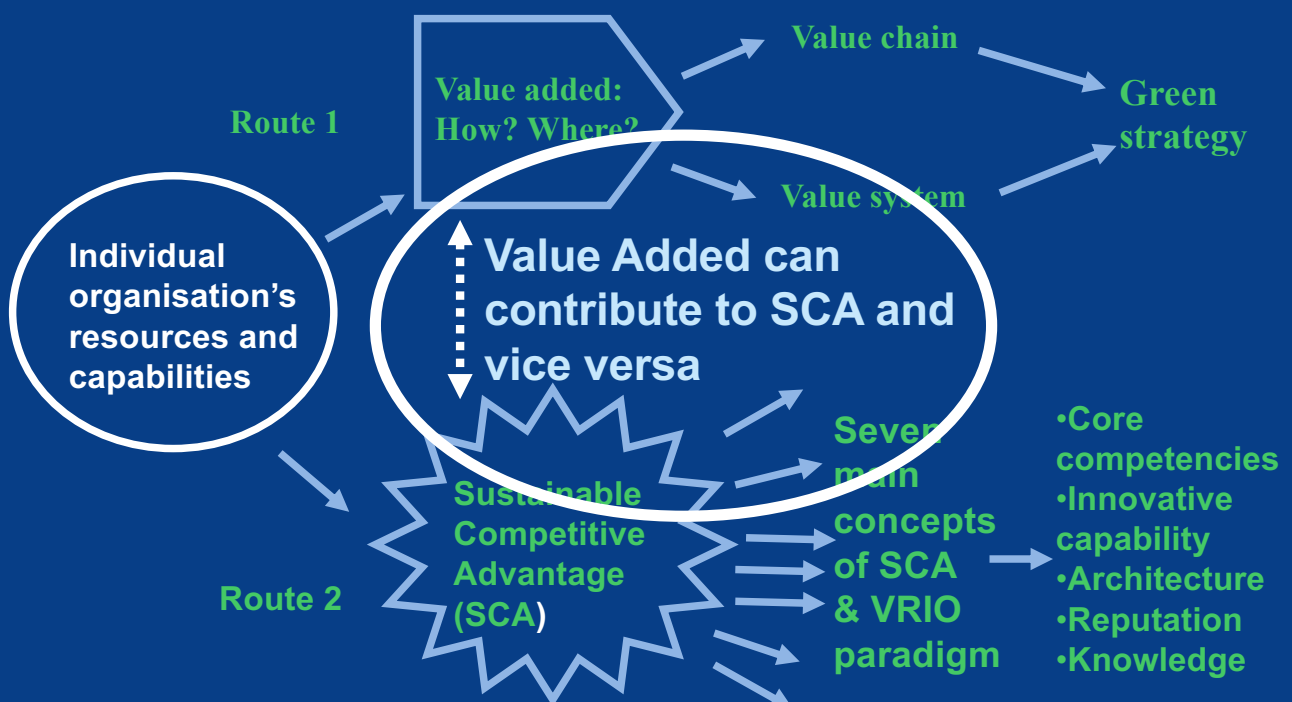
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Why are strategic resources and capabilities important? - 5



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Why are strategic resources and capabilities important? - 6



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Identifying and developing the resources that deliver SCA and value added

