There is only one underlying principle of war — concentration of strengths against weaknesses.

Liddell Hart

DEEPAK DATTA
UTA MBA
2011

INTERNAL ENVIRONMENT:
ANALYZING RESOURCES AND CAPABILITIES

The Strategic Management Process

Strategy Analysis
Mission
Goals and Objectives

External Environment
Internal Environment

Strategy Formulation
Business-Level Strategy
Corporate-Level Strategy
International Strategy

Strategy Implementation
Governance
And Control
Functional Strategy
Orgn. Culture
& Innovation

Strategic Competitiveness

FORMULATING STRATEGY

UNDERSTANDING THE GAME
Industry Structure
Players, position
and intentions
Rules of the game/
Terms of competition

Environment-Strategy
Interface

CHOOSING THE WEAPONS
Value Chain
and CSFs
Organizational
Resources
Core Competencies
and Capabilities

Strategy

Firm-Strategy
Interface
INTERNAL ENVIRONMENT:
ANALYZING RESOURCES AND CAPABILITIES

RESOURCE BASED APPROACH

Select strategy which:
- Exploits firm’s principal resources and competencies
- Ensures resources are fully and profitably employed
- Builds firm’s resource base

RESOURCES
- Tangible
  - Physical
  - Financial
- Intangible
  - Innovation
  - Reputation
  - Culture
- Human
  - Skills
  - Know-how
  - Collaboration

CAPABILITIES/CORE COMPETENCIES

KEY QUESTIONS FOR MANAGERS INCLUDE...

How do we assemble bundles of Resources, Capabilities and Core Competencies to...

And...

Create VALUE
for Customers

- Will environmental changes make our core competencies obsolete?
- Are substitutes available for our core competencies?
- Are our core competencies easily imitated?

RESOURCE BASED ANALYSIS

Select strategy that best exploits firm’s capabilities relative to opportunities

Identify potential of capabilities for creating, sustaining and exploiting competitive advantage

Identify firm’s capabilities: What can it do?

Identify firm’s resources

Identify resource gaps which need to be filled. Replenish and augment resource base.

NOTES
INTERNAL ENVIRONMENT:
ANALYZING RESOURCES AND CAPABILITIES

CAPABILITY DEVELOPMENT
- Developing individual capabilities
  - Develop human resources required for a particular capability
- Corporate acquisitions
  - Short-circuiting the process by acquiring a firm with the capability
- Acquiring capabilities through strategic alliances
  - Observing, evaluating and absorbing the capabilities of alliance partner
- Incubating capabilities
  - Developing new capabilities in organizationally separate units

ASSESSING RESOURCES AND CAPABILITIES

<table>
<thead>
<tr>
<th>VALUE</th>
<th>Do firm’s resources and capabilities enable it to respond to environmental threats and opportunities?</th>
</tr>
</thead>
<tbody>
<tr>
<td>RARENESS</td>
<td>How many competing firms already possess particular valuable resources/capabilities?</td>
</tr>
<tr>
<td>IMITABILITY</td>
<td>Do firms face a cost disadvantage in developing a capability compared to those that possess it?</td>
</tr>
<tr>
<td>SUBSTITUTABILITY</td>
<td>Are substitutes readily available for a firm’s capabilities?</td>
</tr>
</tbody>
</table>

COMPETITIVE IMPLICATIONS

<table>
<thead>
<tr>
<th>VALUABLE?</th>
<th>DIFFICULT TOIMITATE?</th>
<th>NON SUBSTITUTABLE</th>
<th>COMPETITIVE IMPLICATIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>NO</td>
<td>NO</td>
<td>NO</td>
<td>Competitive Disadvantage</td>
</tr>
<tr>
<td>YES</td>
<td>NO</td>
<td>NO</td>
<td>Competitive Parity</td>
</tr>
<tr>
<td>YES</td>
<td>YES</td>
<td>NO</td>
<td>Temporary Competitive Advantage</td>
</tr>
<tr>
<td>YES</td>
<td>YES</td>
<td>YES</td>
<td>Sustainable Competitive Advantage</td>
</tr>
<tr>
<td>YES</td>
<td>YES</td>
<td>YES</td>
<td>Sustainable Competitive Advantage</td>
</tr>
</tbody>
</table>

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ANALYZING RESOURCES AND CAPABILITIES

CORE COMPETENCE

Resources
Inputs to a firm's production process

Core Competence
A strategic capability

Capability
Integration of a team of resources

If it results in sustainable competitive advantage:
- Provide access to a broad array of markets
- Differentiate core products and services
- Hard to imitate

