

When to use this book

There are five general circumstances

1. When you are considering changing the boundaries of your business, for example:
 - By acquisition or divestment
 - Entering joint ventures or other partnership arrangements
 - Considering Make versus Buy alternatives
 - Entering new markets
 - Taking on new technologies
2. When disaster is at hand
3. When you are trying to build a more sustainable competitive advantage
4. When you need fresh perspectives on how to improve your business
5. When you wish to take account of your resources in plans to achieve your objectives

Taking each in turn:

Changing your business boundaries

There are large and small ways of altering your business boundaries but each can be strategically critical.

It may be very tempting to stop manufacturing some of your components and buy them from specialists but will this be wise in the long run? Make versus buy decisions need information and insight into the current and potential long-term value of the resources that will be lost. Down this road can lie over-dependence on suppliers and eventual ‘hollowing out’.

RCA

RCA began out-sourcing the metal parts for the electron guns in TV tubes because it cost less, then they out-sourced the gun assembly for the same reason. But with it their capability to design electron guns slid away. Their cheap supplier was Sony, who actively built on knowledge supplied by RCA and invented the Trinitron system – the rest is history.

IBM

Even more dramatic examples were IBM's decisions to outsource their PC operating system to a firm called Microsoft and to out-source the microprocessor design to Intel.

A smaller way of changing your boundary is in the creation of dealer-ships to break into new, foreign markets. How would you choose between alternatives? The quick advice is choose a firm that is like you, that values the same things you do because they will be developing your reputation and brand in that country, see the experience of Anon Inc.

Anon Inc.*

A firm set up a number of distributors in different parts of the world to sell and service its products. A key customer segment was food and drink manufacturers, a sector dominated by multi-national giants. Unfortunately two of the distributors were much more interested in selling products than servicing. Their service departments had poor facilities and it was difficult to convince the distributors' owners that good service could make money. They were only interested in the chase for the next order. Inevitably that attitude created problems for the firm's service reputation in those countries. Unfortunately that reputation propagated through a key multi-national customer and affected sales in countries that were actually being serviced well.

Larger boundary changes take place during acquisitions and divestments. Here it is critical to assess the strengths and weaknesses of the target, your organisation and the resulting combination. In divestment decisions, just like make versus buy decisions, it is crucial to make sure a valuable resource is not being discarded along with low-value resources.

Disaster is at hand

It could be that prospects in your current markets and/or current technologies look bleak, there is little growth and competition is intensifying. Entry into new markets and/or adopting new technologies appear to be the only ways forward. But this can be a dangerous strategy, how can you minimise the risks? There is a saying that when disaster strikes an individual they are 'thrown back on their resources'. This is also true for companies:

- What are the resources that underlay your past strengths?
- Can they be configured to provide value in another market?
- Is some of your knowledge of technology X transferable to technology Y?
- Can your knowledge of particular customers be used to create a particular niche based on a set of customer needs that you can meet?

*Companies that have been given fictitious names are identified by an asterisk throughout the book.

Apple Computer

Apple's recovery from near disaster in 1997 is a remarkable story. From net revenues of \$11bn in 1995 the forecast for 1997 was \$7bn. Losses were mounting; staff layoffs climbing and factories were sold off. Pundits forecast the end of Apple – there would be new owners or it would be killed off.

What were Apple's key resources?

First was its distinctive operating system (Mac OS), still superior to Microsoft Windows in feel and friendliness, yet somehow having lost its way in development terms and importantly the Mac OS was no longer exclusively available to Apple. Earlier it had been licensed to a set of 'clone' manufacturers, the most significant being Motorola, Power Computing and Apus. The idea was that a wider range of manufacturers would grow the total market for Mac OS-based computers. Unfortunately the evidence was that the clone makers were taking business from Apple rather more than increasing the total market.

The second resource was the most fanatically loyal customer base in the electronics world. If you owned a Mac you stayed with it, they were superior to any Wintel PC. You had the OS of choice in better looking, well made, robust designs with low ownership costs.

Third were its design-related resources and fourth was the brand, known worldwide and giving that user base the feeling that they were special, somehow different to the crowd.