Step 1

Analyse the **value added** by an organisation's main resources and capabilities

- Tangible SCA
- Intangible SCA
- Organisational capability SCA

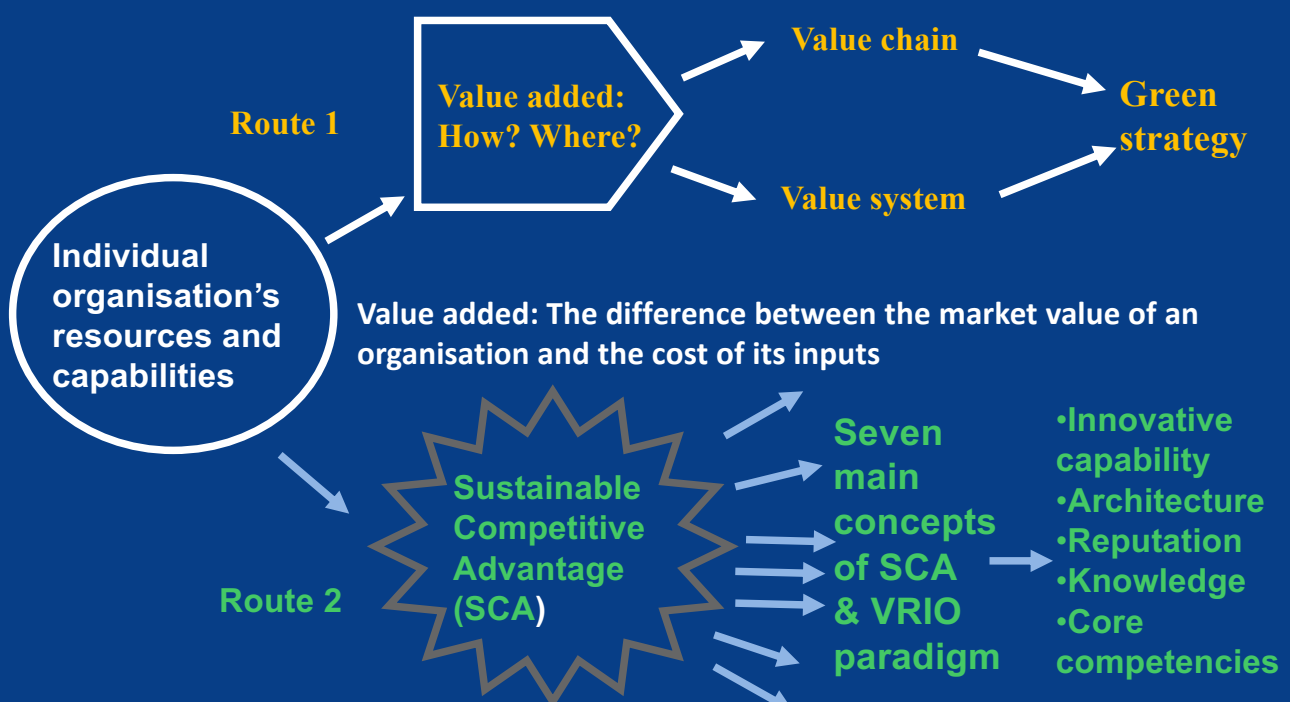
- Innovative capability
- Reputation
- Architecture
- Core competencies
- Some knowledge content

- Bench-marking
- Leveraging
- Upgrading
- New R&D
- Buy-in technology from outside
- Joint ventures

Define the SCA now....
..but what about future dynamics?

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How can we identify value added? - 1



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How can we identify value added? - 2

- Resources difficult to analyse because many of them are vague and difficult to identify, e.g. organisational skills
- Begin with broad survey of value added in organisation:
 - 1) Products or services – the size, range and profitability of the organisation's main products or services
 - 2) Competitive position – the relative market position, the relative quality of service and reputation, the relative costs
 - 3) Leadership and people – the people who make up the organisation, their skills, size and leadership
 - 4) **Suppliers and customers** -the relationships that the organisation has with its outside networks

See: Lynch, Ch 4, Section 4.4

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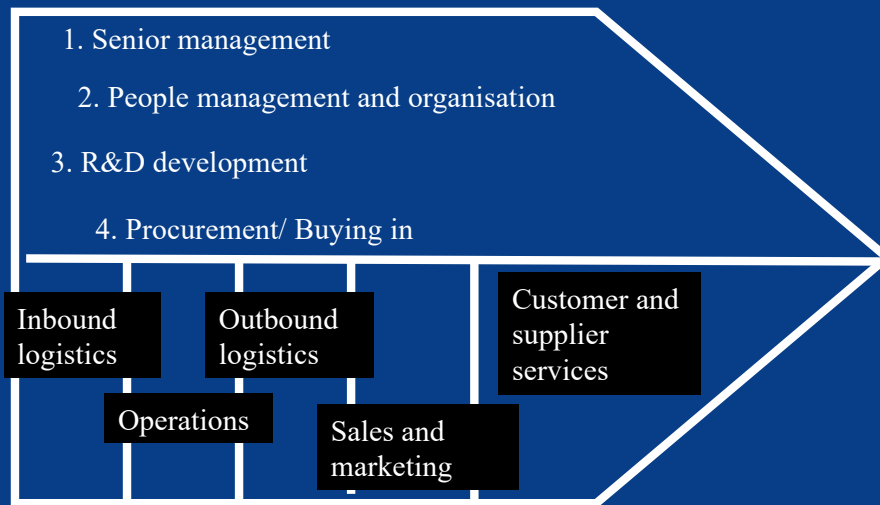
How can we identify value added? - 3