CORE COMPETENCIES

Four tests for identifying core competencies:
- Should provide access to a broad array of markets
- Make a disproportionate contribution to ultimate customer value or to the efficiency to which the value is delivered
- Helps differentiate core products and services
- Difficult to imitate because they represent multiple skills, technologies, and organizational elements

Prahalad and Hamel (1990)

SOURCES OF CAUSAL AMBIGUITY

Complexity of capability-based advantage

Tacit nature of capability-based advantage

Causal Ambiguity

From: Saloner, Shepard & Podolny (2001)
INTERNAL ENVIRONMENT:
ANALYZING RESOURCES AND CAPABILITIES

NOTES

TOYOTA'S "LEAN PRODUCTION" CAPABILITY

Continuous improvement
Component manufacture
Inventory control
Supply Chain management

LEAN PRODUCTION

Systems for managing innovation
Quality control
Assembly processes
Production scheduling

VALUE CHAIN

Inbound Logistics
Operations
Outbound Logistics
Marketing and Sales
Service

Firm Infrastructure
Human Resource Management
Technology Development
Procurement

PRIMARY ACTIVITIES: PRIMARY

- Inbound logistics
  - Material handling, warehousing, inventory control, returns to suppliers
- Operations
  - Machining, packaging, assembly, equipment maintenance, production control
- Outbound logistics
  - Finished goods warehousing, order processing, delivery operation
- Marketing and Sales
  - Advertising, sales force, pricing, channel selection
- Service
  - Repair, parts supply, product adjustment, training
INTERNAL ENVIRONMENT: ANALYZING RESOURCES AND CAPABILITIES

VALUE ACTIVITIES: SUPPORT

- Firm infrastructure
  - General management, finance, accounting, legal, government affairs
- Human Resource Management
  - Recruiting, training, development, compensation
- Technology development
  - Component design, feature design, field testing, process engineering, technology selection
- Procurement
  - Raw materials, outsourcing

CORE COMPETENCIES—CAUTIONS

It should never be taken for granted that core competencies will continue to provide a source of competitive advantage. All core competencies have the potential to become Core Rigidities - that prevent the firm from responding appropriately to changes in the external environment.

Strategic myopia and inflexibility can strangle the firm's ability to grow and adapt to environmental change or competitive threats.

OPTIMIZING THE VALUE CHAIN

- Make, buy or collaborate
  - Ensuring the activities are conducted in the most efficient manner
  - Ensuring that quality expectations are met
  - Continued innovation
- Formulating effective locational strategies
- Optimize the entire process, not just the components -- exploring gains from exploiting benefits associated with activity interrelatedness
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ANALYZING RESOURCES AND CAPABILITIES

McKinsey Business System

Technology
- Source
- Patents
- Product
- Process
- Function
- Physical appearance
- Aesthetics
- Process
- Integration
- Raw materials
- Location
- Automation
- Capacity
- Quality
- Assembly

Manufacturing
- Prices
- Advertising
- Sales force
- Package
- Brand
- Channels
- Inventory
- Warehousing
- Transport
- Warranty
- Speed
- Prices
- Quality

Marketing
- Prices
- Advertising
- Sales force
- Package
- Brand

Distribution
- Channels
- Inventory
- Warehousing
- Transport
- Warranty
- Speed
- Prices
- Quality

Service
- Warranty
- Price
- Quality

BENEFITS AND COSTS OF USING MARKET

<table>
<thead>
<tr>
<th>BENEFITS</th>
<th>COSTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Market firms can achieve economies of scale that in-house departments cannot</td>
<td>- Coordination of production flows may be compromised</td>
</tr>
<tr>
<td>- Market firms are subject to discipline of the market and must be innovative and efficient to survive</td>
<td>- Private information may be leaked when activity is performed by market firm</td>
</tr>
<tr>
<td>- Cost reductions from lower input costs</td>
<td>- Costs related to the transfer of knowledge</td>
</tr>
<tr>
<td></td>
<td>- Costs of transacting with independent firm</td>
</tr>
</tbody>
</table>

BUILDING A GLOBAL KNOWLEDGE MACHINE
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ANALYZING RESOURCES AND CAPABILITIES

Knowledge Management

Knowledge in Consulting Organizations

Knowledge Management Process

Smith and Conyngham, 1999

Total knowledge individual can bring to customers
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ANALYZING RESOURCES AND CAPABILITIES

KNOWLEDGE ACCUMULATION AND MOBILIZATION

- Creation
- Acquisition
- Retention
- Identification
- Willingness to share and receive knowledge
- Transmission

CHALLENGES IN KNOWLEDGE ACCUMULATION

**CREATION**
- Complacency
- Low-decision making discretion
- Absence of an internal market for ideas

**ACQUISITION**
- Failure to be an early mover in knowledge acquisition
- Inability to integrate and apply external knowledge

