Studying Paper P3?
Performance objectives 7, 8 and 9 are relevant to this exam

POSITION-BASED AND RESOURCE-BASED STRATEGIES

Imagine you are in the middle of a country. To your north there is a mountain range, to the south an ocean, to the west a desert and to the east, jungle. You are running out of food and have to move. But to where? So you look at whatever evidence you can get: weather forecasts, travellers' tales, unreliable maps (because this is before GPS). No direction is without peril and all offer some reward, but you have to go somewhere. There seems to be a storm brewing in the mountains, malaria in the jungle and it's the wrong season to tackle the desert. So you go for an ocean crossing, hoping to find a promised land, but always aware that more information might make you rue your choice, aware that you might have to change your direction, and aware that at some point, a change of direction will become impossible because you have reached a point of no return.

Essentially, what has been described above is a position-based approach to strategy. The destinations are four possible strategies or business developments, the weather forecasts, tales and maps are the equivalent of tools such as PESTEL and Porter's Five Forces. You are dealing with imperfect information and might have to abandon or modify a strategy. These tools might indicate that market and environmental factors make some strategies seem very unattractive, but that others offer safer alternatives. As time passes, the factors might change and you discover that the wrong choice has been made and your company needs to modify its objectives and strategies to survive and prosper. Overall, the company alters its position in response to environmental and market forces. The approach is sometimes described as 'outside-in' because you look outside the organisation and then alter what you do inside it.

However, looking at the environment, judging the options and heading for the easiest one cannot be the whole story. There are two specific problems:

- Position-based strategy does not, of itself, explain why two organisations in the same environment can progress at different rates and with different success towards similar goals.
- It makes no sense to embark on a strategy without considering internal factors. To extend the analogy above, there would probably be little point embarking on an ocean voyage if your team contained no sailors. If it had several talented mountaineers you might be better heading for the hills even if there were going to be a storm. Furthermore, when you cross the mountains, you might

> find that you have that promised land to yourself while several of your erstwhile competitors are fighting for dominance of some distant island.

This approach is the basis of resource-based strategy. Instead of being a slave to the environment, take notice of where your talents and skills are, and try to make use of those. By careful use of those, you might find yourself in a dominant position that others will find difficult to challenge.

The approach is sometimes described as 'inside-out' because you look inside the organisation and then decide what strategies to pursue outside it.

It is important to note at this stage that no-one is suggesting that the position-based approach is wrong and that the resource-based approach is correct. However, after Porter's powerful position-based theories of the 1980s, strategic planning might have become unbalanced so that too much emphasis was given to an organisation's position and not enough to its resources.

Some terminology

The previous section introduced what is universally known as the resource-based approach. However, to some extent, this is a misnomer and it would be more accurately known as a 'capability-based approach'. Capability is an organisation's ability to produce goods or provide services. The Paper P3 syllabus mentions:

- strategic capability
- threshold resources
- threshold competencies
- unique resources and
- core competencies.

Capability normally requires a combination of resources and capabilities. An example of a resource could be a factory equipped with production machinery. However, resources on their own do not usually provide capability: the resources have to be used. Using resources well is what's meant by 'competence'. You could, for example, give two people identical factories and one person could succeed in making popular and well-designed products while the other might manufacture nothing of any good whatsoever. The first shows competence, the second does not.

Threshold capabilities are the minimum capabilities needed for the organisation to be able to compete and to survive at all. However, an organisation that has only threshold capabilities is just surviving for the present and will probably not have a long-term existence. Stronger competitors will be able to outspend it in capital investment, product development and marketing. To have a safer longer-term existence an organisation needs strategic capabilities: threshold capabilities plus capabilities for competitive advantage. Competitive advantage can be defined as above-average returns in the long run (Porter). Note the condition of 'long-run' as we are not particularly interested in temporary advantages which can be copied or bypassed by competitors.

Just as capabilities have two levels, so too do resources and competencies. Threshold resources are the bare minimum resources you need to function, and threshold competencies are minimum competencies needed for the organisation to be able to compete. To make the leap from threshold capabilities to strategic capabilities an organisation needs a combination of:

- unique resources and/or
- core competencies.

