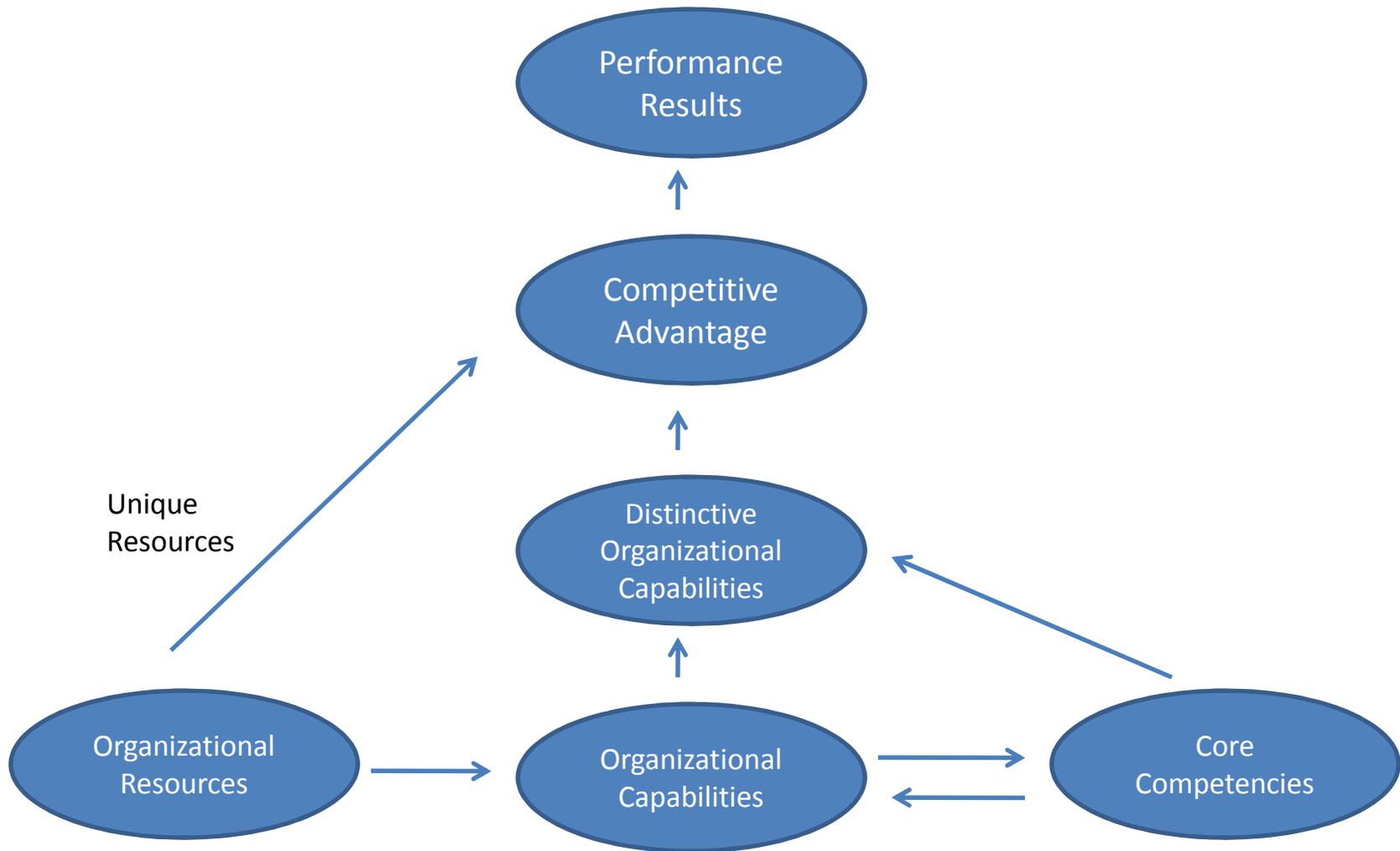


BUSINESS STRATEGY

Organizational Capabilities



- Financial assets
- Physical assets
- Human Resources
- Intangible Assets
- Structural-Cultural

- Organizational processes and routines
- Accumulated knowledge
- Actual work activities