**RETENTION**
- Employee turnover
- Bleed-through proprietary knowledge to competitors

CHALLENGES IN KNOWLEDGE MOBILIZATION

**IDENTIFICATION**
- “Halo” effect

**OUTFLOW**
- “How does it help me?” syndrome
- “Knowledge is power” syndrome
- Incentives tied to internal performance

**INFLOW**
- “Not invented here” syndrome
- Reluctance to acknowledge the superiority of peers
MAXIMIZING KNOWLEDGE ACCUMULATION

- Stretch goals
  - Develop culture of knowledge creation by setting targets that cannot be achieved without some innovation

- Provide high-powered incentives
  - Ensure reward matches the higher level of risk

- Cultivate empowerment and slack
  - Supply-side tools that play a critical role in increasing the creative capacity of subunits

- Cultivate a market for ideas with firm
  - Screening mechanism to determine which ideas emerging from various subunits deserve further support

MAXIMIZING KNOWLEDGE MOBILIZATION

- Ban knowledge hoarding
  - Knowledge must be treated as a corporate resource that cannot be hoarded by any particular subsidiary or business unit

- Rely on group-based incentives
  - Reinforce knowledge-sharing as a cultural norm

- Invest in codification of tacit knowledge
  - Development of standard operating procedures

- Match transmission mechanisms to knowledge
  - Exchange of information, conversations and rotating people by temporary co-location

COMPETITOR ANALYSIS

Successful strategists take great pains in scouting competitors – understanding their strategies, watching their action, sizing up their strengths and weaknesses, and trying to anticipate what moves they will make next. Unless a company pays attention to what competitors are doing, it ends up “flying blind” into battle.

Fortune 500 CEO
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ANALYZING RESOURCES AND CAPABILITIES

COMPETITOR ANALYSIS

GOALS AND OBJECTIVES

STRATEGY

COMPETITOR'S RESPONSE PROFILE

ASSUMPTIONS

CAPABILITIES

WHAT DRIVES THE COMPETITOR

GOALS/OBJECTIVES
- What are the current goals? How do they compare with ours?
- Does current performance meet current goals?
- How will goals change in the future?
- What is their attitude towards risk?

ASSUMPTIONS
- What assumptions does it have about itself?
- What assumptions does it have about the industry and other competitors?

WHAT THE COMPETITOR IS DOING OR CAN DO

STRATEGY
- How is the firm competing?
- Do their strategy support changes in the competitive structure?

CAPABILITIES
- What are its principal strengths and weaknesses?
- What are its quick response ability and staying power?
ASSESSING STRENGTHS AND WEAKNESSES

- Measures
  - Financial (Ratio analysis; Economic Value-added/EVA analysis)
  - Non-financial quantitative (No. of patents, market share, employee turnover etc.)
  - Qualitative measures

- Comparison standards
  - Industry norms
  - Key competitors (members of strategic group)
  - Benchmarks
  - Historical standards

COMPETITOR ANALYSIS: APPLICATIONS

- PREDICTING BEHAVIOR
  - Response to proposed strategic moves
  - Reaction to environmental shifts

- PICKING THE BATTLEGROUND

- INFLUENCING COMPETITOR’S BEHAVIOR
  - Signalling and deterrence strategies

Managers who fail to study competitors closely risk being blindsided by “surprise” actions on the part of competitors!

TWO PERSPECTIVES

<table>
<thead>
<tr>
<th></th>
<th>Outside-in</th>
<th>Inside-out</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Emphasis on</strong></td>
<td>Markets over resources</td>
<td>Resources over markets</td>
</tr>
<tr>
<td><strong>Orientation</strong></td>
<td>Opportunity-driven</td>
<td>Strength-driven</td>
</tr>
<tr>
<td><strong>Starting point</strong></td>
<td>Industry demand and structure</td>
<td>Resource base and capabilities</td>
</tr>
<tr>
<td><strong>Strategic focus</strong></td>
<td>Attaining advantageous position</td>
<td>Attaining distinctive resources</td>
</tr>
<tr>
<td><strong>Strategic moves</strong></td>
<td>External positioning</td>
<td>Building resource base</td>
</tr>
<tr>
<td><strong>Competitive weapons</strong></td>
<td>Bargaining power and mobility barriers</td>
<td>Superior resources and imitation barriers</td>
</tr>
</tbody>
</table>
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ANALYZING RESOURCES AND CAPABILITIES

“TAKE AWAYS”
- Resources, capabilities and competencies key to creating and sustaining competitive advantage
- Not all capabilities are equally valuable in creating competitive advantage
- Value Chain in identifying capabilities and competencies
- Importance of knowledge management – creating and leveraging knowledge and competencies
- Understanding competitors central to successful strategy formulation and implementation