Dealing first with the resources: to give strategic capability, the resources need to be *unique*. If they are not unique then your competitors could go out and buy their own resources to copy you and your competitive advantage would be extinguished. If, however, the resource is unique, it is not capable of being duplicated by a competitor.

Unique resources are relatively rare. Examples might be a valuable patent belonging to a pharmaceutical company such as GlaxoSmithKline, or diamond mines owned by a company such as De Beers. Resources for most organisations involved in routine manufacturing or retailing are unlikely to be unique and their competitors can easily procure similar assets.

Resources can be either tangible (such as machinery) or intangible (such as a patent or goodwill). At some point it may become difficult to distinguish between an intangible resource and a competence but there's no need to worry about that. It matters little whether something like 'knowhow' is categorised as an intangible resource belonging to an organisation or as a competence that the organisation uses to make better use of resources. Note particularly the current great importance of knowledge in many industries. Both tacit and explicit knowledge could be categorised as resources but the knowledge management of the organisation would be better called a competence. Knowledge management looks at discovering, uncovering, categorising, recording, distributing, levering and updating knowledge, and these processes are undoubtedly important competencies needed to create organisations that have competitive advantage.

Core competencies are sometimes usually called distinctive competencies. These are the special ways in which a successful organisation can marshal its resources to perform better than its competitors. Core competencies are usually regarded as more valuable then unique resources in endowing an organisation with competitive advantages because:

- They are more difficult to identify, specify and emulate.
- They cannot simply be bought at the local competence store.

For example, it could be argued that Microsoft and Apple might have similar resources, but there is something rather special and innovative about Apple that allows it to be a uniquely successful company, innovating products such as iPods, iPads, iPhones and iTunes. It is very difficult to analyse what Apple's distinctive competencies are which allow a series of such remarkably successful devices to be designed, produced and marketed.

So, although both resources and competencies can contribute towards an organisation's competitive advantage, most organisations will find that their secure future depends on core (or distinctive) competencies. Furthermore, unlike resources, core competencies do not reduce with use: on the contrary, they are likely to be enhanced as they are used and shared more and more.

The core competence of the corporation
In 1990, Prahalad and Hamel published an extremely influential paper called *The Core Competence of the Corporation*[1]. It advocated that organisations should not see themselves as collections of strategic business units (SBUs) but as a portfolio of core competencies. Each business unit will make use of the core competencies but SBUs are not themselves the core competencies. Indeed, because of the way companies are organised and their budgets and results are set out, it can be very difficult for the organisation to see past its strategic business units and to identify what its core competencies actually are. This is what Prahalad and Hamel referred to as the 'tyranny of the SBU'.

For example, Canon sets out its product range as including:

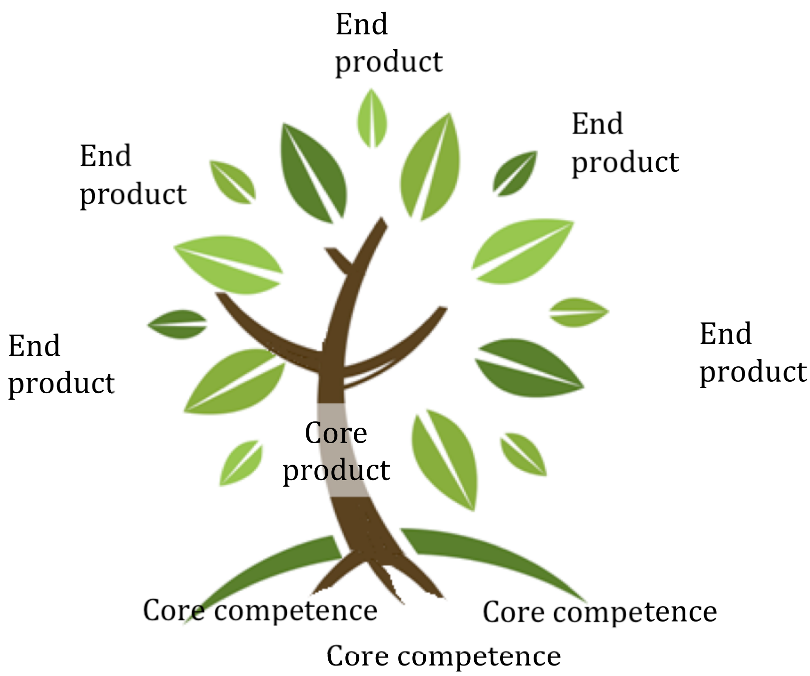
- cameras
- camcorders
- printers
- scanners
- binoculars
- facsimile
- projectors
- print solutions
- broadcast products

