Strategic Management: Concepts and Cases 9e

Part I: Strategic Management Inputs
Chapter 3: The Internal Organization: Resources, Capabilities, Core Competencies and Competitive Advantages
Chapter 3: The Internal Organization: Resources, Capabilities, Core Competencies and Competitive Advantages

- **Overview:**
  - Importance of understanding internal organization
  - Value: Definition and importance
  - Tangible vs intangible resources
  - Capabilities: Definition and development
  - Core competencies: Criteria
  - Value Chain Analysis
  - Outsourcing: Definition and “why?”
  - Internal organization assessment and strategic decisions
Analyzing the Internal Organization (IO) (Cont’d)

• Context of Internal Analysis
  – ‘Global mind-set’
    • Ability to study an internal environment in ways that do not depend on the assumptions of a single country, culture, or context
  – Analyze firm’s portfolio of resources and bundle heterogeneous resources and capabilities
    • Understand how to leverage these bundles
  – An organization's core competencies creates and sustains its competitive advantage

• Creating Value
  – Develop core competencies that lead to competitive advantage
  – Value: measured by a product's performance characteristics and by its attributes for which customers are willing to pay
The Challenge of Analyzing the IO

- Strategic decisions are non-routine, have ethical implications and influence the organization’s above-average returns
  - Involves identifying, developing, deploying and protecting firms’ resources, capabilities and core competencies
- Managers face uncertainty on many fronts --
  - Proprietary technologies
  - Changes in economic and political trends, societal values and shifts in customer demands
  - Environment – increases complexity
- Intraorganizational conflict
  - Due to decisions about core competencies and how to nurture them
Components of Internal Analysis Leading to Competitive Advantage and Strategic Competitiveness
Conditions Affecting Managerial Decisions About Resources, Capabilities, and Core Competencies

- Uncertainty regarding characteristics of the general and the industry environments, competitors’ actions, and customers’ preferences
- Complexity regarding the interrelated causes shaping a firm’s environments and perceptions of the environments
- Intraorganizational Conflicts among people making managerial decisions and those affected by them
Resources, Capabilities and Core Competencies

- **Competitive Advantage (CA) foundation includes**
  - **Resources**
    - Bundled to create organizational capabilities
    - Tangible and intangible (As seen in Figure 3.1)
  - **Capabilities**
    - Source of a firm’s core competencies and basis for CA
    - Purposely integrated to achieve a specific task/set of tasks
  - **Core Competencies**
    - Capabilities that serve as a source of CA for a firm over its rivals
    - Distinguish a company from its competitors – the personality
Resources, Capabilities and Core Competencies

• Tangible Resources
  – Assets that can be seen, touched and quantified
  – Examples include equipment, facilities, distribution centers, formal reporting structures
  – Four specific types

• Intangible Resources
  – Assets rooted deeply in the firm’s history, accumulated over time
  – In comparison to ‘tangible’ resources, usually can’t be seen or touched
  – Examples include knowledge, trusts, organizational routines, capabilities, innovation, brand name, reputation
  – Three specific types
Building Core Competencies: Criteria and Value Chain Analysis

• Two tools firms use to identify and build on their core competencies
  – Four specific criteria of Sustainable CA
  – Value Chain Analysis
Building Core Competencies: Criteria and Value Chain Analysis

• Four specific criteria of **sustainable** competitive advantage – capabilities that are:
  – Valuable
  – Rare
  – Costly-to-imitate
  – Nonsubstitutable capabilities

• Competitive consequences:
  – Focus on capabilities that yield competitive parity and either temporary or sustainable competitive advantage

• Performance implications include:
  – Parity = average returns
  – Temporary advantage = avg. to above avg. returns
  – Sustainable advantage = above average returns
Building Core Competencies: Criteria and Value Chain Analysis

- **Value Chain Analysis**
  - **Primary activities**
    - Involved with product’s physical creation, sales and distribution to buyers, and service after the sale
  - **Support activities**
    - Provide assistance necessary for the primary activities to take place
Outsourcing

- **Definition:** Purchase of a value-creating activity from an external supplier
  - Effective execution includes an increase in flexibility, risk mitigation and capital investment reduction
  - Trend continues at a rapid pace
  - Firms must outsource activities where they cannot create value or are at a substantial disadvantage compared to competitors

- **Can cause concerns**
  - Usually revolves around innovative ability and loss of jobs
Internal Organization Assessment and Strategic Decisions

- Firms must identify their strengths and weaknesses
- Appropriate resources and capabilities needed to develop desired strategy and create value for customers/other stakeholders
- Tools (i.e., outsourcing) can help a firm focus on core competencies as the source for CA
- Core competencies have potential to become core rigidities
  - Competencies emphasized when no longer competitively relevant can become a weakness
- External environmental conditions and events impact a firm’s core competencies