- We can also examine which parts of the organisation add the greatest value
- **Value added** of an organisation: “the market value of its *output* minus the costs of its *inputs*”
- All organisations need to add value to their inputs or they are unlikely to survive in the long term
- **The value chain** breaks down the activities of the organisation into its many parts
- Contribution of each part can be analysed for its contribution to:
 - the total value added by the organisation and
 - the SCA of the organisation

*See: Lynch
Ch 4,
Section 4.4*

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How can we identify value added? - 4



See: Lynch
Ch 4,
Section 4.4

The value chain: “Which parts of the organisation add value?”

Identifying and developing the resources that deliver SCA and value added

Step 2

Analyse the **value added** by an organisation's main resources and capabilities

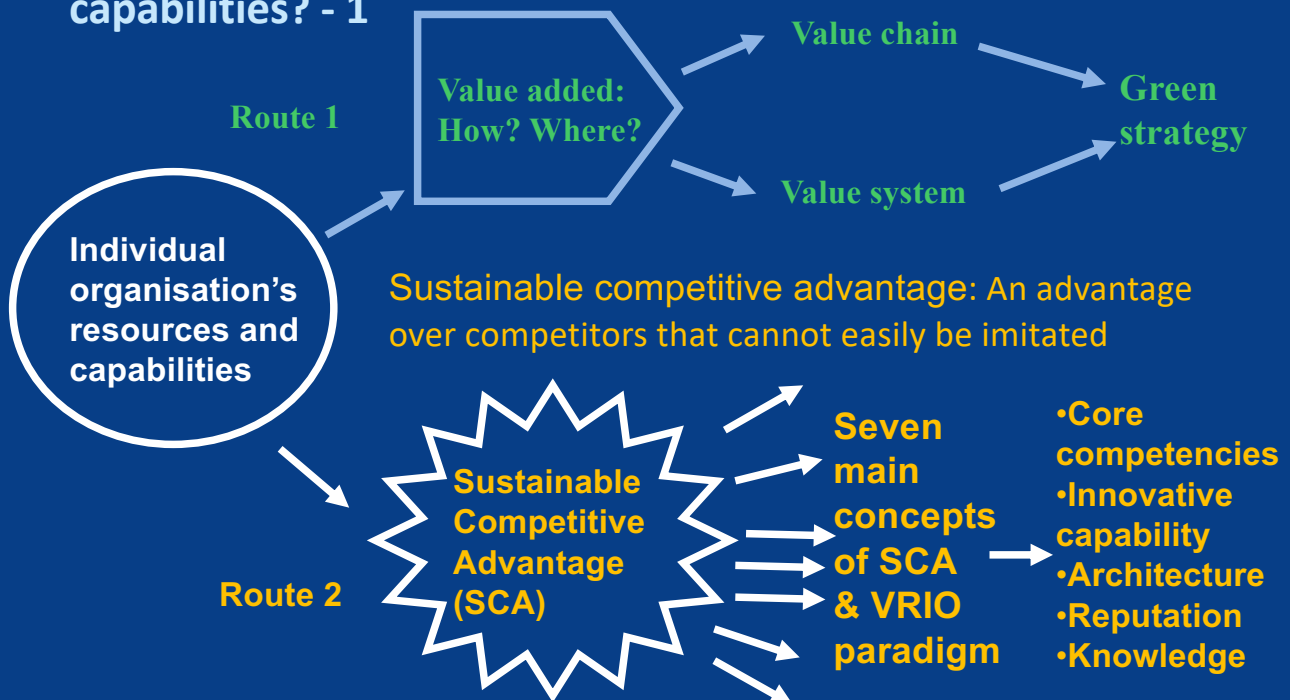
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Define the SCA now....
..but what about future dynamics?