Many of these will undoubtedly be regarded as separate SBUs, selling into different markets and facing different competitive environments. However, Canon has core competencies which underpin its success in these markets and undoubtedly these competencies will be in the areas of optics, electronics, minaturisation, precision mechanics, colour processing. Of these, the most important is probably to do with optics and imaging, relating back to Canon's roots as a camera company.
We might wonder why a world class company like Canon has not entered the laptop computer or mobile phone market; it undoubtedly could make those products. Perhaps Canon sees those environments as being too competitive and unattractive, but perhaps it is because neither makes sophisticated use of optics or image processing, and they therefore do not provide a route for Canon to turn its core competencies into competitive advantage where others will find it difficult to compete.

Prahalad and Hamel provide the useful analogy of a tree when they are describing the relationship between end products and core competencies.

- End products = leaves, flowers and fruit
- Branches = business units
- Trunk = core products
- Roots = competencies.

The root system, which can easily be overlooked, provides the stability and sustenance for the whole organism.



Identifying core competencies
It can be difficult to distinguish between core competencies and other capabilities. Volume can help to distinguish between them and any company that thinks it has identified, say 20 or more core competencies

has probably not done so. Core competencies are very special and relatively rare and it is thought that few companies are likely to have more than half a dozen world-beating core competencies.

Prahalad and Hamel suggest three tests that can be applied to identify core competencies:

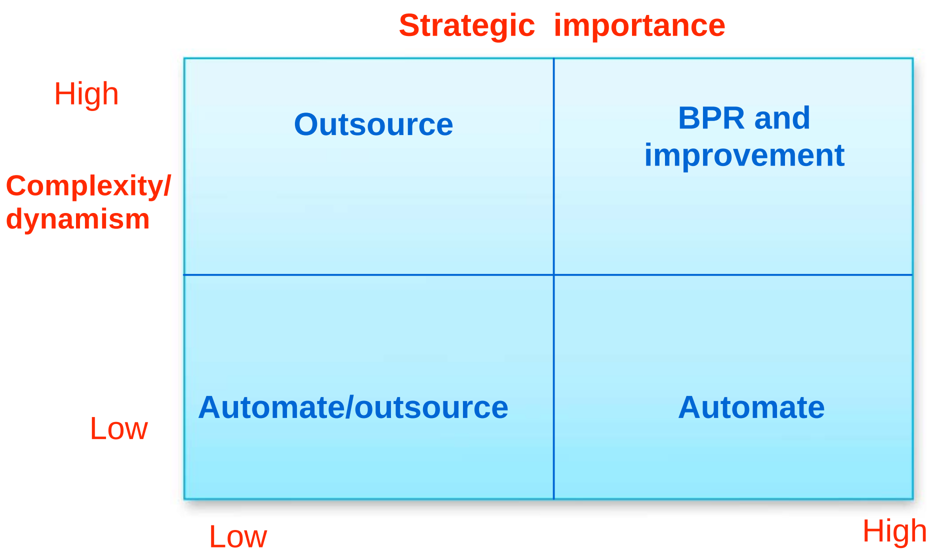
1. A core competence should provide access to a wide range of markets. Following up the analogy of the tree, the root system supports a very wide range of business units and end products.
2. The core competence should make an important contribution to the benefits perceived by consumers. If it does not do so then it is difficult to see why it is of much importance.
3. The core competence should be difficult for others to copy – otherwise it will not be capable of providing long-term competitive advantages.

Consider Apple again. Undoubtedly two of its core competencies are its design capabilities and its man-machine interfaces. Apple designs and interfaces are distinctive across all of its products and the 'coolness' of the designs and intuitive nature of the interfaces are greatly valued by consumers – and for which consumers are willing to pay. Although some manufacturers might now be beginning to catch up on some of Apple's competencies, they have found it very difficult to do so. And, just when they think they have caught up, Apple usually manages to launch yet another unique device.