When Steve Jobs succeeded Gil Amelio in Autumn 1997, there was plenty of evidence that Jobs understood these resources. At MacWorld, Boston, he emphasised Apple would need to exploit its strongest assets more and defined them as the brand, 'as recognisable as Nike or Coca Cola' and the Mac OS. 'Apple is about the Mac OS ... We are going to invest a lot more in it.'

What next?

First the OS and the customer base; Jobs quickly hiked the license cost for the new Mac OS 8 and bought up one of the largest clone makers, Power Computing. This signalled a reverse in licensing policy. To Jobs the Mac OS was Apple – it was an asset (or resource) Apple needed exclusively. If parts of Apple's previously loyal customer base had abandoned Apple hardware to follow the Mac OS onto Motorola and other clone hardware – surely this proved licensing was a route to disaster. By the end of 1998 all licensing agreements had collapsed, the clone makers had gone and the Mac OS was available on Apple hardware exclusively. Not only that, between Autumn 1997 and Autumn 1999, four significant upgrades to the Mac OS had been released. These were just what the customer base liked, instead of infrequent blockbuster upgrades Jobs, it seems, had gone for regular incremental releases, each of which had a group of 'must have' developments.

What about the brand? Most brand positioning copy focused on the exclusivity angle. – The 'think different' campaign associated Apple buyers with independent minds of the past, from John Lennon to Ghandi to Einstein. Jobs refusal to take a salary for almost two years could also be regarded as thinking different at the core of Apple. (Though a grateful board put that right with the gift of a jet plane in early 2000.) Perhaps more risky was the abandonment of the characteristic rainbow Apple logo for a silver Apple. But the embodiment of the brand was the product and those distinctive design resources were also exploited to the full.

The iMac and iBook changed the look of desktop and portable computers. Apple then had the hardware of choice for computers in TV programmes and advertisements. These products also contained a series of technological firsts from faster interfaces and the death of the integrated floppy disk drive to the first desktop computer cooled by convection rather than a fan.

Building a more sustainable advantage

Managers face a consistent drive to improve on performance metrics like delivery leadtime and quality, delivery reliability, rate of cost reduction and so on. Many of the means of improving are, to a degree, generic best practices that all firms pursue. This can become like a treadmill with little relief. Your competitors are improving by incorporating the same improvements you are. In contrast resource-based analysis concentrates on finding the differences between firms, especially those differences that it is difficult for competitors to copy. The aim is to base a competitive advantage around those differences so the advantages generated last longer, they are more sustainable.

The Apple computer example shows how a firm with unique resources in its market that were difficult and expensive to copy can survive and prosper in a fast-moving market. The trick seems to be that you have to understand and remember what those resources are and continue to exploit them. One of Apple's founders, Steve Jobs, remembered them very well – he would wouldn't he? He was the one who borrowed the graphical user interface from Xerox's PARC laboratory and had it designed into the first Mac OS.

Fresh insights on how to improve

Resource-based thinking offers you a new perspective on your business, a new way of looking at your firm. In our experience it is inevitable that with that fresh view a group of important improvement ideas are crystallised. This tends to happen early in the analysis at the point where your resources are first identified.

Abacus*

A worldwide supplier of industrial measuring equipment, Abacus, had already decided to gain an advantage over competitors through improving the competence of its service activities. This included installation, service and repair, consumables supply, customer training, advice and maintenance contract negotiation. Their first improvements were to product training, defining service engineer toolkits and indeed defining what good service was from health and safety issues to dress code, all were documented in a service standard. The standard was audited yearly within fully owned and third party sales and service organisations. Standards were improving, metrics showing service response times were also improving – what else should be done?

A resource analysis revealed some areas that had not been tackled. One example was the central role of the service engineer to offering good service. Competent service engineers can solve technical problems and some of the social problems caused if a machine breaks down. Customers can get frustrated and annoyed and it is difficult to recruit staff that can handle these two aspects of the job. But Abacus had no way of testing how competent new recruits or experienced staff actually were at these skills. An engineer

would be recruited because s/he did well in the interview and had passed relevant exams. Following that s/he would receive product training either locally or at the factory - there were no exams to show how well the training had been understood and little motivation for colleagues to expose an engineer who was failing. During the time it takes for the underperforming engineer to be discovered or to leave, much damage can be done.