How can we identify strategic resources and capabilities? - 1



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How can we identify strategic resources and capabilities? - 2

- Resources difficult to analyse because many of them are vague and difficult to identify, e.g. organisational skills
- Useful to divide into three broad categories:
 - 1) **Tangible assets** – the physical assets – e.g. plant and location
 - 2) **Intangible assets** – resources that have no physical presence but provide benefits – e.g. brand names and patents
 - 3) **Organisational capability** – the skills, routines, management and leadership of the organisation

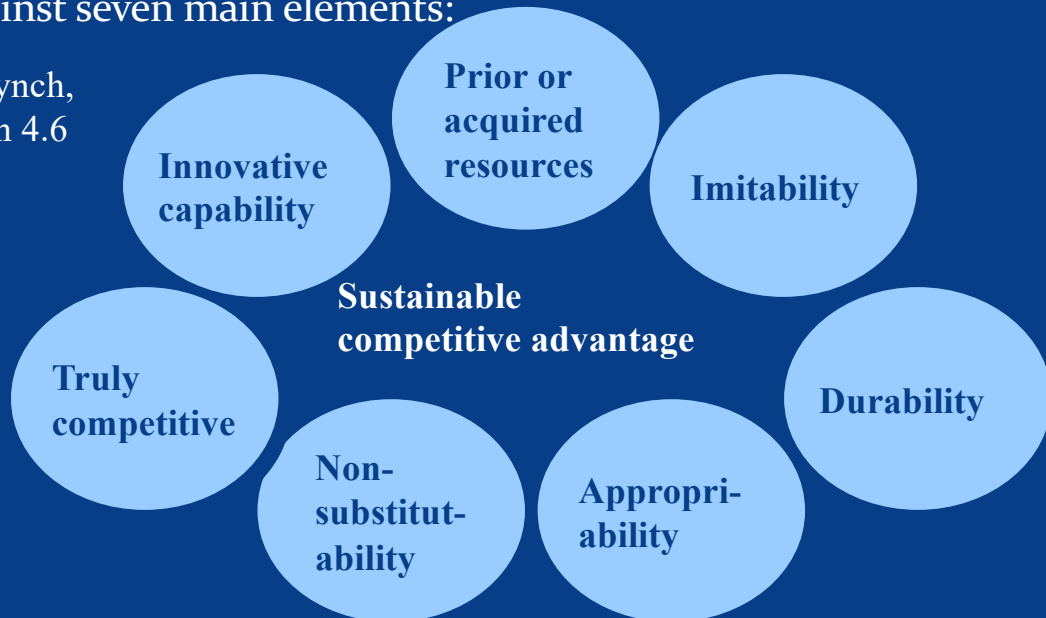
See: Lynch, Ch 4, Sections 4.5 and 4.6

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How can we identify strategic resources and capabilities? - 3

- More generally, need to analyse resources and capabilities against seven main elements:

See: Lynch,
Section 4.6



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How can we identify strategic resources and capabilities? - 4 SCA structured – The VRIO Framework

- Resources/capabilities with the potential to provide an *organisation* with superior performance must meet four criteria:
 - **Valuable** – the resource helps the organisation improve its value-added
 - **Rare** – few, if any, organisations possess this resource
 - **Inimitable** – the resource cannot easily be copied or substituted
 - **Organised** – the organisation must be able/organised to take advantage of the resource

(Barney 1995, 2002)