Organizational Capabilities

- Definition: The various routines and processes that transform those inputs (resources) into outputs (physical goods and services)
- These organizational routines and processes are the regular and predictable work activities done by organizational members
 - Delta Air Lines vs. Southwest Airlines

Sustainable Competitive Advantage

- Capabilities that lead to a competitive advantage now may not do so in the future as conditions and competitors change
- Dynamic Capabilities: an organizations ability to build, integrate, and **reconfigure** capabilities to address rapidly changing environments

Internal Audit

- A thorough examination of an organization's internal areas.
- Begins with the premise that every organization has functions it must perform, and strengths and weaknesses are based on how well they are performed.
- Looks at six organizational functional areas and measures the efficiency of each area.
- Central theme of auditing is looking for competencies in each area.

Organizational functional areas

- Production and operations
- Marketing
- Research and Development
- Financial and Accounting
- Management
- Information systems and Information technology

3 Additional Organizational Elements

- Strategic Managers-board of directors and top managers
- Organizational Structure
- Organizational Culture

Capabilities Assessment Profile

CAP is an in-depth evaluation of an organization's capabilities.

- Assessing capabilities can be complex since they arise from the ways that resources are combined in the organization's basic work processes and routines.
- Capabilities assessment consists of two phases:
 - Identify distinctive capabilities
 - Developing and leveraging these distinctive capabilities

Capabilities Assessment Profile

The first step in assessing organizational capabilities is preparing a current product-market profile.

- Emphasizes organization-customer interactions.
- Identifies what we're selling, who we're selling to, and whether we're providing superior customer value and offering the customer desirable benefits.

Capabilities Assessment Profile

In order to prepare a current product-market profile we need:

- Information about specific products and markets
- Principal competitors in each of these product-market segments
- Performance measures for each product-market segment.
 - Sales growth rate
 - Market share
 - Competitive position
 - Contribution to sales and earnings

Capabilities Assessment Profile

The next step is identifying sources of competitive advantage and disadvantage in the main product-market segments.

- We need to know why customers choose our products instead of our competitors.
- Identify specific costs, product, and service attributes.
- When someone buys our product they are buying a bundle of attributes that they believe will satisfy their needs.
- We need to know what these attributes are!!!

Capabilities Assessment Profile

The third step involves describing organizational capabilities and competencies.

- Examine the resources, skills, and abilities of your organizations different divisions.
- Uncover what resources and capabilities lead to your competitive advantage.

Capabilities Assessment Profile

The last step involves sorting these capabilities and competencies according to their strategic importance.

- Which capabilities are most important for building the organization's future.
- We should evaluate each category according to three criteria:
 - Does the capability provide tangible customer benefits?
 - Is the capability difficult for competitors to imitate?
 - Can the capability provide wide access to a number of different markets?

By sorting organizational capabilities according to level of strategic importance, strategic decision makers gain an understanding of their organization's critical strengths and weaknesses.

Capabilities Assessment Profile

The final step involves identifying and agreeing on the key competencies and capabilities.

- By ranking key competencies and capabilities, decision makers can easily identify the key ones.
- The hard part is agreeing with competencies and departments deserve future resource allocation.

Determining Strengths and Weaknesses

The first criteria used to determine strengths and weaknesses is past performance.

- Financial ratios
- Operational efficiency statistics
- Employee productivity statistics
- Quality control data
- Is market share increasing or decreasing?
- Are liquidity ratios going up or down?
- Ect...

Determining Strengths and Weaknesses

The second criteria is how actual performance measures up against specific performance goals.

- Organizational goals are statements of desired outcomes.
- Looking at performance trends and organizational goals isn't enough, we need something to compare them to.