Core competencies are what will give rise to a company's next world-beating generation of products and services. It follows that these are of such importance that they must not be outsourced because:

- Outsourcing must inevitably let others into your 'secret'
- Core competencies need to be cherished and cultivated so that they stay ahead of what other organisations can do. This can only be done in-house.

Note that on the Harman process-strategy matrix, processes which are of high strategic importance should not be outsourced. Where possible they should be automated or be subject to business process re-engineering and improvement.



What to do when faced with change?
Inevitably, organisations will face change and it is vitally important that they respond appropriately. As mentioned at the start of the article there are two main approaches:

- Position-based: the strategist focuses on the environment. What's happening? React to that.
- Resource-based: the strategist should focus on resources and competencies and try to use those.

Too much reliance on a position-based approach can mean that the organisation is lured away from where its strategic capabilities lie. A successful combination of resources and competencies takes years to develop and can be hard to copy. There is no reason to think that just because an organisation has been successful using one set of core competencies that it can simply abandon those, move to another area of business and replicate its success there. Really, once core competencies are abandoned the organisation is starting from scratch again and will have to compete with business which might already have strong competencies. To extend the analogy used at the opening of the article, if you have strong mountaineering expertise think twice before abandoning that and sailing off into the sunset. It might be better to try to use your existing competencies to create new markets, products and services.

Eastman Kodak (Kodak) is a company which pioneered photography and which, 20 years ago or so, had an almost unrivalled capability producing colour films for both photographic prints and slides. It had great expertise in colour dyes, light sensitive chemistry, spreading chemicals thinly and evenly on gelatin films, and it had impressive processing facilities throughout the world. It was a very profitable company.

Then along came digital cameras. In terms of PESTEL this was a technological development, and in terms of Porter's Five Forces it was a substitute product. Most consumers quickly switched away from traditional cameras to digital, and this created a large hole in Kodak's revenue and earnings.

US$ billions	**1998**	**1999**	**2000**	**….**	**2008**	**2009**	**2010 est** (Source: Bloomberg)	**2011 est** (Source: Bloomberg)
Revenue	14.0	14.1	13.4		9.4	7.6	7.6	7.1

How did Kodak respond to the advent of digital photography? Primarily it attempted to change its position, away from consumer film production into its replacement product, digital cameras. Kodak had a long history of producing cameras but these were, in general, low specification, simple cameras (the 'Kodak Box Brownie') that were sold more as a means of stimulating film sales than as world-class products. Certainly its cameras did not compare to those of major manufacturers such as Canon, Nikon, Leica, Pentax and Olympus. Kodak did make some well-reviewed digital cameras but having a reputation in film did not mean that it would automatically enjoy advantages in camera production. It had few, if any, core competencies in camera production. Its real core competencies were in film chemistry, production and processing. Although Kodak's digital cameras helped revenue, they did not do much to increase profit – especially as digital cameras quickly became commodities, with low profit margins, as every competitor raced into the market.

Now, by the end of 2010 Kodak still hopes to be a force in digital image technology but also hopes to be a company which sells massive commercial inkjet printers and a lot of ink. By the end of 2012 Kodak aspires to be an $8.5 billion company where digital products and services account for more than 80% of sales and half of its film-making assets are used for products other than film. Note: the company is now trying to make use of its core competencies to help it market other products, such as producing and spreading colour dyes to enable colour inkjet printing.

In May 2010, Kodak announced that it is working with 10 major paper companies worldwide to develop and produce new papers optimised for Kodak inkjet technology. With assistance from Kodak, the companies are developing a range of coated and uncoated papers typically used for book manufacturing, direct mail and catalogue and magazine printing markets. The press release said: 'By working collaboratively with these paper mills, Kodak is ensuring a market-driven development process in which paper, inks, hardware and software have all been optimised to produce the best possible production and image quality results... At

Kodak, we've led the development of almost all transactional papers used across the inkjet printing industry today, and have an unrivalled breadth of experience in image science and print technologies.' Perhaps after a relatively unprofitably foray into alien technologies where it displayed only threshold capabilities, Kodak is beginning to make better use of its remarkable core competencies.

Reference

1 Prahalad and Hamel, The Core Competence of the Organisation, *Harvard Business Review*, May–June 1990.

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