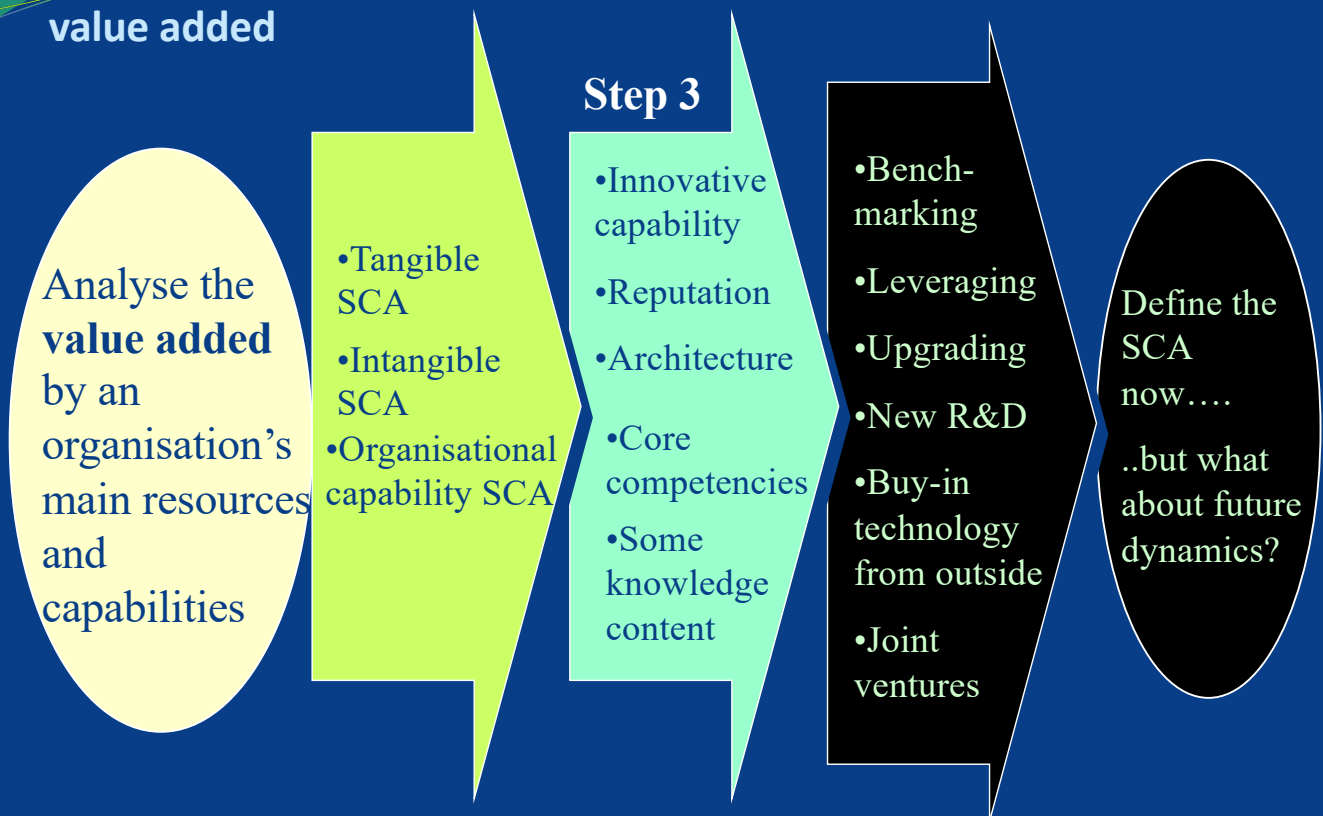
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The VRIO Framework: Performance Implications

<i>Valuable?</i>	<i>Rare?</i>	<i>Inimitable?</i>	<i>Organised?</i>	<i>Competitive impact</i>	<i>Performance implications</i>
No	—	—	—	Competitive disadvantage	Under industry average
Yes	No	—	—	Competitive parity	Industry average
Yes	Yes	No	—	Short term competitive advantage	Over industry average
Yes	Yes	Yes	Yes	Long term competitive advantage	Over industry average

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Identifying and developing the resources that deliver SCA and value added



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How can we identify strategic resources and capabilities? - 4

- Given the vague nature of the RBV, it is useful to have some additional guidance on how to identify the resources and capabilities of an organisation
- From a number of strategy studies, three areas may prove particularly useful:
 - **Distinctive capabilities** from Prof John Kay
 - **Core competences** from Hamel and Prahalad
 - **Knowledge** from several sources
- But none of these is a substitute for a fundamental exploration of the organisation's SCA and its sources of value added

How can we identify strategic resources and capabilities? - 5

- **Distinctive capabilities** add value and deliver competitive advantage in three areas:
 - *Architecture*: the network of relationships both within and outside the firm
 - *Reputation*: the standing of the firm in the community at large
 - *Innovative ability*: the structures, skills, procedures and rewards that allow some organisations to innovate better than others

See: Lynch, Ch 4, Section 4.6

How can we identify strategic resources and capabilities? - 6

- **Core competencies**: “a group of production skills and technologies that enables an organisation to provide a particular benefit to customers” - developed by Hamel and Prahalad
- Can be built in a variety of ways in existing and new products to deliver competitive advantage
- Three distinguishing features of successful core competences:
 - *Customer value*: must make a real impact on how the customer perceives the organisation
 - *Competitor differentiation*: competencies must be unique against competition
 - *Extendable*: core competencies need to be capable of providing the basis for products or services that go beyond those currently available