In response a set of technical competency tests were designed and psychological tests were used routinely during interviews to test basic technical understanding and to identify traits useful for dealing with customers. The technical tests are used throughout the world, while outlets have the freedom to use more culturally coherent psychological tests where available. The resource analysis also showed that in wholly owned service centres if an engineer settled in the chances were s/he would stay on average seven years, rather higher than usual in these positions. Recruiting better engineers could therefore pay off for a considerable time.

Taking account of your resources in the decisions to achieve your objectives

Not many managers consciously build their firm’s resources, resources like a large manufacturing plant are regarded as means not ends. They are needed to achieve business objectives like growth, low leadtimes, continually falling prices. It is, however, well worth thinking about the resources you’ll have when your objectives are achieved. Are these resources in a better state than when you set out to achieve your objectives? Any manager has a duty to shareholders to steward a firm’s resources, to leave them in a better state than he received them as well as to exploit those resources to generate cash for dividends and share price growth. There is significant evidence that many US companies have been placing too much emphasis on current shareholder benefits to the long-term detriment of their companies. We shall return to this theme in Chapter 9.

All these circumstances benefit greatly from an understanding of the resources that underlie your firm’s strengths and weaknesses. Not only that, changing your firm’s boundaries, developing new markets or taking on new technologies and facing up to potentially catastrophic market changes are strategic with a capital S. They are amongst the most difficult, risky and potentially rewarding decisions you will take.

An aside for small companies and start-ups

If you are in a small or start-up company you may be assuming that this book is meant for medium to large companies. If so, you are wrong. (Although sizable companies that have not taken a close look at their resources recently are almost sure of surprises.)

For the start-up and small companies the issue is lack of resources, of a need to grow your firm’s resource and competence base and especially to grow the resource of management. Start-ups, in particular, are practically by definition focused on their resources and competences. For it is these that differentiate them from competitors – the new idea, perspective and knowledge that others do not possess, the ability to move faster and to more proactively address the implications of new ideas without the encumbrances of a past history. These are the resources and competences that make your firm useful and valuable to larger firms. They are your firm. Your challenge is to exploit them most effectively and that is a matter of management, the resource of management. This book and the resource analysis approaches it suggests are certainly valuable for organisations short of resources – they are the ones who arguably need to understand their resources and resource development needs the most.

How to use this book

This book is designed with two aims in mind:

- First to make the ideas of resource-based strategy available to you
- Second to help you use these ideas in your businesses to improve your competitive position and your firm's longevity

This is not a text-book full of dry theory. It is a document built from the experience of applying resource-based theory in a variety of industrial settings. For that reason it contains many insights from practice – what happens when you apply these ideas – alongside a supportive theoretical base. As Kurt Lewin put it, ‘There’s nothing so practical as a good theory’ and resource-based theory is a very good one. We have tried hard to cover any necessary theory in a pragmatic and jargon-free manner and have assumed you are quite unfamiliar with resource-based ideas. The book contains many case study examples at a rather more detailed, yet pragmatic, level than most books on the subject. In particular there are tools we have developed and tested that enable you to use the ideas.

Chapter 1 is devoted to explaining resource-based ideas and the definitions we use. To understand later chapters, Chapter 1 is essential even if you believe you are familiar with the ideas.

Chapter 2 takes a top-down excursion into resource and competence analysis describing a method suitable for management teams. We have called this approach ‘Awareness’ because it provides you with a practical understanding of resource and competence ideas. It is especially helpful for making resource-aware choices in plans to achieve your business objectives.

In Chapter 3 we review the pros and cons of the Awareness method and explain the need for a more detailed bottom-up method capable of making a detailed evaluation of the resources your firm uses. Which are the most important? Which hold you back? Which can take you forward? We have called this second approach ‘Insight’ because it gives a more in-depth understanding of your resource base. It is intended for project teams sponsored by board directors.

Chapters 4 to 6 describe the three steps of the Insight approach. This method provides an analysis of your current resources and practical insight into gaining a sustainable advantage and the issues surrounding make versus buy, acquisition, divestment, new market entry, taking on new technologies and facing large unfavourable dislocations in your markets.

