Strategic capabilities and resources

Business, Leadership

Chapter – Strategic Capability

In the previous chapter, we learned how to analyse theenvironmentthat surrounds a company. But, it is also important to study the internal strategic capabilities of the firm, because, since your competitors are in the same environment, that is what distinguishes the companies performances.

Foundations of Strategic Capability

Strategic Capabilities can be defined as the resources and competences (strategic assets) of an organisation needed for it to survive and prosper. Resources are physical and intangible assets a company has such as plant, people andfinancefor physical and information, reputation and knowledge for intangible. Competences mean the skills and abilities by which resources are deployed effectively through an organisation’s activities and processes.

These capabilities can be divided into two groups, threshold or unique and core. Threshold capabilities are those needed for and organisation to meet the necessary requirements to compete in a given market. These could be threshold resources required to meet minimum customer requirements.

While they are important, they do not of themselves create competitive advantage or the basis of superior performance. This depends on an organisation having distinctive or unique capabilities that competitors will find difficult to imitate. This could be because the organisation has unique resources or core competences.

To survive and prosper an organisation needs to address the challenges of the environment that it faces, discussed in Chapter 2. In particular it must be capable of performing in terms of the critical success factors that arise from demands and needs of its cus- tomers, discussed in section 2. 4. 4. The strategic capability to do so is dependent on the resources and the competences it has. These must reach a threshold level in order for the organisation to survive. The further challenge is to achieve com- petitive advantage. This requires it to have strategic capabilities that its com- petitors find difficult to imitate or obtain. These could be unique resources but are more likely to be the core competences of the organization.

Read also about Threshold Capabilities

Capabilities for Achieving and Sustaining Competitive Advantage (VRIN model)

If the aim of a company is to achieve competitive advantage, it must think about sustaining it in the long run. In order to do so, there are 4 steps that should be considered. Value of Strategic Capabilities

First of all, the company must have capabilities that are of value to its customers. Rarity of Strategic Capabilities Competitive advantage might be achieved if a competitor possesses a unique or rare capability. This could take the form of unique resources. However, it is important to be aware of the ease of transferability of the capability, as it may depend on individuals, for instance. Inimitable Strategic Capabilities

It involves identifying capabilities that are likely to be durable and which competitors find difficult to imitate or obtain. It might happen due to:

1- Complexity Internal Linkages:

it may be the ability to link activities and processes that, together, deliver value. External Interconnectedness: organizations can make it difficult for others to imitate or obtain their bases of competitive advantage by developing activities together with the customer on which the customer is dependent on them.

2-Cultureand History

3- Casual Ambiguity

Non-substitutability of Strategic Capabilities

However, the organization may still be at risk from substitution. It could take the form of product or service substitution or competence substitution. In summary and from a resource-based view of organisations, managers need to consider whether their organisation has strategic capabilities to achieve and sustain competitive advantage. To do so they need to consider how and to what extent it has capabilities which are (i) valuable to buyers, (ii) rare, (iii) inimitable and (iv) non-substitutable. If such capabilities for competitive advantage do not exist, then managers need to consider if they can be developed.

Dynamic Capabilities

The discussion so far has tended to assume that strategic capabilities can provide sustainable competitive advantage over time: that they are durable. However, managers often claim that hypercompetitive conditions (see section 2. 3. 2) are becoming increasingly prevalent. Dynamic capabilities are an organisation’s abilities to renew and recreate its strategic capabilities to meet the needs of a changing environment.

Cost Efficiency

Customers can benefit from cost efficiencies in terms of lower prices or more product features for the same price. However, for many organizations the management of costs is becoming a threshold strategic capability for two reasons: customers do not value product features at any price and competitive rivalry will continually require the driving down of costs. However, cost efficiency can be achieved by economies of scale, experience, supply costs and product/process design.

Diagnosing Strategic Capability

So far, this chapter has been concerned with explaining strategic capability and associated concepts. This section now provides some ways in which strategic capabilities can be diagnosed. If organizations are to achieve competitive advantage by delivering value to customers, managers need to understand which activities they undertake are especially important in creating that value and which are not. Concepts such as Value chain and value network can be helpful in understanding this.

1- Value Chain

The value chain describes the categories of activities within and around an organization, which together create a product or service. Primary activities are directly concerned with the creation or delivery of a product or service. Each of these groups of primary activities is linked to support activities, which help to improve the effectiveness or efficiency of primary activities. It is important to point out that the primary and support activities vary according to the sector the company is in.

The value chain can help with the analysis of the strategic position of an organization in two different ways: -as generic descriptions of activities that can help managers understand if there is a cluster of activities providing benefit to customers located within particular areas of the value chain. - in terms of the cost and value of activities, as a way of identifying what they should focus on in developing a more profitable business model.

2- Value Network

A single organization rarely undertakes in-house all of the value activities from design to delivery of the final product or service to the final consumer. There is usually specialization of role so any organization is part of a wider value network. The value network is the set of interorganisational links and set of interorganisational? links and relationships? that are necessary to? create a product or? service Within the value network analysis, there are four key issues:

-Which activities are centrally important to an organization`s strategic capability and which less central?

-Where are the profit pools?

-The make or buy decision. Historically, vertical integration meant to win a substantial competitive advantage. However, the current trend is to outsource for a potential greatest efficiency of the company. - Partnering

3-Competitive Advantage According to Industry Analysis

A competitive advantage exists if the profit of the firm in the industry is higher than the one of its competitors. This situation exists if the firm masters more efficiently one or several key success factors of the industry: It has a better product-market positioning. The search of competitive advantages implies to adapt the positioning of the firm to the KSFs of the industry. To formulate this strategy, you have to identify the KSF and understand if you are mastering it or not. Thus, you will acquire the required strategic assets to do so and position the company according to that. However, sometimes the strategic assets cannot be acquired because they are linked to reputation, know-how and relations with customers and suppliers.

4- Benchmarking

The main idea of benchmarking is comparing the company to something else. It can be either a competitor or even itself in the past. But, for now, we will focus on the comparison with competitors. The main objective here is to identify distinctive resources and competences, which are in line with the KSF of the industry. Then, you have to acquire additional assets or deploy the resources and competences in a more pertinent context.

SWOT

The key ‘ strategic messages’ from both the business environment (Chapter 2) and this chapter can be summarised in the form of an analysis of strengths, weaknesses, opportunities and threats (SWOT). SWOT summarises the key issues from the business environment and the strategic capability of an organ- isation that are most likely to impact on strategy development. This can also be useful as a basis against which to generate strategic options and assess future courses of action. The aim is to identify the extent to which strengths and weaknesses are relevant to, or capable of dealing with, the changes taking place in the business environment. However, in the context of this chapter, if the strategic capability of an organisation is to be understood, it must be remembered that it is not absolute but relative to its competitors. So SWOT analysis is really only useful if it is comparative – if it examines strengths, weaknesses, opportunities and threats in relation to competitors.