See: Lynch, Ch 4, Section 4.6

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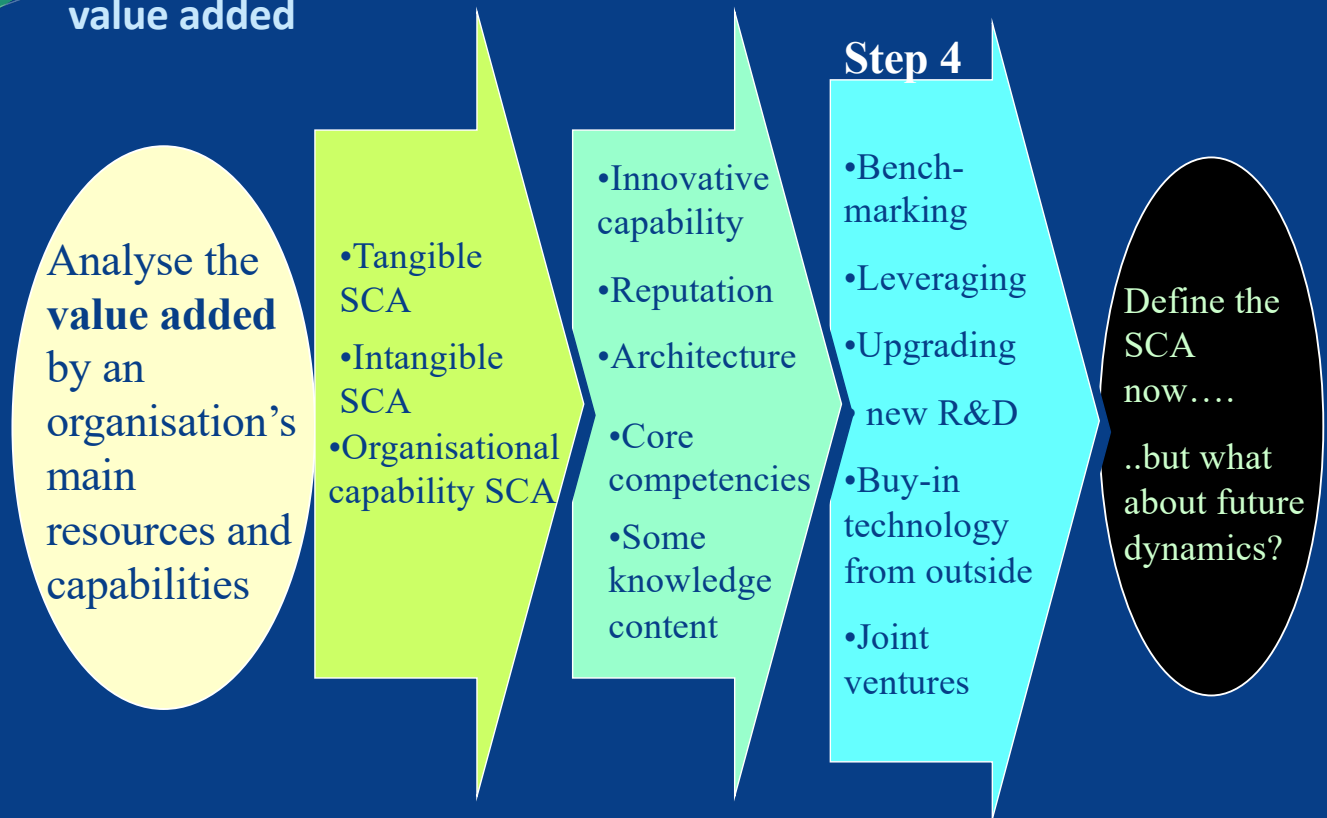
How can we identify strategic resources and capabilities? - 7

- **Knowledge** can deliver SCA: important to distinguish between tacit and explicit knowledge
 - *Tacit knowledge*: difficult to specify, fuzzy, perhaps complex and often unrecorded
 - *Explicit knowledge*: carefully analysed, often defined precisely, often written down
- Both types can provide sustainable competitive advantage
 - Tacit because it is more difficult for competitors to copy what remains only partially known
 - Explicit because it may be exclusive to the organisation, such as a patent.