Each of chapters 4 to 6 poses a question; provides tools to address that question; supplies case and other illustrative examples; and is accompanied by the thinking and experience that have shaped those tools. In these chapters the book (as in Chapter 2) can be used as a working document alongside a project to apply resource-based approaches to improve your company's position.

Chapter 7 covers alternative means of improving the resource and competence base uncovered in previous chapters. It too contains examples, tools and insights from real experience.

Chapter 8 is concerned with the measurement of resources and competences. This is a subject that has yet to be fully addressed either by managers or academics. Its importance is related to the attention competence and resource-building investments receive around management and board room tables. It is only relatively recently that attention to non-financial measures like delivery leadtime have become of central interest alongside the dominant financial data. Measuring resources and competences is a further step along the route to measuring causes rather than outcomes. How might you measure the improvement in the resources underlying your delivery leadtime competence? We offer examples and some insight into what is involved in placing tangible measures of resource and competence development next to last month's actual figures and the rest of the year's financial forecast.

Chapter 9 summarises and discusses four topics. The first is a set of health warnings on using competence- and resource-based ideas, the second is a discussion on the relationship between market- and resource-based strategy-making that points to the contingencies that make resource-based strategy particularly relevant and valuable. Third is a discussion on 'shareholder value', and its relevance to resource-based ideas and finally thoughts on other recent developments in strategy-making and the future role of resource-based ideas.

1

Practical competence and resource frameworks

What is a competence? Are there different types? How do competences and resources relate to one another? What makes a resource important? This chapter provides you with a pragmatic background to resource and competence ideas. The structure is as follows:

- What *is* a competence?
- Competence categories
- Resource and competence architecture
- What *is* a resource?
- What makes a resource important?
- What makes a competence important?

The chapter ends with a summary and a background reading list.

1.1 What *is* a competence?

A ‘competence’ is an ability to do something, when applied to companies we say:

A company has a strength or a high competence activity if it can out-perform most competitors on a competitive factor that customers value.

A company has a weakness or a low competence activity if it under-performs most competitors on a competitive factor that customers value.

Competence in this sense is a way of describing how well (or not) your firm performs its necessary activities.

USX, Chaparral and Nucor

USX, a large integrated US steel producer has been saddled with organisational cultures, values and management practices that have prevented it from adopting new technologies in a timely and efficient manner. Its low performance (or competence) in this area put USX at a considerable competitive disadvantage compared to mini-mill producers like Chaparral and Nucor. The highly innovative mini-mill producers used cheap scrap steel to produce low-margin rebar steel and continued to climb inexorably up the metallurgical quality scale to produce high-margin structural and sheet steel from cheap scrap.

However the word competence is also used to replace ‘high competence activity’. Thus companies having high competence activities in micro-processor design, optics design and precision mechanical design are said to have competences in microelectronics, optics and precision mechanics. We shall use that short hand frequently.

Caterpillar

This large construction plant manufacturer, is recognised as having a competence in supporting customers through its worldwide support/maintenance network.

Overall, competence is best thought of as a variable, rather than an attribute. It is not something that a company has, or does not have, but it is something that a company has to a certain degree. We judge that degree by comparing it to the performance of its competitors. Thus a company with a high competence in a particular activity is considered equal to its best competitors in that activity. Using this approach we can develop a measurement ‘scale’ for competence. Table 1.1 shows the terms we use to rate an organisation’s competence with respect to its competitors.

Table 1.1 Competence with respect to competitors

Company performance	Well below industry average	Below industry average	Average for industry	Level with the best	Indisputable leadership
Strength or weakness	Significant weakness	Weakness	Neither strength nor weakness	Strength	Significant Strength
Competence	Very Low	Low	Average	High	Very High

What are these activities? One useful model is that based on business processes. Table 1.2, based on the CIM-OSA¹ list of business processes illustrates the wide variety of activities most firms carry out. The structure given here is suitable for both manufacturing and service-oriented companies. Different markets impose different needs so we can expect that the areas of high performance and thus high competence necessary to be successful will vary with industrial sector. The examples in this section illustrate this.

¹ CIM-OSA is the acronym for Computer-Integrated Manufacturing – Open-Systems Architecture.