Determining Strengths and Weaknesses

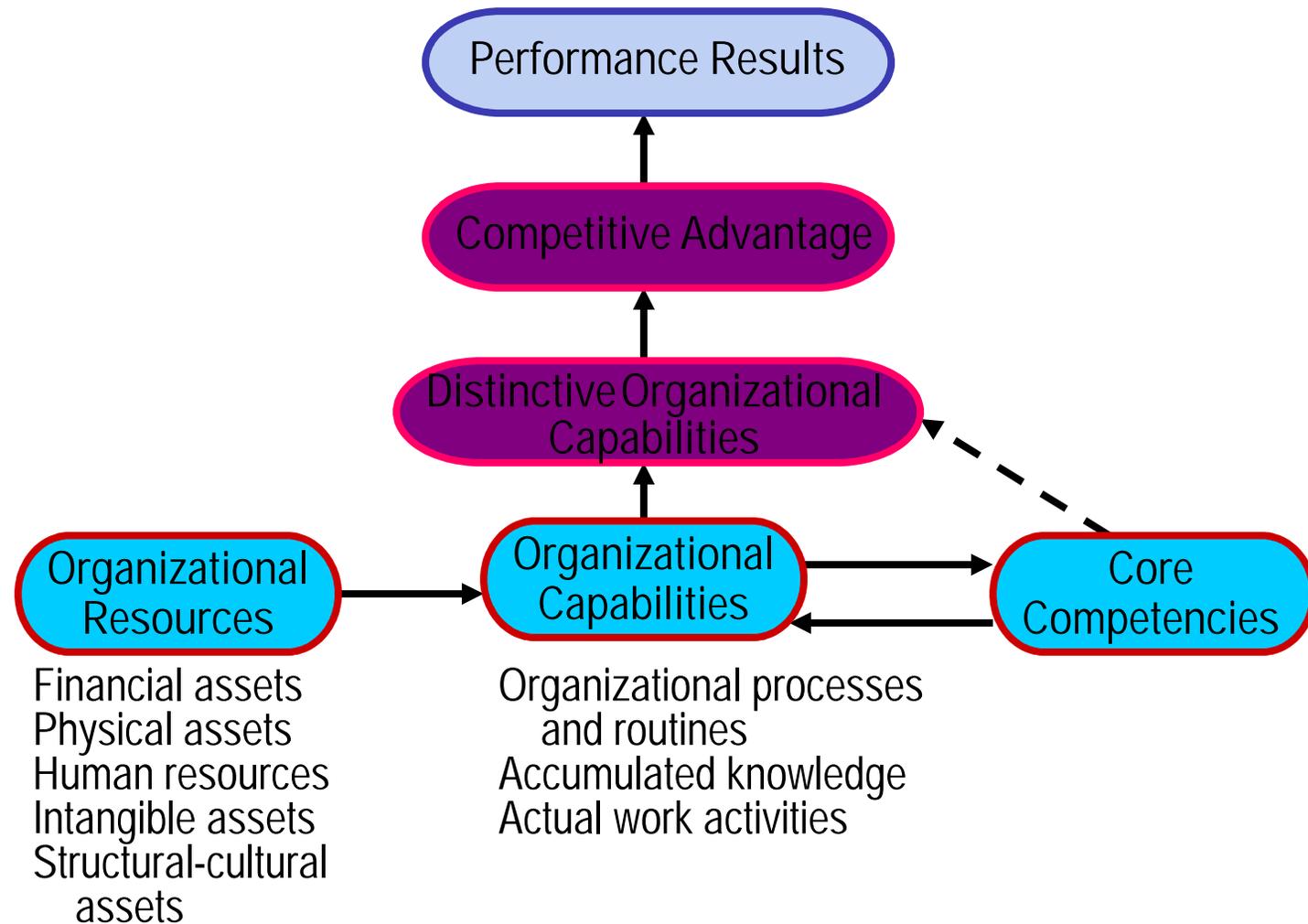
- The third criteria is comparing resources and capabilities against competitors.
 - To do this you use SEC filings, industry association newsletters, annual reports, customer contacts, and the competitor's web page.
 - However it's unethical to go through someone's garbage cans.

Determining Strengths and Weaknesses

The fourth and last criterion for judging organizational strengths and weaknesses is personal or subjective opinions.

- These can come from decision makers or consultants from inside or outside the company.

The Strategic Role of Organizational Resources and Organizational Capabilities



From Resources to Organizational Capabilities

- Organizational capabilities
 - Competencies or skills that a firm employs to transform inputs to outputs, and capacity to combine tangible and intangible resources to attain desired end
 - Outstanding customer service
 - Excellent product development capabilities
 - Innovativeness of products and services
 - Ability to hire, motivate, and retain human capital
- Organizational routines and processes
- Capabilities – patterns of coordination
- Sustainable competitive advantage
- Dynamic capabilities

Characteristics of Distinctive Organizational Capabilities