See: Lynch, Ch 4, Section 4.6

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Identifying and developing the resources that deliver SCA and value added



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How can strategic resources and capabilities be improved? - 1

Three main ways:

- **Benchmarking**: a comparison of practice with another organisation considered to display best-practice in its field of operation
- **Leveraging**: exploiting existing resources
- **Upgrading resources**: through developing new resources, enhancing those threatened by competition and adding complementary resources

See: Lynch, Ch 4, Section 4.7

How can strategic resources and capabilities be improved? - 2

- Three additional approaches may also help:
 - **Future technology**: R&D investment and market research programmes to explore customer issues
 - **Buy in technology** from outside, e.g. from companies that have patents in one country but have not fully developed their potential in other countries
 - **Joint ventures** with other companies to combine resources
- All these areas have advantages and problems that need to be explored for future scope

Identifying and developing the resources that deliver SCA and value added

Step 5

Analyse the **value added** by an organisation's main resources and capabilities

•Tangible SCA
•Intangible SCA
•Organisational capability SCA

•Innovative capability
•Reputation
•Architecture
•Core competencies
•Some knowledge content

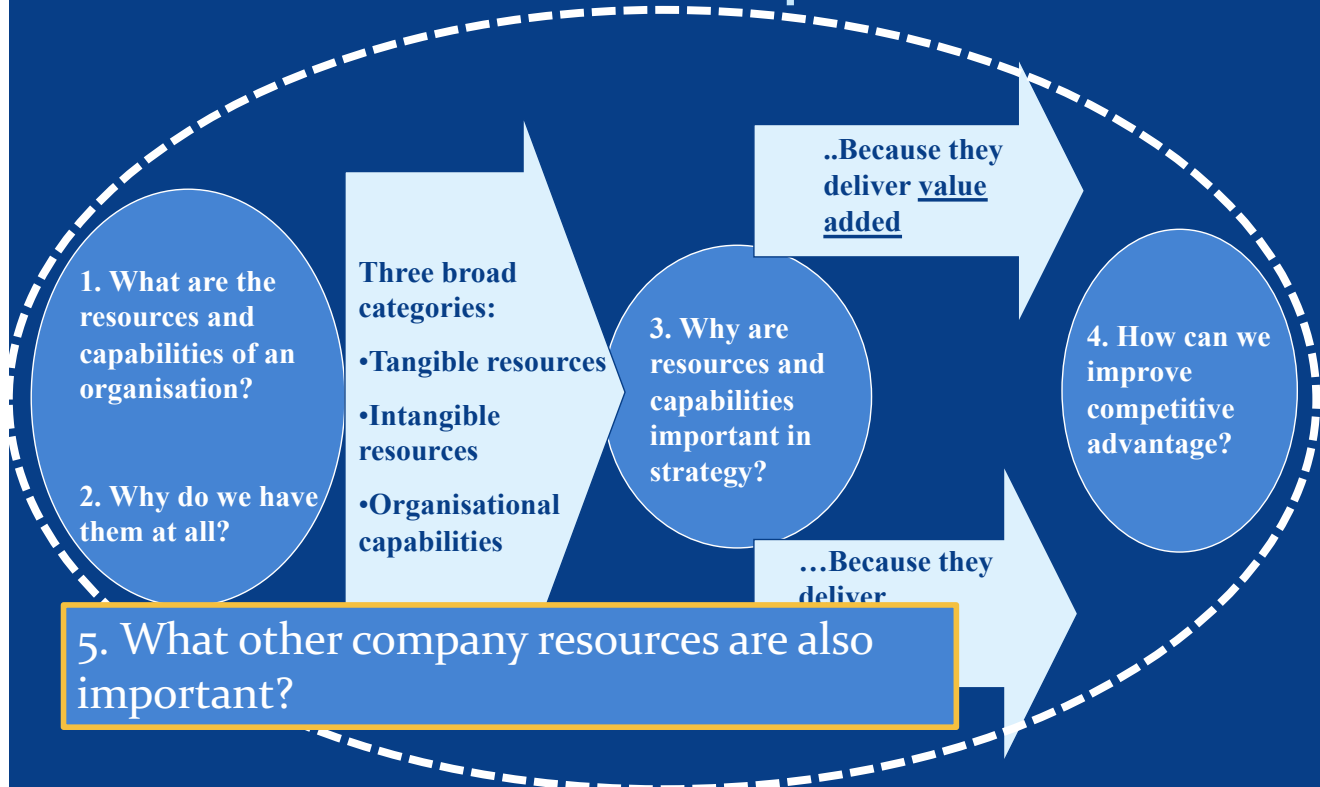
•Bench-marking
•Leveraging
•Upgrading R&D
•Buy-in technology from outside
•Joint ventures

Define the SCA now....
..but what about future dynamics?

Identifying and developing the resources that deliver SCA and value added

- In spite of the initial resource analysis, there are significant problems with identifying resources:
 - RBV guidance is vague and all-embracing
 - Technology changes, sometimes radically
 - Competitors are also investing in new resources and strategies
 - Markets and economies change in unexpected, sometimes radical, ways
- New, related topic called 'Strategy Dynamics'

Five key questions related to strategic resources and capabilities



What other strategic resources are also important?

- Strategic resource analysis needs to go beyond competitive advantage: other resources are also important
 - Financial resources: new strategies need to be funded
 - Operations (Production) resources: even in service industries, it is important to consider how resources are delivered
 - Marketing and sales to reach the customers
 - Human resources: the culture and style of the organisation are crucial to resource delivery
 - Other areas such as Distribution are also important
- Many of the above areas are usually considered on other courses
- But the culture and style of the organisation need to be analysed in the context of strategic resources

Analysing organisational culture and style - 1

- Organisational culture: “The way we do things around here...”
- As you walk into the entrance of the organisation, you can immediately sense something of its culture...
- Culture: Leadership and people, the ‘buzz’, the formality/informality, how people talk to each other, relate to each other and so on...
- Leaders have a major influence in organisational culture over time but cultures only change slowly

Analysing organisational culture and style - 2

- Leaders are concerned with shaping the culture of their organisations over time
- Leaders should distinguish between the culture of their organisations and national cultures: national cultures may influence their organisations but they are *not* the main influence
- Leaders can analyse their organisation's culture through five main elements:
 - History and ownership
 - Size
 - Technology
 - Leadership and mission
 - Cultural web
 - Types of organisational cultural style

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Analysing organisational culture and style - 3



See: Lynch Ch 16

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Analysing organisational culture and style - 4

'The Cultural Web'

Stories:
what do
people talk
about?

Symbols:
what are
the signs
of office?

*Power
structures:* who
makes the
decisions?

The paradigm

*Routines and
Rituals:* how
are things
done?

*Control
systems:*
bureaucratic?
Performance
oriented?

*Organisational
structure:* who
reports to
whom?

How do we analyse an organisation's strategic resources and capabilities?

Some additional overheads

Identify the resources capabilities of the organisation - 1

- Profit maximising, industry-based theories: SCA and value added derive from an analysis of the *industry*
- *Market structure* – the number of firms and the degree of rivalry – forms the basis of competitive development
- *Market conduct* – how firms behave towards each other – will then influence strategy
- *Market performance* – the strategies chosen in the context of the above two factors – then represents the development of strategy
- Represented by Prof Michael Porter: *Five-Forces Analysis* and *Generic Strategies* analysis
- But such theories do not explain why two companies in the same industry achieve widely differing results

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Identify the resources and capabilities of the organisation - 2

- Resource-based view (RBV) of strategy development represents revised view of strategy development.
- Focuses on the *individual* resources of the organisation, rather than strategies common to all companies in an industry.
- *Basic argument*: important to understand the competitive forces in an industry, but organisations should seek their *individual* solutions within this context.
- *Competitive advantage*: derives from the exploitation of the relevant resources of the *individual* organisation when compared to others in the industry.
- **Key point**: RBV represents newer insight

See Lynch Ch. 4, Section 4.5

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Resources/Capabilities Analysis

- Organisations are bundles of resources
 - They differ with respect to the resources/capabilities they possess
 - These differences persist due to the 'stickiness' of resources/capabilities
 - These differences lead to differences in performance

Sustainable competitive advantage

- Advantages over competitors that cannot easily be imitated
- Sustainable over time by being deeply embedded in the organisation
- Sources include:
 - Differentiation
 - Low costs
 - Niche marketing
 - High performance technology
 - Superior quality
 - Superior service
 - Vertical integration
 - Synergy
 - Culture, leadership and style of organisation

Intensity of competition in an industry

Measured by:

- Degree of concentration of companies in the industry
- Range of aggressive strategies of competitors in the market place

Degree of concentration often summarised in the *concentration ratio*:

“The percentage of industry value added or turnover controlled by the largest four, five or eight firms in an industry: C₄, C₅ or C₈ respectively”